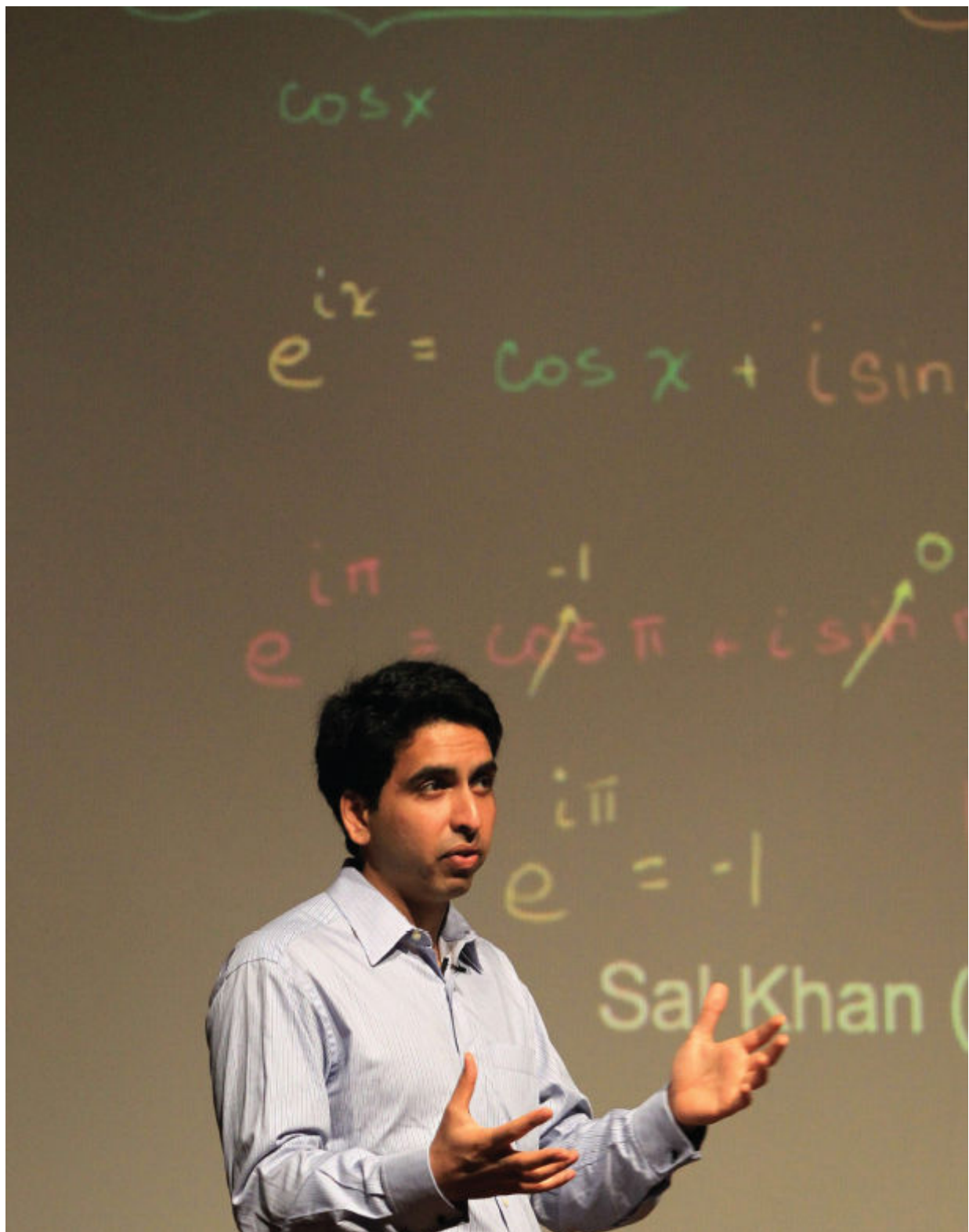


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“There is a fundamental disconnect between the providers of education and the consumers of education... . At Khan Academy we’re 100% focused on the learning side.”

Salman Khan, founder of the Khan Academy

© Clayton de Souza/dpa/Corbis

10

Strategy and Strategic Management

Insight and hard work deliver results

CHAPTER QUICK START

Strategic management is one of the most significant planning challenges faced by managers. All organizations face a complex array of forces. Uncertainties of many types—market, economic, political, social, and more—must be understood and analyzed in order to craft strategies for competitive success. As with organizations, each of us faces personal life and career challenges that test our abilities with strategic management. We, too, need to make and implement strategies to achieve our goals.

Key Takeaways

- Discuss the process and importance of strategic management.
- Identify the essential elements in strategic analysis.
- Explain alternative corporate strategies.
- Explain alternative business-level strategies.
- Describe the foundations for strategy implementation.

what to look for inside >

MANAGEMENT IS REAL

analysis> MAKE DATA YOUR FRIEND

Disposable Workers Becoming Indispensable to Business Profits

choices> THINK BEFORE YOU ACT

Double Irish with a Dutch Sandwich

ethics> KNOW RIGHT FROM WRONG

Life and Death at an Outsourcing Factory

insight> LEARN ABOUT YOURSELF

Get And Stay Ahead With Critical Thinking

wisdom> LEARN FROM ROLE MODELS

Wendy Kopp Tackles Culture of Low Achievement

SKILLS MAKE YOU VALUABLE

- **EVALUATE** *Career Situations:*
What Would You Do?
- **REFLECT** *On the Self-Assessment:*
Intuitive Ability
- **CONTRIBUTE** *To the Class Exercise:*
Strategic Scenarios
- **MANAGE** *A Critical Incident:*
Kickstarting a Friend's Business Idea
- **COLLABORATE** *On the Team Activity:*
Contrasting Strategies
- **ANALYZE** *The Case Study:*
Dunkin' Donuts: Betting Dollars on Donuts

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Don't take the opening photo of Sal Khan too lightly. His innovative online Khan academy has the goal of "changing education for the better by providing a free world-class education for anyone anywhere." The success of Kahn helped spur the development of MOOCs—massive open online courses—as “disrupters” of the traditional university model of face-to-face delivery of pay-per-credit courses. Some MOOCs are free. They're being launched in increasing numbers from top universities, and start-ups like Coursera and Udacity are marketing them on a global scale. What's the future of these online alternatives? Will MOOCs make higher education more accessible and affordable? Will they change the traditional college experience for better or worse? Or, will they soon fade away and be remembered as just another passing trend?¹

Our institutions of higher education are taking center stage among industries facing strategic challenges—MOOCs are on the move, politicians are attacking college costs, graduates worry about paying off student loans. University, government, and business leadership is being tested by changing times, tastes, and technologies. And *Fast Company* magazine says, “If you want to make a difference as a leader, you've got to make time for strategy.”²

Leaders struggling with strategy need to remember lessons from the past. There was a time when Henry Ford could say: “The customer can have any color he wants as long as it's black.” Those days are long gone for businesses large and small, they're gone for hospitals and local governments, and they're gone for universities as well. A senior IBM executive described this shift in strategic landscape as the “difference between a bus which follows a set route, and a taxi which goes where customers tell it to go.”³

There are a lot of strategy and strategic management ideas and insights in this chapter. As you read and think about them, remember that everything applies equally well to your own career. What's your personal strategy for career and life success? Are you acting like a bus following a set route, a taxi following opportunities, or some combination of both?

Strategic Management

TAKEAWAY 1 What is strategic management?

Strategic management process

Forces and challenges like those just described confront managers in all organizations and industries. Today's environment places a great premium on "competitive advantage" and how it is achieved—or not—through "strategy" and "strategic management."⁴

Competitive Advantage

The term **competitive advantage** describes an organization's ability to use resources so well that it performs better than the competition. Typical sources of competitive advantage are:⁵

Competitive advantage is the ability to do something so well that one outperforms competitors.

- *Technology*—using technology to gain operating efficiencies, market exposure, and customer loyalty.
-

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Cost and quality—operating with greater efficiency and product or service quality.

- *Knowledge and speed*—doing better at innovation and speed of delivery to market for new ideas.
- *Barriers to entry*—creating a market stronghold that is protected from entry by others.
- *Financial resources*—having better investments or loss absorption potential than competitors.

Achieving and retaining competitive advantage is an increasingly difficult challenge to master. Whenever organizations do things very well, rivals try to duplicate and copy their approach. The ultimate goal is creating **sustainable competitive advantage**—competitive advantage that is durable and difficult or costly for others to copy or imitate. When you think sustainable competitive advantage, think about Apple's iPad. One analyst observes: "Apple moved the goal posts before most of their competitors even took the field."⁶ The iPad was first to market as an innovative product linking design, technology, and customer appeal. It was also backed by Apple's super-efficient supply chain, which made it a high-margin product. The iPad is still a top seller, but tablet consumers can now choose competing products offering many similar features. Lawsuits between Apple and Samsung over copyrights, such as the "slide to unlock" feature, illustrate what is at stake in the battles for competitive advantage.⁷

Sustainable competitive advantage is the ability to outperform rivals in ways that are difficult or costly to imitate.

Strategy and Strategic Intent

If sustainable competitive advantage is the goal, "strategy" is the means to achieve it.⁸ A **strategy** is a comprehensive action plan that identifies the long-term direction for an organization and that guides resource utilization to achieve sustainable competitive advantage. It is a "best guess" about what must be done for future success in the face of competition and

changing market conditions. And, it usually involves risk taking. At Facebook, for example, the firm's mission is "to give people the power to share and make the world more open and connected."⁹ Given this mission, CEO Mark Zuckerberg struggled to match a web-based and computer-focused legacy strategy with new trends in mobile. He made an important decision to commit the company to a "mobile first" strategy that shifted the direction for innovation and app development away from computers and toward smartphones. The new strategy quickly paid off with increased mobile ad revenues and a higher share price.¹⁰

A **strategy** is a comprehensive plan guiding resource allocation to achieve long-term organization goals.

Just as with our personal assets, organizational resources like time, money, and people get wasted when they are spent on things that don't result in real accomplishments. The presence of a strategy helps ensure that resources are used with consistent **strategic intent**—that is, with all energies directed toward accomplishing a long-term target or goal.¹¹ In the Facebook case just described, CEO Mark Zuckerberg backed his mobile first strategy

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by halting any company meeting he was attending where someone began by talking about computers instead of smartphones.¹² Patagonia backs its commitment to sustainability in the apparel industry by programs like Common Thread, which reduces use of new materials by allowing customers to return purchased items for repair, reuse, and recycling.¹³

Strategic intent focuses and applies organizational energies on a unifying and compelling goal.

Management & Popular Culture

Strategy Shift to Free-to-Play Changes the Game



GABRIEL BOUYS/AFP/Getty Images

World of Warcraft ... Marvel Heroes ... Angry Birds ... who wants to pay to play? As it turns out, fewer and fewer people want to pay. Gone are the days when World of Warcraft subscriptions were surging and Angry Birds downloads reached 2 billion. When Warcraft subscribers fell 40% and Birds profits dropped 50%, game makers realized it was time for change. They are quickly shifting strategy toward mobile and “freemium”—use your smartphone and play for free, but purchase extras such as short cuts, unique powers, or new content. A venture investor in Gazillion Entertainment, maker of Marvel Heroes, says: “There are lots of companies that go through twists and turns. We believe a lot of risk in this company is behind it.”

Levels of Strategy

Google buys Nest Labs for \$3.2 billion ... Rovio Lets Angry Birds Roam Free ... Chip maker thrives on virtual manufacturing.

These headlines display the three levels of strategy in organizations shown in [Figure 10.1](#). At the corporate level of strategy, Google adds to its business lines by purchasing the smart-home company Nest Labs. At the business level of strategy, Rovio Entertainment shifts from selling Angry Birds to offering it free but selling add-on features. At the functional level of strategy, a semiconductor chip maker operates with a virtual factory.¹⁴ In order to really understand the stories behind these headlines, you need to understand the strategy and how it fits with both the business purpose and the current competitive conditions.

Corporate-Level Strategy

At the highest level, **corporate strategy** directs the organization as a whole toward sustainable competitive advantage. It describes the scope of operations by answering this *corporate-level strategic question*: “In what industries and markets should we compete?” The purpose of corporate strategy is to set direction and guide resource allocations for the entire enterprise. It identifies how large and complex organizations can compete across multiple industries and markets. General Electric, for example, owns more than 100 businesses in a wide variety of areas, including aircraft engines, appliances, capital services, medical systems, and power systems. Typical corporate-level strategic decisions for GE relate to initiatives such as new business acquisitions and existing business expansions and cutbacks.

A **corporate strategy** sets long-term direction for the total enterprise.

Business-Level Strategy

Business strategy sets the direction for a single business unit or product line. It involves asking and answering this *business-level strategic question*: “How are we going to compete for customers in this industry and market?” Typical business strategy decisions include choices about product and service mix, facilities locations, and new technologies. Business strategy is the corporate strategy in single-product enterprises. The term *strategic business unit* (SBU) is often used to describe a business that operates as part of a larger enterprise, such as online retailer Zappos within the Amazon umbrella and smart home firm Nest Labs within Google’s suite of businesses.

A **business strategy** identifies how a division or strategic business unit will compete in its product or service domain.

Whereas the enterprise on a whole will have a corporate strategy, each SBU will have its own focused business strategy. Porsche Automobile Holding SE, for example, is owned by Volkswagen Group. Historically a two-door sports car company, Porsche adjusted its business strategy and successfully marketed a sport utility vehicle, the Cayenne, that became the brand’s

volume sales leader. It was followed by another success—a four-door sedan, the Panamera.¹⁵ These shifts in business-level strategy, which are core to Porsche operations, don't bear directly on the corporate-level strategy of Volkswagen as a whole.

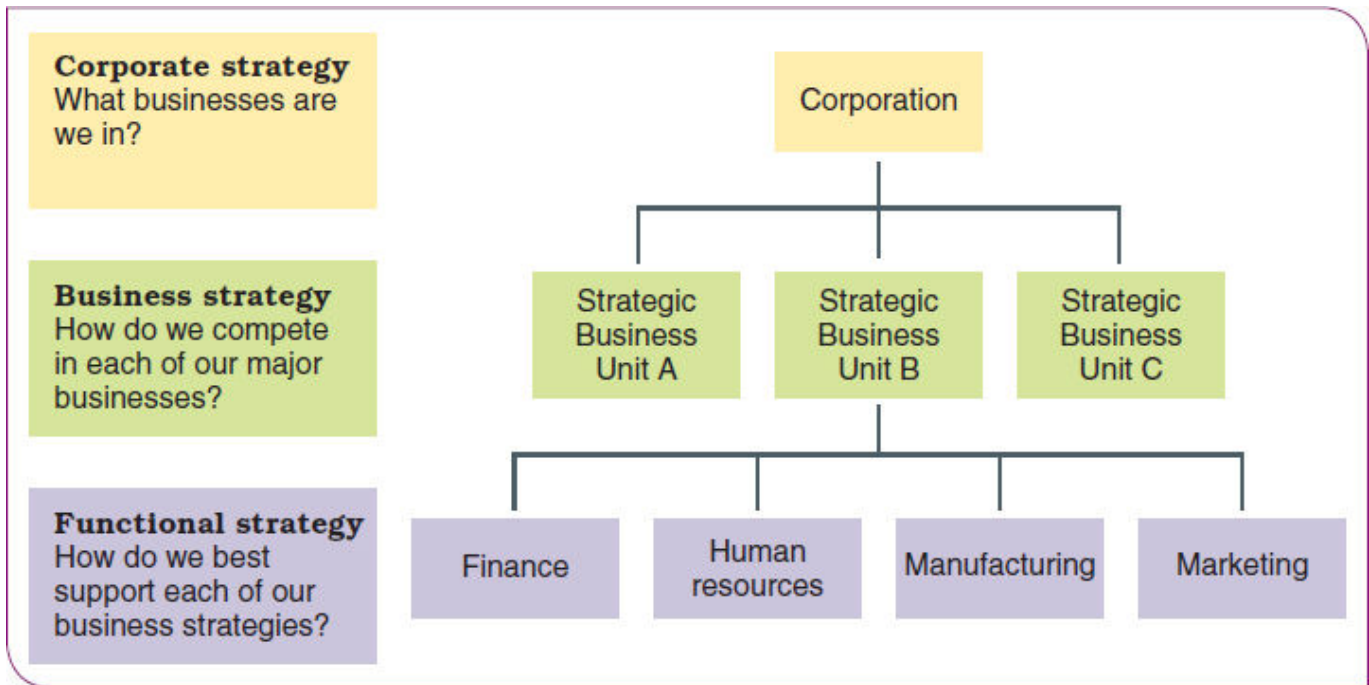


FIGURE 10.1 Corporate-level strategy, business-level strategy, and functional strategy.

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wisdom> LEARN FROM ROLE MODELS

> “We can provide an excellent education for kids in low-income communities ... they can achieve at the highest levels.”

Wendy Kopp Tackles Culture of Low Achievement



Press-Telegram, Stephen Carr/© AP/Wide World Photos

Wendy Kopp, founder and CEO of Teach for America, proposed the creation of her nonprofit organization in an undergraduate thesis at Princeton University. Two short decades later, her strategic leadership had inspired more than 38,000 teacher participants and reached more than 3 million children nationwide. Kopp's vision as a college student was to "eliminate educational inequities," regardless of a child's family income. That vision still guides Teach for America's strategy.

Kopp's ability to engage in continuous change and performance enhancement is part of her organization's success story. "Change is Possible," states the organization's website: "We can provide an excellent education for kids in low-income communities ... they can achieve at the highest levels." Part of Kopp's strategy was to identify target "priority regions" like Detroit and Memphis. Well over half of the regions in need have requested math and science teachers. The demand for subject areas such as early childhood education, special education, and Spanish/bilingual education remains strong.

Teach for America's goal is to help children growing up in poverty beat what Kopp calls "the culture of low achievement." Her strategy is to enlist high-achieving, recent college graduates and professionals to make a difference by serving two-year teaching stints in low-income urban and rural communities. That's a teachable moment!

FIND THE INSPIRATION

How much of Teach for America's success is due to Kopp's clear and compelling vision for social change? What lessons on the link between vision and strategy does this example offer organizations across all industries? Is it easier to inspire people to implement strategy in a nonprofit context with a social mission than it is in a business that is profit driven? How can the leader of a for-profit business generate strong employee commitment to the firm's strategy and vision?

Functional Strategy

Functional strategy guides the use of organizational resources to implement business strategy. The *functional-level strategic question* is: "How can we best utilize resources within a function to implement our business strategy?" Answers to this question might focus on ways to improve products, gain efficiencies, and enhance customer service. The attention in functional

strategy focuses on activities within a specific functional area such as marketing, manufacturing, finance, or human resources. Picochip, for example, produces specialized microchips using a “virtual” model where all chip production is outsourced. CEO Nigel Toon says what the firm saves from not having expensive factories it invests in research and development on state-of-the-art chip designs.¹⁶

A **functional strategy** guides activities within one specific area of operations.

Strategic Management Process

Developing strategy for an organization may seem like a deceptively simple task: Find out what products and services customers want, provide these at the best possible price, and make sure competitors can’t easily copy what you are doing. In practice, this can get very complicated.¹⁷ The reality is that strategies don’t just happen; they must be developed and then implemented effectively. At the same time that managers in one organization are doing all of this, their competitors are trying to do the exact same thing—only better. Succeeding in this mix of competitive pressures depends on **strategic management**, the process of formulating and implementing strategies to accomplish long-term goals and sustain competitive advantage.

Strategic management is the process of formulating and implementing strategies.

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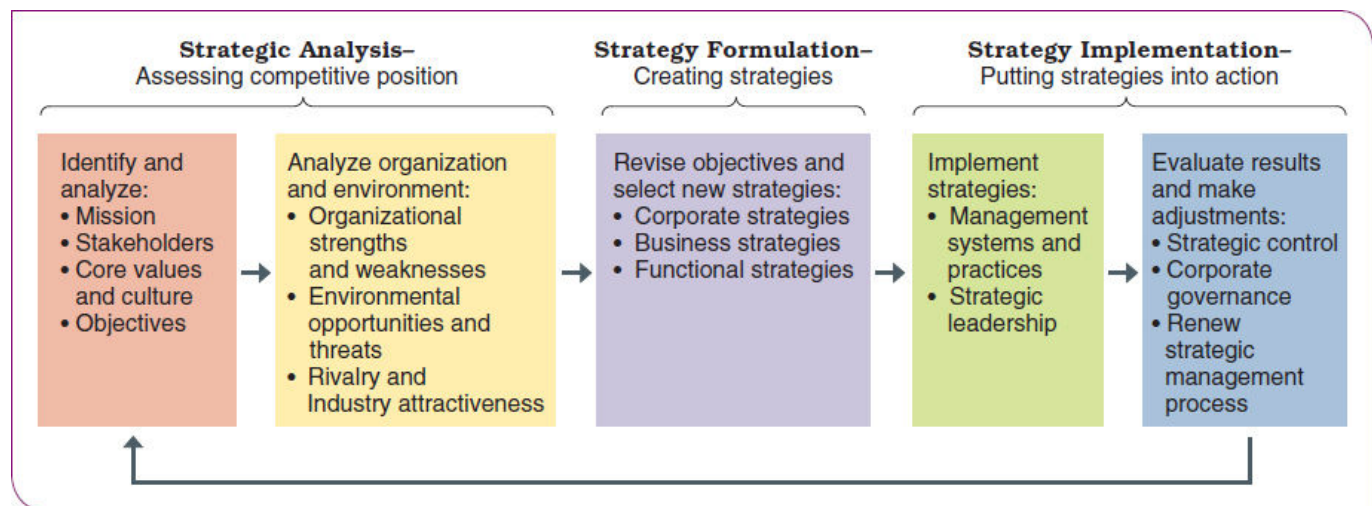


FIGURE 10.2 Major elements in the strategic management process.

As shown in [Figure 10.2](#), the strategic management process begins with **strategic analysis** to assess the organization, its environment, its competitive positioning, and its current strategies. Next in the process is **strategy formulation**, developing a new or revised strategy. The final phase is **strategy implementation**, using resources to put strategies into action, and then evaluating results so that the implementation can be improved or the strategy changed. As the late management consultant and guru Peter Drucker once said: “The future will not just happen if one wishes hard enough. It requires decision—now. It imposes risk—now. It requires action—now. It demands allocation of resources, and above all, it requires work—now.”¹⁸

Strategic analysis is the process of analyzing the organization, the environment, and the organization's competitive position and current strategies.

Strategy formulation is the process of crafting strategies to guide the allocation of resources.

Strategy implementation is the process of putting strategies into action.

Learning Check 1

TAKEAWAYQUESTION 1 What is strategic management?

BE SURE YOU CAN • define *competitive advantage*, *strategy*, and *strategic intent* • explain the concept of sustainable competitive advantage • differentiate corporate, business, and functional strategies • differentiate strategy formulation from strategy implementation • list the major phases in the strategic management process

Essentials of Strategic Analysis

TAKEAWAY 2 What are the essentials of strategic analysis?

LEARN MORE ABOUT | Analysis of mission, values, objectives
SWOT analysis of organization and environment
Five forces analysis of industry attractiveness

When it comes to the essentials of strategic analysis, there is a core set of strategic questions that any top manager should be prepared to answer. (1) What is our business mission? (2) Who are our customers? (3) What do our customers value? (4) What have been our results? (5) What is our plan?¹⁹

Analysis of Mission, Values, and Objectives

The strategic management process begins with an analysis of mission, values, and objectives. This sets the stage for assessing the organization's resources and capabilities, as well as opportunities and threats in its external environment.

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Mission and Stakeholders

The **mission** or purpose of an organization describes its reason for existence in society.²⁰ Strategy consultant Michael Hammer believes that a mission should represent what the strategy or underlying business model is trying to accomplish. In order to clarify mission he suggests asking: "What are we moving to?" "What is our dream?" "What kind of a difference do we want to make in the world?" "What do we want to be known for?"²¹

A **mission** statement expresses the organization's reason for existence in society.

Patagonia's mission is to "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis."²² This mission statement

identifies not only a business direction but also a distinctive value commitment that gives Patagonia a unique identity as it competes with much larger rivals in its industry.

A clear sense of mission helps inspire the support and respect of an organization's **stakeholders**. These are individuals and groups—including customers, shareholders, employees, suppliers, creditors, community groups, future generations, and others—who are directly affected by the organization and its accomplishments. [Figure 10.3](#) gives an example of how stakeholder interests can be linked with an organization's mission.

Stakeholders are individuals and groups directly affected by the organization and its strategic accomplishments.



FIGURE 10.3 External stakeholders as strategic constituencies in an organization's mission statement.

Core Values and Culture

Organizational values and culture should be analyzed in the strategic management process to determine how well they align with the mission.²³ **Core values** are broad beliefs about what is or is not appropriate behavior. Patagonia founder and chairman Yvon Chouinard says: "Most people want to do good things, but don't. At Patagonia it's an essential part of your life."²⁴ He leads Patagonia with a personal commitment to sustainability and expects the firm to live up to it as a core value. Among other things, Patagonia donates employee time and 1+% of sales to support environmental groups, uses recycled polyester and organic cotton, and emphasizes "simplicity and utility" in product designs.²⁵

Core values are broad beliefs about what is or is not appropriate behavior.

The presence of core values helps build a clear organizational identity. It gives the organization a sense of character as seen through the eyes of employees and external stakeholders. This character is part of what is called **organizational culture** or the predominant value system of the organization as a whole.²⁶ A clear and strong organizational culture helps guide the behavior of members in ways that are consistent with the organization's mission and core values. When browsing Patagonia's website for job openings, for example, the message about

the corporate culture is clear: “We’re especially interested in people who share our love of the outdoors, our passion for quality, and our desire to make a difference.”²⁷

Organizational culture is the predominant value system for the organization as a whole.

Objectives

Whereas a mission statement lays out an organization’s purpose and core values set standards for accomplishing it, **operating objectives** direct activities toward key performance areas. Typical operating objectives for a business include the following:²⁸

Operating objectives are specific results that organizations try to accomplish.

- *Profitability*—operating with a net profit.
- *Sustainability*—helping to preserve, not exploit, the environment.
- *Social responsibility*—acting as a good community citizen.
-

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Financial health—acquiring capital; earning positive returns.

- *Cost efficiency*—using resources well to operate at low cost.
- *Customer service*—meeting customer needs and maintaining loyalty.
- *Product quality*—producing high-quality goods or services.
- *Market share*—gaining a specific share of possible customers.
- *Human talent*—recruiting and maintaining a high-quality workforce.
- *Innovation*—developing new products and processes.

Well-chosen operating objectives can turn a broad sense of mission into specific performance targets. In the case of Patagonia, mission, values, and operating objectives fit together as a coherent whole. Chouinard says that he wants to run Patagonia “so that it’s here 100 years from now and always makes the best-quality stuff.” Although one of the firm’s objectives is revenue growth, this doesn’t mean growth at any cost. Chouinard’s objective is modest growth, not extreme or uncontrolled growth.²⁹

SWOT Analysis of Organization and Environment

A technique known as **SWOT analysis** is a useful first step in analyzing the organization and its environment. As [Figure 10.4](#) describes, it is an internal analysis of *organizational strengths and weaknesses* as well as an external analysis of *environmental opportunities and threats*. Although the following examples and discussion apply SWOT to organizations, you can also apply it in your own career and life planning.

A **SWOT analysis** examines organizational strengths and weaknesses and environmental opportunities and threats.

A SWOT analysis begins with a systematic evaluation of the organization’s resources and capabilities—its basic strengths and weaknesses. You can think of this as an analysis of organizational capacity to achieve its objectives. A major goal is to identify **core**

competencies—things that the organization does exceptionally well in comparison with competitors. They are capabilities that—by virtue of being rare, costly to imitate, and not substitutable—become potential sources of competitive advantage.³⁰ An organization's core competencies may be found in special knowledge or expertise, superior technologies, efficient supply chains, or unique distribution systems, among many other possibilities. As an individual, core competencies may include your unique combination of intelligence, knowledge, experience, personality, and enthusiasm.

A **core competency** is a special strength that gives an organization a competitive advantage.

Organizational weaknesses represent the other end of the competency spectrum. The goal here is to identify things that inhibit performance and hold the organization back from fully accomplishing its objectives. Examples might be outdated products, lack of financial capital, shortage of talented workers, and poor or poorly used technology. At the individual level, weaknesses may include limited work experience, underdeveloped computing skills, knowing only one language, or no industry-specific certifications.

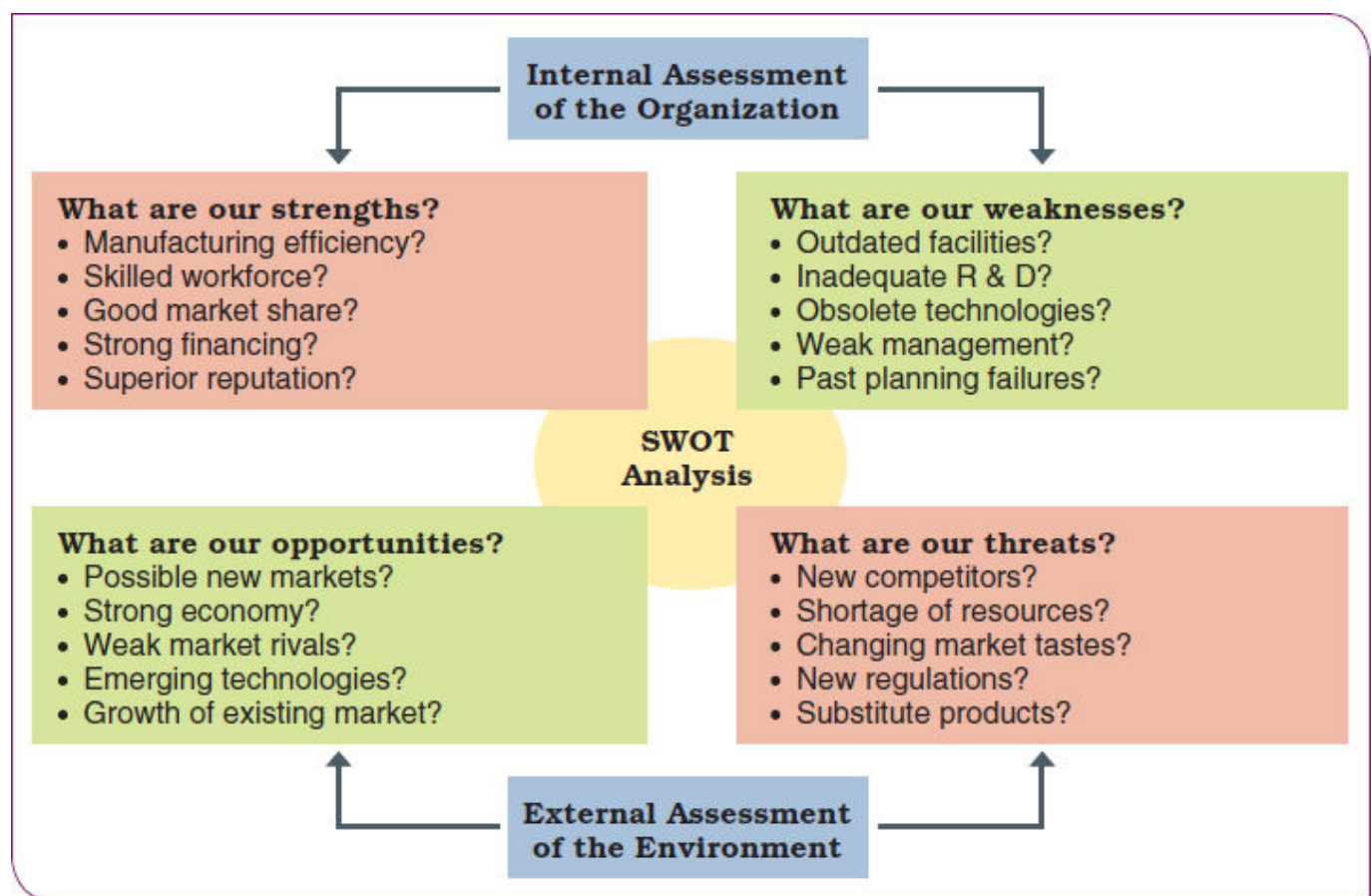


FIGURE 10.4 SWOT analysis of strengths, weaknesses, opportunities, and threats.

Once weaknesses are identified, plans can be set to eliminate or reduce them, or possibly to turn them into strengths. Even if some weaknesses cannot be corrected, it is critical that they be understood. Strategies should ideally build on strengths and minimize the negative impact of weaknesses.

No SWOT analysis is complete until opportunities and threats in

present as possible new markets, a strong economy, weaknesses in competitors, and emerging technologies. Environmental threats may include such things as the emergence of new competitors, resource scarcities, changing customer tastes, new government regulations, and a weak economy.

It's important here to not forget the career implications of this discussion. If you were to analyze your strategic readiness for career entry or advancement, what would your personal SWOT look like? What actions does this SWOT analysis point you toward to better prepare for the future you want? What classes should you take? What internships should you apply for?

Take Advantage of Insights from SWOT Analysis

- Build on and use strengths to create core competencies.
- Avoid relying on weaknesses that can't be turned into strengths.
- Move toward opportunities to capture advantage.
- Avoid threats or act in ways that minimize their impact.

Five Forces Analysis of Industry Attractiveness

The ideal strategic setting for any firm is to operate in *monopoly conditions* as the only player in an industry—that is, to have no rivals to compete with for resources or customers. But, a monopoly position is rare except in highly regulated settings. The reality for most businesses is intense rivalry and competition that unfolds either under conditions of *oligopoly*—facing just a few competitors, such as in consolidated airline or wireless communications industries, or *hypercompetition*—facing several direct competitors, such as in the fast-food industry.³¹ Both oligopoly and hypercompetition are strategically challenging. Hypercompetition is especially challenging because any competitive advantage gained by an organization tends to be short-lived.

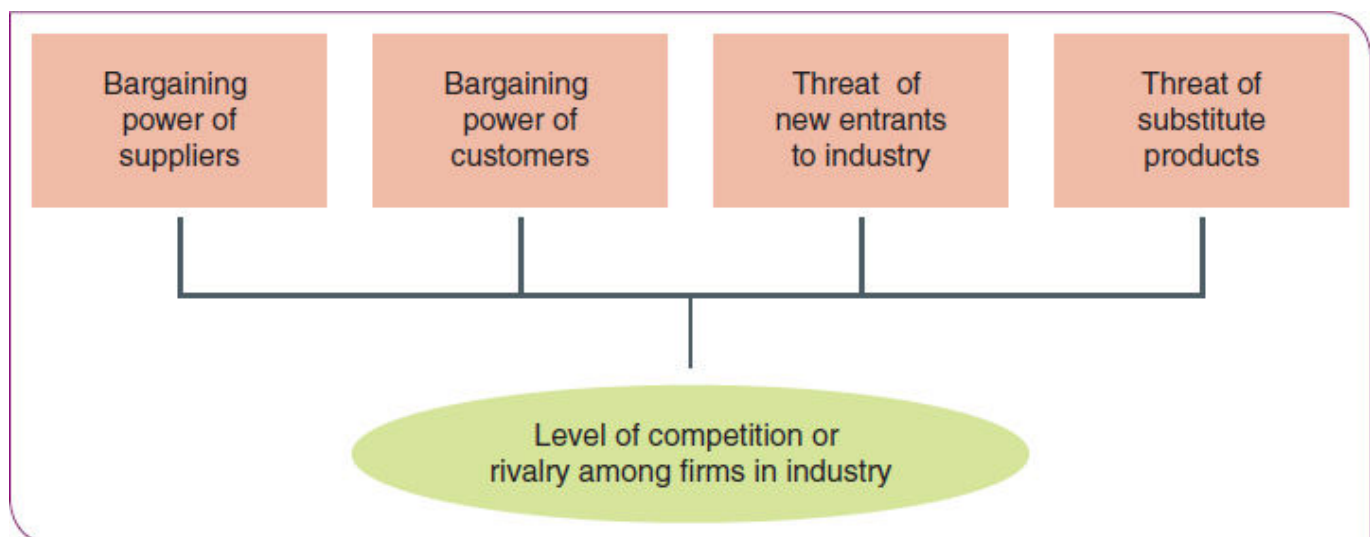


FIGURE 10.5 Porter's model of five strategic forces affecting industry competition.

Harvard scholar and consultant Michael Porter describes the five forces shown in [Figure 10.5](#) as a tool for strategic analysis in competitive industries.³² He calls these five forces the “industry structure”:

1. *Industry competition*—the intensity of rivalry among firms in the industry and the ways they behave competitively toward one another.

2. *New entrants*—the threat of new competitors entering the market, based on the presence or absence of barriers to entry.
3. *Substitute products or services*—the threat of substitute products or services, or ability of customers to get what they want from other sellers.
4. *Bargaining power of suppliers*—the ability of resource suppliers to influence the price that a firm has to pay for their products or services.
5. *Bargaining power of customers*—the ability of customers to influence the price that they will pay for the firm's products or services.

The status of these five forces determines an industry's attractiveness or potential to generate long-term business returns. The less attractive the industry structure, the harder it is to make good strategic choices and realize sustained competitive advantage. According to a five forces analysis, an *unattractive industry* has intense rivalry among competitors, substantial threats in the form of possible new entrants

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and substitute products, and suppliers and buyers with bargaining power over price and quality. An *attractive industry*, by contrast, has less competition, fewer threats from new entrants or substitutes, and lower supplier and buyer bargaining power.

Five Forces Analysis

Attractive Industry	Unattractive Industry
• Few competitors	• Many competitors
• High barriers to entry	• Low barriers to entry
• Few substitute products	• Many substitute products
• Low power of suppliers	• High power of suppliers
• Low power of customers	• High power of customers

Learning Check 2

TAKEAWAYQUESTION 2 What are the essentials of strategic analysis?

BE SURE YOU CAN • explain how a good mission statement helps organizations relate to stakeholders • define *core values* and *organizational culture* • List several operating objectives for organizations • define *core competency* • explain SWOT analysis • use Porter's five forces model to assess the attractiveness of an industry

Corporate-Level Strategy Formulation

TAKEAWAY 3 What are corporate-level strategies and how are they formulated?

LEARN MORE ABOUT | Portfolio planning model • Growth and diversification strategies
Retrenchment and restructuring strategies

The CEO and the top management team are responsible for plotting the strategic direction of an organization within its industry. This is often easier said than done. It's easy to find examples of organizations choosing and changing courses of action in search of the

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best strategy—one that keeps them moving forward in a complex and ever-changing competitive environment. Think of this the next time you want to watch a movie or TV show at home. This is a fast-moving and highly competitive landscape where Netflix, Apple, Amazon, and the cable and telephone companies are constantly trying to figure out how to capture and retain your attention. They have to constantly worry about and deal with one another, and any number of startups seeking to offer alternatives to their products.

insight> LEARN ABOUT YOURSELF

> *Many life and career events are a lot like puzzles; everything looks pretty easy until you sit down and try to put all the pieces together.*

Get and Stay Ahead with Critical Thinking

Managers face significant challenges as they try to move their organizations forward with success in increasingly complex and ever-changing environments. When the environment is complex and uncertain, **critical thinking** skills are especially important. They help us to gather, organize, analyze, and interpret information to make good decisions in situations that range from difficult to totally perplexing.

The case studies and problem-solving projects in your courses help to develop your critical thinking skills. But beware—a lot of information in circulation on and off the Internet is anecdotal, superficial, irrelevant, and often just plain inaccurate. You have to be disciplined, cautious, and discerning when interpreting the credibility and usefulness of available information. In other words, you must be good at critical thinking.

The same critical thinking that is part of a rigorous class discussion or case study in your course is what helps managers create strategies that result in competitive advantage. But managers rarely have the luxury of full information boxed up for analysis in a nice, neat case format. Many life and career events are a lot like puzzles—everything looks pretty easy until you sit down and try to put all the pieces together. Are your critical thinking skills up to the challenges of the constantly changing competitive landscape? How good are you at making critical connections in unusual situations? For starters, take a stab at the two puzzles shown here.

Puzzle 1

Divide this shape into four shapes that are exactly the same size as one another.



Puzzle 2

Draw no more than four lines that cross all nine dots; don't lift your pencil while drawing.



GET TO KNOW YOURSELF BETTER

Is your personal career strategy well attuned to the future job market, and not just the present one? Are you showing strong critical thinking skills as you make academic choices and prepare for your career? Make a list of information you need to make solid career choices. Identify where you can obtain this information and how credible these information sources are. Write a short plan that outlines how you'll use this information and commits you to activities in this academic year that can improve your career readiness.

Portfolio Planning Model

Google's CEO Larry Page faces a difficult strategic question all the time: How should he allocate Google's resources across a diverse mix of opportunities? Growth by acquisition has added great diversity to what started out as a search engine and software company. Page now has to manage everything from search to YouTube to robotics to smart homes to wind farms to self-driving cars, and more.³³ If you think about it, Page's strategic management questions are similar to those we all face in managing personal assets. How, for example, do you create a good mix of cash, stocks, bonds, and real estate investments? What do you buy more of, what do you sell, and what do you hold? These are the same questions that executives ask all the time. They are *portfolio-planning* questions, and they have major strategic implications. Shouldn't they be made systematically rather than randomly?³⁴

The Boston Consulting Group offers a portfolio planning approach known as the **BCG Matrix**. Although more complicated models of strategic portfolio planning are available, the BCG Matrix is a widely accepted and well-understood foundation for understanding the portfolio planning approach to strategic resource allocation decisions.

BCG Matrix analyzes business opportunities according to market growth rate and market share.

The BCG Matrix shown in [Figure 10.6](#) asks managers to analyze business and product strategies based on two major factors: (1) market growth rate for the industry, and (2) market share held

by the firm.³⁵ The analysis shown in the figure sorts businesses or products into four strategic types: Dogs, Stars, Question Marks, and Cash Cows. Each type comes with a recommended core or master strategy—*growth*, *stability*, or *retrenchment*.³⁶ These strategies become the guidelines for making resource allocation decisions.

- *Grow the Stars.* Businesses or products with high market shares in high-growth markets are “Stars” in the BCG Matrix. They produce large profits through substantial penetration of expanding markets. The preferred strategy for Stars is growth, and the BCG Matrix recommends making further resource investments in them. Not only are Stars high performers in the present—they offer similar potential for the future. If we look at Apple today, the iPad would be a Star.

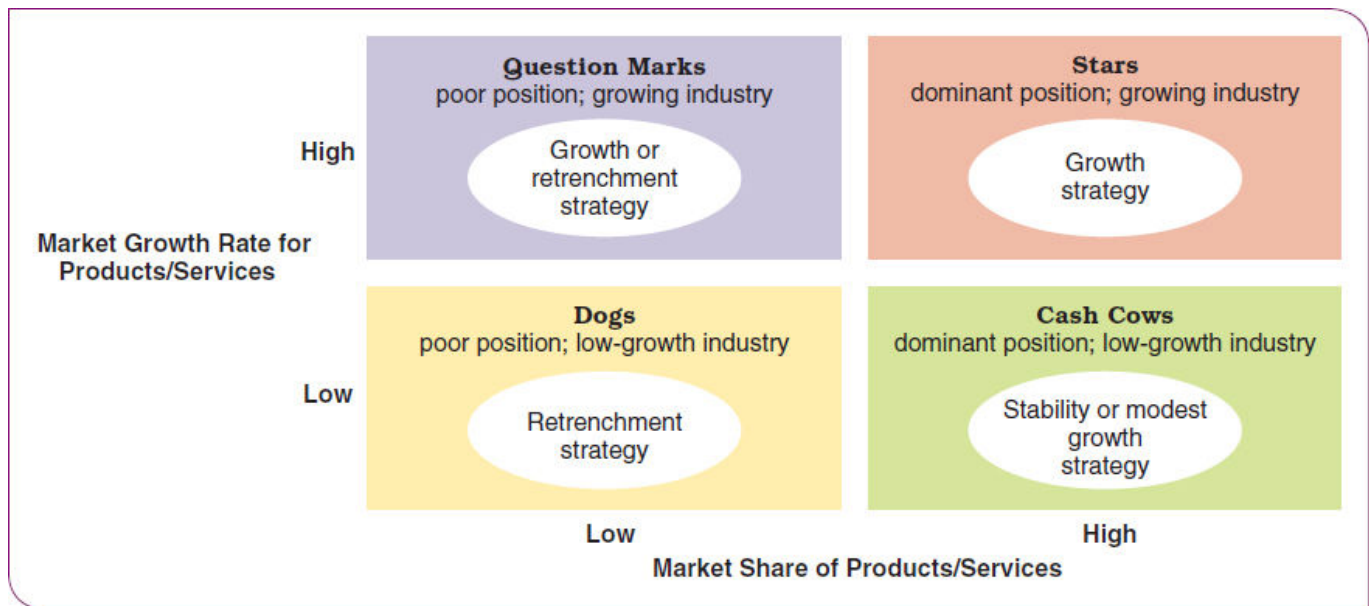


FIGURE 10.6 The BCG matrix approach for portfolio planning in corporate-level strategy formulation.

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Milk the Cash Cows. Businesses or products with high-market shares in low-growth markets are “Cash Cows” in the BCG Matrix. They produce good profits and a strong cash flow, but with little upside potential. Because the markets offer limited growth opportunity, the preferred strategy for Cash Cows is stability or modest growth. Like real dairy cows, the BCG Matrix advises firms to “milk” these businesses. They should invest just enough to keep them stable or growing just a bit. This keeps them generating cash that can be reinvested in other more promising areas. For Apple, we might wonder: Is yesterday’s Star—the iPhone—becoming (or already) a Cash Cow?

- *Grow or Retrench the Question Marks.* Businesses or products with low-market shares in high-growth markets are “Question Marks” in the BCG Matrix. Although they may not generate much profit at the moment, the upside potential is there because of the growing markets. But nothing is guaranteed. Question Marks make for difficult strategic decision making. The BCG Matrix recommends targeting only the most promising Question Marks for growth, while retrenching those that are less promising. What’s the most promising

Question Mark at Apple today? That's a good question, and perhaps the answer is Apple TV. Will it be the Star of the future, or a Dog?

- *Retrench the Dogs*. Businesses or products with low-market shares in low-growth markets are "Dogs" in the BCG Matrix. They produce little if any profit, and they have low potential for future improvement. The preferred strategy for Dogs in the BCG Matrix is retrenchment. Not too long ago Apple's iPhone was a Star; then it became a Cash Cow. Is it now well on the road to being tomorrow's Dog?

Growth and Diversification Strategies

Among the core or master strategies just illustrated in the BCG matrix, **growth strategies** seek to expand the size and scope of operations. The goal is to increase total revenue, product or service lines, and operating locations. When you hear terms like "acquisition," "merger," and "global expansion," for example, they indicate a growth strategy.

A **growth strategy** involves expansion of the organization's current operations.

Growth is a common and popular business strategy. And although there is a tendency to equate growth with effectiveness, it is possible to get caught in an "expansion trap" where growth outruns an organization's capacity to manage it. Mark Zuckerberg faced this problem at Facebook. The firm grew incredibly fast and spending outran revenues. The *Wall Street Journal* claimed it had "growing pains," and Zuckerberg even asked: "Is being a CEO always this hard?" His response was to hire an experienced Google vice president, Sheryl Sandberg, to become chief operating officer and lead Facebook's continued expansion.³⁷ This decision took some humility on Zuckerberg's part, and it's also one that history has shown to be a great move for Facebook.

Organizations pursue growth strategies in a variety of ways. One approach is to grow through **concentration**—expanding within in the same business area. McDonald's, Dollar General, Auto Zone, and others pursue growth strategies by adding locations while still concentrating on their primary businesses. And some, as their domestic markets become saturated, aggressively expand around the world to find new customers and push further sales growth. McDonald's growth plans for Asia, the Middle East, Africa, Europe, and Latin America outnumber the U.S. by some six stores to one.³⁸

Growth through **concentration** is within the same business area.

Another way to grow is through strategic **diversification**—expanding into different business areas. A strategy of *related diversification* pursues growth by acquiring new businesses or entering business areas similar to what one already does. An example is Starbucks' purchase of the Tazo Tea and Evolution Fresh. These acquisitions helped Starbucks grow by expanding product lines and also adding new Tazo and Evolution Fresh stores.

Growth through **diversification** is by acquisition of or investment in new and different business areas.

A strategy of *unrelated diversification* pursues growth by acquiring businesses or entering business areas that are different from what one already does. India's Tata Group, for example, owns 98 companies in diverse industries such as steel, information and communications, hotels, energy, and consumer products. Its brands include Eight O'Clock Coffee and Tetley Tea as well as Jaguar and Land Rover. About Tata's growth by unrelated diversification, Chairman Ratan N. Tata says: "We have been thinking bigger ... we have been bolder ... we have been more aggressive in the marketplace."³⁹

Issues&Trends

Growth by Concentration Rules in Bundled Voice, Video, and Broadband



© TOM MIHALEK/Reuters/Corbis

Companies are putting voice, video, and broadband together in the quest for growth and competitive advantage. Comcast paid \$45 billion for Time Warner to reach more than 30 million subscribers; AT&T bid \$48.5 billion for DirecTV to reach 26 million subscribers. But who wins in this strategic game of growth by concentration—shareholders, customers, or both? The U.S. government, for one, is worried about anti-trust concerns. Senator Al Franken says: “The result, I believe, will be less innovation, less choice for consumers, higher costs for consumers and worse service.” AT&T argues that combining its broadband strengths with DirecTV’s video strengths is necessary in order to create healthy competition for the now-giant Comcast/Time Warner.

Growth by diversification is sometimes done by **vertical integration** where a business moves upstream (farther from customers) to acquire its suppliers—*backward vertical integration*, or moves downstream (closer to customers) to acquire its distributors—*forward vertical integration*. Examples of backward vertical integration include Apple Computer—buying chip manufacturers to give it more privacy and sophistication in developing microprocessors for its products; Rolex—buying a foundry for the precious metals it uses in its luxury watches; and, Delta Airlines—buying an oil refinery to supply part of its aviation fuel needs. The beverage industry provides a good example of forward vertical integration. Both Coca-Cola and PepsiCo own some major bottlers that make drinks from their concentrates and distribute their products regionally.⁴⁰ Even a trip to the local farmer’s market shows forward vertical integration in

practice. All those stands of vegetables and fruits are run by farmers moving downstream from production to distribution of their produce directly to customers.

Growth through **vertical integration** occurs by acquiring upstream suppliers or downstream distributors.

Retrenchment and Restructuring Strategies

When organizations are in trouble, perhaps experiencing problems brought about by a bad economy or too much growth and diversification, the focus shifts toward **retrenchment, restructuring, and turnaround strategies** that pursue radical changes to solve problems. At one end of the extreme a firm may be insolvent and unable to pay its bills. In some cases retrenchment may take the form of **Chapter 11 bankruptcy**, which under U.S. law gives firms protection while they reorganize to restore solvency. Both Chrysler and General Motors used this strategy during the recent economic crisis. In other cases an insolvent firm goes into outright **liquidation**, where business ceases and assets are sold off to pay creditors.

Retrenchment, restructuring, and turnaround strategies pursue radical changes to solve problems.

Chapter 11 bankruptcy under U.S. law protects a firm from creditors while management reorganizes to restore solvency.

Liquidation is where a business closes and sells its assets to pay creditors.

Short of bankruptcy and liquidation, distressed organizations can try other retrenchment strategies to get back on a path toward competitiveness. Restructuring by **downsizing** decreases the size of operations, often by drastically reducing the workforce.⁴¹ Facing revenue declines, for example, H-P's CEO Meg Whitman decided to lay off 14% of the firm's workforce—some 50,000 workers. By making the cuts and saving over \$1.6 billion in costs, she hoped to restore growth by making new investments in technology and workforce skills.⁴² When you learn of organizations downsizing, however, you should be skeptical of those making “across-the-board” cuts. Research shows that downsizing is most successful when cutbacks are done selectively and with specific performance objectives. The term *rightsizing* is sometimes used to describe downsizing with a clear strategic focus.⁴³

A **downsizing** strategy decreases the size of operations.

Restructuring by **divestiture** involves selling off parts of the organization to refocus what remains on core competencies, cutting costs, and improving operating efficiency. You'll see this strategy followed by organizations that become overdiversified and whose executives have problems managing so much complexity. For example, eBay bought Skype with high expectations and later sold it to private investors at a loss. At the time of sale eBay's CEO said,

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“Skype is a strong standalone business, but it does not have synergies with our e-commerce and online payments business.”⁴⁴ In other words, the original purchase was a costly and bad idea. Skype is now owned by Microsoft, where the strategic question is: Will the expected synergies pay off, or will there be yet another divestiture in Skype's future?

Divestiture sells off parts of the organization to refocus attention on core business areas.

Restructuring by **turnaround** is an attempt to fix an organization's specific performance problems. It often occurs along with a change in top management. Check the latest on Yahoo!, a company that has struggled for traction even though its brand is well established. Founder Jerry Yang stepped down as CEO after investors complained he made a mistake by refusing a buyout offer from Microsoft. Carol Bartz was then hired in a turnaround attempt. She was fired after 30 months on the job and replaced by Scott Thompson. His first major move was to sue Facebook, a strategic partner, over patent infringements. He lasted less than a year. The next to step in as CEO was Marissa Mayer, a Google star. She has made many changes in the firm's structure, culture, operations, and strategies, and earned respect from the financial markets. Yet, Yahoo's future remains a question mark to many investors and analysts.⁴⁵

A **turnaround strategy** tries to fix specific performance problems.

Global Strategies

A key issue in corporate strategy today is how to embrace the global economy and its mix of business risks and opportunities.⁴⁶ An easy way to spot differences in global strategies is to notice how products are developed and advertised around the world. A firm pursuing a **globalization strategy** tends to view the world as one large integrated market. It makes

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most decisions from the corporate headquarters and tries as much as possible to standardize products and advertising for use everywhere. The latest Gillette razors from Procter & Gamble, for example, are likely to be sold and advertised similarly around the world.

A **globalization strategy** adopts standardized products and advertising for use worldwide.

choices> THINK BEFORE YOU ACT

> Ireland offers a 12.5% corporate tax rate to corporations that put offices and plants there. That compares with the standard 40% rate due at home.

Double Irish with a Dutch Sandwich



© Laura Stone/Shutterstock

No, it's not a drink and a sandwich we're talking about. It's a global business strategy used to reduce corporate income taxes paid in America. Ireland offers a 12.5% corporate tax rate to corporations that put offices and plants there. That compares with the standard 35% rate due at home. If you set up two Irish companies and arrange to funnel foreign earnings through them—the double Irish move—you pay the lesser tax bill. If those same earnings are then routed out from and back to Ireland passing through the Netherlands and Bermuda, the tax bill goes down further—the Dutch sandwich.

Who does all this? Apple, Google, and Microsoft are among the players taking a bite out of their U.S. tax bills. But the strategy isn't without controversy. *Those in favor of the practice are likely to say:* "It's perfectly legal" ... "It boosts corporate earnings" ... "You'd be a fool not to take advantage of the situation." *Those against the practice are likely to say:* "Wait a minute—I pay my full taxes; why shouldn't they?" ... "Something isn't right here—isn't it just a blatant tax avoidance scheme?" ... "We all lose when global corporations don't pay their taxes here at home."

YOUR TAKE?

Global business is a complicated world, and tax laws vary widely from one country to the next. International business executives have to be sophisticated and informed when it comes to managing financial transactions across borders. Are you among those who applaud executives who find and execute strategies like the double Irish with a Dutch sandwich? Or, are you among those who want to put a stop to these practices? Why?

Firms using a **multidomestic strategy** try to customize products and advertising as much as possible in order to fit local preferences in different countries or regions. McDonald's is a good example. Although you can get your standard fries and Big Mac in most locations, you can have a McVeggie in India, a McArabia Kofta in Saudi Arabia, and a Croque McDo in France.

A **multidomestic strategy** customizes products and advertising to best fit local needs.

A third approach is the **transnational strategy** where a firm tries to operate without a strong national identity and blend seamlessly with the global economy. Resources and management talents are acquired worldwide, while manufacturing and other business functions are located wherever in the world they can be accomplished at the lowest cost. Ford is an example. Its global strategy uses design, manufacturing, and distribution expertise all over the world to build core car platforms that build vehicles using common parts and components. These platforms produce cars like the Focus and Fiesta that are then sold around the world with slight modifications to meet regional tastes.

A **transnational strategy** seeks efficiencies of global operations with attention to local markets.

Cooperative Strategies

It's quite common today to hear about **strategic alliances** where two or more organizations join in a targeted partnership to pursue an area of mutual interest. This is basically a strategy of cooperating for common gains. In an *outsourcing alliance*, one organization contracts to purchase important services, perhaps IT or human resources, from another. In a *supplier alliance*, preferred supplier relationships guarantee a smooth and timely flow of quality supplies among partners. In a *distribution alliance*, firms join together as partners to sell and distribute products or services.

In a **strategic alliance**, organizations join in partnership to pursue an area of mutual interest.

One interesting strategic direction is called **co-opetition**, or strategic alliances among competitors.⁴⁷ The idea behind co-opetition is that organizations can still cooperate even as they compete with one another. The airline industry is a great example. United Airlines and Lufthansa are major international competitors, but they also cooperate as "Star Alliance" partners. The alliance provides their customers code-sharing on flights and shared frequent-flyer programs. There's also co-opetition in the auto industry where the cost of developing new technologies provides the stimulus to cooperate. Daimler cooperates with BMW to co-develop new motors and components for hybrid cars; it cooperates with Nissan to co-develop electric car batteries.⁴⁸

Co-opetition is the strategy of working with rivals on projects of mutual benefit.

Learning Check 3

TAKEAWAYQUESTION 3 What are corporate-level strategies and how are they formulated?

BE SURE YOU CAN • describe the BCG matrix as a strategic portfolio planning tool • list and explain the major types of growth and diversification strategies • list and explain the major types of retrenchment and restructuring strategies • list and give examples of global strategies • define *strategic alliance* and explain cooperation as a business strategy

Business-Level Strategy Formulation

TAKEAWAY 4 What are business-level strategies and how are they formulated?

LEARN MORE ABOUT | Competitive strategies model • Differentiation strategy
Cost leadership strategy • Focus strategy

Harvard's Michael Porter says that "the company without a strategy is willing to try anything."⁴⁹ But with a good strategy in place, he believes a business can achieve superior profitability or above-average returns within its industry. The key question in formulating business-level strategy is: "How can we best compete for customers in our market and with our products or services?"

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Competitive Strategies Model

[Figure 10.7](#) shows Porter's model for choosing competitive strategies based on the market scope of products or services, and the source of competitive advantage for the product or service. With respect to *market scope*, the strategic planner asks: "How broad or narrow is the market or target market?" With respect to *source of competitive advantage*, the question is: "Do we seek competitive advantage primarily through low price or product uniqueness?" Answers to these questions create a matrix like the one shown in the figure. Three business-level strategies are possible—cost leadership, differentiation, and focus. There are two combinations of the focus strategy—focused cost leadership and focused differentiation.

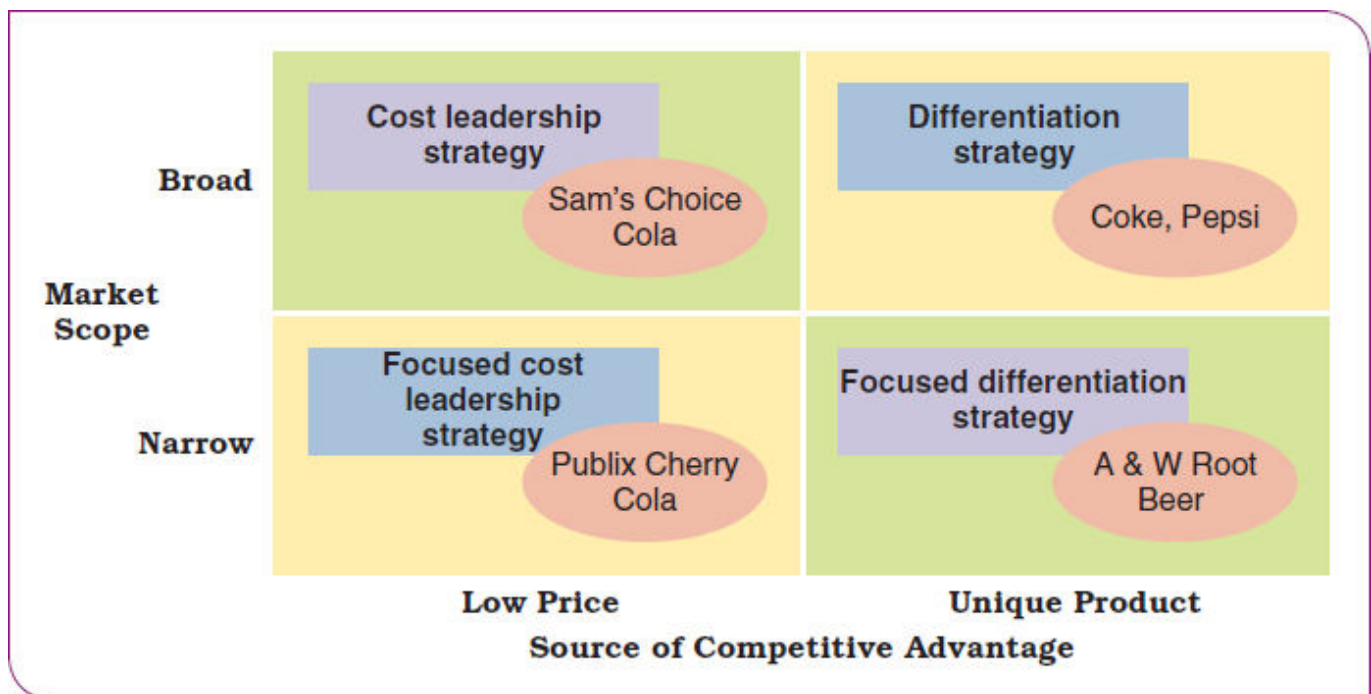


FIGURE 10.7 Porter's competitive strategies framework with soft-drink industry examples.

Differentiation Strategy

A **differentiation strategy** seeks competitive advantage through uniqueness. This means developing goods and services that are clearly different from the competition. The strategic objective is to attract customers who stay loyal to the firm's products and lose interest in those of its competitors.

A **differentiation strategy** offers products that are unique and different from the competition.

Success with a differentiation strategy requires organizational strengths in marketing, research and development, and creativity. An example in the apparel industry is Polo Ralph Lauren, retailer of upscale classic fashions and accessories. In Ralph Lauren's words, "Polo redefined how American style and quality is perceived. Polo has always been about selling quality products by creating worlds and inviting our customers to be part of our dream."⁵⁰

The differentiation strategy examples in [Figure 10.7](#) are Coke and Pepsi from the soft drinks industry. These firms continually battle for customer attention and loyalty. Although part of their differentiation may be actual taste, another part is pure perception. Coke and Pepsi spend enormous amounts on advertising to create beliefs that their products are somehow distinctly different from one another.

Cost Leadership Strategy

A **cost leadership strategy** seeks competitive advantage by operating with lower costs than competitors. This allows organizations to make profits selling products or services at low prices their competitors can't profitably match. The objective is to continuously improve operating efficiencies in purchasing, production, distribution, and other organizational systems.

A **cost leadership strategy** seeks to operate with low cost so that products can be sold at low prices.

Success with the cost leadership strategy requires tight cost and managerial controls, as well as products or services that are easy to create and distribute. This is what might be called the "Walmart" strategy—a firm takes every possible step to keep costs so low that they can offer customers the lowest prices and still make a reasonable profit. The example in [Figure 10.7](#) is Sam's Choice Colas, where because of economies of scale and branding these beverages can be offered at a fraction of the cost of "name brand" alternatives. An example from the financial services industry is the Vanguard Group. It keeps operating costs low to attract customers who want buy mutual funds with low expense ratios and minimum fees.

Porter's Competitive Strategies

- *Differentiation*—Make products that are unique and different.
- *Cost leadership*—Produce at lower cost and sell at lower price.
- *Focused differentiation*—Use differentiation and target needs of a special market.
- *Focused cost leadership*—Use cost leadership and target needs of a special market.

analysis> MAKE DATA YOUR FRIEND

> *Businesses seem enamored with the idea of hiring fewer full-timers and more part-time or temporary workers who can be added and let go according to demand.*

Disposable Workers Becoming Indispensable to Business Profits



Stuart Rayner/iStockphoto

We're now in the era of the disposable worker, says Northwestern University economist Robert Gordon. The facts certainly support his claim. Businesses are now hiring fewer full-timers and more part-time or temporary workers who can be added and let go according to demand. Professor Susan J. Lambert of the University of Chicago blames some of the switch to disposable workers on the decline of labor union influence in the U.S. Others simply point out the cost advantages to employers who only have to pay for workers as needed.

- A McKinsey survey of 2,000 employers found 58% planning to hire more workers on a part-time, temporary, and contract basis.
- The U.S. Bureau of Labor Statistics reports that 1 million full-time jobs have been cut and 500,000 part-time positions added by retail and wholesale employers in the past six years.
- Almost 3 of every 10 retail/wholesale jobs are filled part-time. Among those part-timers, 30.6% want full-time work.
- Compensation for part-timers in retail/wholesale averaged \$10.92 per hour (\$8.90 wages and \$2.02 benefits) versus \$17.18 for full-timers (\$12.25 wages and \$4.93 benefits).

- A survey of retailers in New York City found half of all jobs filled by part-timers. Only 1 in 10 of them had set work schedules.

YOUR THOUGHTS?

Is this switch to employing more disposable workers a good long-term strategy for businesses? How about public sector organizations like governments, schools, and local services? What are the possible downsides to the employer and the remaining full-time employees? How might this trend affect you? Is this something that you have already factored into your career plan?

You might be wondering if it's possible to combine cost leadership with differentiation. Porter says, "No." He refers to this combination as a *stuck-in-the-middle strategy* and believes it is rarely successful because differentiation increases costs. "You can compete on price or you can compete on product, but you can't compete on both," marketers tend to say. Porter agrees.

Focus Strategy

A **focus strategy** concentrates attention on a special market segment in the form of a niche customer group, geographical region, or product/service line. The objective is to serve the needs of the segment better than anyone else. Competitive advantage is achieved by combining focus with either differentiation or cost leadership.⁵¹

A **focus strategy** concentrates on serving a unique market segment better than anyone else.

NetJets offers private, secure, and luxury air travel for those who can pay a high fee, such as wealthy media stars and executives. This is a **focused differentiation strategy** because the firm sells a unique product to a special niche market. Also in airlines, carriers such as Ryan Air and Easy Jet in Europe offer heavily discounted fares and "no-frills" flying. This is a **focused cost leadership** strategy because it offers low prices to attract budget travelers. The airlines still make profits by keeping costs low. They fly to regional airports and cut out free services such as bag checks and in-flight snacks.⁵²

A **focused differentiation strategy** offers a unique product to a special market segment.

A **focused cost leadership** strategy seeks the lowest costs of operations within a special market segment.

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Figure 10.7 shows both types of focus strategies in the soft drink industry. Specialty drinks such as A&W Root Beer, Dr. Pepper, and Mountain Dew represent the focused differentiation strategy. Each focuses on a special market segment and tries to compete on the basis of product uniqueness. Drinks like Sam's Diet Cola, Publix Cherry Cola, and Big K Cola with Lime represent the focused cost leadership strategy. They also focus on special market segments, but try to compete by keeping operating costs low so that their soda brands can be profitably sold to consumers at low prices.

Learning Check 4

TAKEAWAYQUESTION 4 What are business-level strategies and how are they formulated?

BE SURE YOU CAN • list and explain the four competitive strategies in Porter's model • explain the differences between focused differentiation and focused cost leadership strategies • clarify the roles of both price and cost in a cost leadership strategy • illustrate how Porter's competitive strategies apply to products in a market familiar to you

Strategy Implementation

TAKEAWAY 5 What are the foundations for strategy implementation?

LEARN MORE ABOUT | Management practices and systems • Strategic control and corporate governance
Strategic leadership

A discussion of the corporate history on Patagonia, Inc.'s website includes this statement: "During the past thirty years, we've made many mistakes but we've never lost our way for very long."⁵³ Not only is the firm being honest in the information it shares with the public, it also is communicating an important point about strategic management—mistakes will be made. Sometimes those mistakes will be in poor strategy selection. Other times they will be failures of implementation.

Management Practices and Systems

In order to successfully put strategy into action, the entire organization and all of its resources must be mobilized in support. This involves the complete management process—from planning and controlling through organizing and leading. No matter how well or elegantly conceived, a strategy requires supporting structures and workflows staffed by talented people. The strategy needs leaders who can motivate employees so that individuals and teams do their best work. The strategy also needs to be properly monitored and controlled to ensure that the desired results are achieved.

Failures of substance in strategic management show up in poor analysis and bad strategy selection. *Failures of process* reflect poor handling of the ways in which strategic management is accomplished. A common process failure is the **lack of participation error**. It shows up as a lack of commitment to action and follow-through by individuals excluded from the strategic planning process.⁵⁴ Another process failure is *goal displacement*. This is the tendency to get so bogged down in details that the planning process becomes an end in itself, rather than a means to an end.

Lack of participation error is a failure to include key persons in strategic planning.

Strategic Control and Corporate Governance

Top managers exercise **strategic control** by making sure strategies are well implemented and that poor strategies are scrapped or modified quickly to meet performance demands of changing conditions. We expect them to always be "in control"—measuring results, evaluating the success of existing strategies, and taking action to improve things in the future. Yet the financial crisis and recent economic recession showed that strategic control was inadequate at many firms, including the automakers and big banks.

Strategic control makes sure strategies are well implemented and that poor strategies are scrapped or modified.

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ethics > **KNOW RIGHT FROM WRONG**

> *The work is meaningless, no conversation is allowed on the production lines, and bathroom breaks are limited.*

Life and Death at an Outsourcing Factory



JASON LEE/REUTERS/Newscom

Foxconn is a major outsourcing firm owned by Hon Hai Precision Industry of Taiwan and has extensive operations in China. It makes products for Apple, Dell, and Hewlett-Packard, among others. Foxconn has over a million workers in China, with some 250,000 working in one huge complex stretching over 1 square mile in Shenzhen. The site includes dormitories, restaurants, recreational facilities, and a hospital in addition to the factory spaces. Because of a number of employee suicides, netting has been draped from the dormitories to prevent employees from jumping to their death from roofs of the buildings.

One worker complains that the work is meaningless, no conversation is allowed on the production lines, and bathroom breaks are limited. Another says: "I do the same thing every day. I have no future." A supervisor points out that the firm provides counseling services since most workers are young and this is the first time they have been away from their homes. "Without their families," says the supervisor, "they're left without direction. We try to provide them with direction and help."

Recent moves by Hon Hai involve shifting more production to sites in rural China that are closer to many workers' homes and expanding automation through the use of more assembly-line robots. Wages have been increased and employees get counseling. This goes along with a broader commitment to the "highest possible safety practices," says a company spokesperson.

WHAT DO YOU THINK?

What ethical responsibilities do firms have when they contract for outsourcing in foreign plants? Whose responsibility is it to make sure workers are well treated—the global firm or the local supplier? What are our responsibilities as consumers? Should we support bad practices by buying products from firms with outsourcing partners are known to treat workers poorly? What role can and should the market play in improving conditions for workers worldwide?

When strategic control fails at the level of top management, it is supposed to kick in at the level of **corporate governance**. This is the system of control and monitoring of top management performance exercised by boards of directors in business firms and boards of trustees in nonprofits. Corporate governance is intended to ensure that the strategic management of the organization is successful.⁵⁵ But, boards are sometimes too compliant and uncritical in endorsing or confirming what top management is doing. Instead of questioning, criticizing, and requiring change, they condone the status quo. Weak corporate governance doesn't subject top management to rigorous oversight and accountability. The result is organizations that end up doing the wrong things, doing bad things, or just performing poorly.

Corporate governance is the system of control and performance monitoring of top management.

When governance fails, blame sometimes can be traced back to the composition of the board and expectations for how it operates. Most boards consist of *inside directors* chosen from the ranks of senior management and *outside directors* chosen from other organizations and positions external to the organization. In some boards insiders are too powerful, and the CEO may even be the board chairperson. In others the board lacks outside members whose skills match with the organization's strategic challenges. In still others board members may be insufficiently observant or critical because they are friends of top management or at least sympathetic to them. Current directions to strengthen board oversight and control of management include separating the roles of CEO and board chair, appointing

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outside directors with relevant expertise, and having board members take on more active leadership roles.⁵⁶

Strategic Leadership

Ford's former CEO Alan Mulally led the company out of recession and back onto a path toward growth. Paul Ingrassia, an auto analyst, called his success "one of the great turnarounds in corporate history" and praised Mulally's efforts "to simplify, relentlessly and systematically, a business that had grown way too complicated and costly to be managed effectively."⁵⁷ What Mulally showed at Ford is **strategic leadership**—the capability to inspire people to successfully engage in a process of continuous change, performance enhancement, and implementation of organization strategies.⁵⁸

Strategic leadership inspires people to continuously change, refine, and improve strategies and their implementation.

One of the big lessons learned in studying how businesses perform during economic crisis is that a *strategic leader has to maintain strategic control*. This means that the CEO and other members of top management should always be in touch with the strategy. They must know how well it is being implemented, whether the strategy is generating performance success or failure, and if the strategy needs to be modified or changed. The following list identifies other key responsibilities of strategic leadership.⁵⁹

- *A strategic leader has to be the guardian of trade-offs.* It is the leader's job to ensure that the organization's resources are allocated in ways that are consistent with the strategy. This

requires the discipline to sort through many competing ideas and alternatives, to stay on course, and not to get sidetracked.

- *A strategic leader needs to create a sense of urgency.* The leader can't allow the organization and its members to grow slow and complacent. Even when doing well, the leader retains focus on getting better and being alert to conditions that require adjustments to the strategy.
- *A strategic leader needs to make sure that everyone understands the strategy.* Unless strategies are understood, the daily tasks and contributions of individuals and teams lose context and purpose. Everyone might work very hard, but without alignment to strategy the impact is dispersed and fails to advance common goals.
- *A strategic leader needs to be a teacher.* It is the leader's job to teach the strategy and make it a "cause." In order for strategy to work, it must become an ever-present commitment throughout the organization. This means that a strategic leader must be a great communicator. Everyone must understand the strategy and how it makes their organization different from others.

Learning Check 5

TAKEAWAYQUESTION 5 What are the foundations for strategy implementation?

BE SURE YOU CAN • explain how the management process supports strategy implementation • define *corporate governance* • explain why boards of directors sometimes fail in their governance responsibilities • define *strategic control* and *strategic leadership* • list the responsibilities of a strategic leader in today's organizations

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Management Learning Review

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Summary

TAKEAWAYQUESTION 1

What is strategic management?

- Competitive advantage is achieved by operating in ways that allow an organization to outperform its rivals; a competitive advantage is sustainable when it is difficult for competitors to imitate.
- A strategy is a comprehensive plan that sets long-term direction and guides resource allocation for sustainable competitive advantage.
- Corporate strategy sets direction for an entire organization; business strategy sets direction for a business division or product/service line; functional strategy sets direction for the operational support of business and corporate strategies.

- Strategic management is the process of formulating and implementing strategies that achieve goals in a competitive environment.

FOR DISCUSSION Can an organization have a good strategy and still fail to achieve competitive advantage?

TAKEAWAYQUESTION 2

What are the essentials of strategic analysis?

- The strategic management process begins with analysis of mission, clarification of core values, and identification of objectives.
- A SWOT analysis systematically assesses organizational strengths and weaknesses, and environmental opportunities and threats.
- Porter's five forces model analyzes industry attractiveness in terms of competitive rivalry, new entrants, substitute products, and the bargaining powers of suppliers and buyers.

FOR DISCUSSION Would a monopoly get a perfect score for industry attractiveness in Porter's five forces model?

TAKEAWAYQUESTION 3

What are corporate-level strategies and how are they formulated?

- Growth strategies pursue greater sales and broader markets by concentration that expands in related product or business areas, and diversification that expands in new and different product and business areas.
- Restructuring strategies pursue ways to correct performance problems by such means as liquidation, bankruptcy, downsizing, divestiture, and turnaround.
- Global firms take advantage of international business opportunities through globalization, multidomestic, and transnational strategies.
- Cooperative strategies create strategic alliances with other organizations to achieve mutual gains, including such things as outsourcing alliances, supplier alliances, and even co-opetition among competitors.
- The BCG matrix is a portfolio planning approach that classifies businesses or product lines as "Stars," "Cash Cows," "Question Marks," or "Dogs" for purposes of strategy formulation.

FOR DISCUSSION Is it good news or bad news for investors when a firm announces that it is restructuring? Why?

TAKEAWAYQUESTION 4

What are business-level strategies and how are they formulated?

- Potential sources of competitive advantage in business-level strategy formulation are found in things like lower costs, better quality, more knowledge, greater speed, and strong financial resources.
- Porter's model of competitive strategy bases the choice of business-level strategies on two major considerations—market scope of product or service, and source of competitive advantage for the product or service.
- A differentiation strategy seeks competitive advantage by offering unique products and services that are clearly different from those of competitors.

- A cost leadership strategy seeks competitive advantage by operating at low costs that allow products and services to be sold to customers at low prices.
- A focus strategy seeks competitive advantage by serving the needs of a special market segment or niche better than anyone else; it can be done as focused differentiation or focused cost leadership.

FOR DISCUSSION Can a business ever be successful with a combined cost leadership and differentiation strategy?

TAKEAWAYQUESTION 5

What are the foundations for strategy implementation?

- Management practices and systems—including the functions of planning, organizing, leading, and controlling—must be mobilized to support strategy implementation.
- Pitfalls that inhibit strategy implementation include failures of substance—such as poor analysis of the environment; and failures of process—such as lack of participation by key players in the planning process.
- Boards of directors play important roles in control through corporate governance, including monitoring how well top management fulfills strategic management responsibilities.
- Top managers exercise strategic control by making sure strategies are well implemented and are changed if not working.
- Strategic leadership inspires the process of continuous evaluation and improvement of strategies and their implementation.

FOR DISCUSSION Can strategic leadership by top managers make up for poor corporate governance by board members? Why or why not?

Self-Test 10

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- a. “Where do we want to be in the future?”
 - b. “How well are we currently doing?”
 - c. “How can we get where we want to be?”
 - d. “Why aren’t we doing better?”
2. The ability of a firm to consistently outperform its rivals is called _____.
- a. vertical integration
 - b. competitive advantage
 - c. incrementalism
 - d. strategic intent

3. In a complex conglomerate such as General Electric that owns a large number of different businesses, a(n) _____ level strategy sets strategic direction for a strategic business unit.
- a. institutional
 - b. business
 - c. corporate
 - d. functional
4. The _____ is a predominant value system for an organization as a whole.
- a. strategy
 - b. mission
 - c. core competency
 - d. corporate culture
5. Cost efficiency and product quality are two examples of _____ objectives of organizations.
- a. official
 - b. informal
 - c. operating
 - d. institutional
6. An organization that is downsizing by laying off workers to reduce costs is implementing a _____ strategy.
- a. growth
 - b. cost differentiation
 - c. restructuring
 - d. vertical integration
7. When PepsiCo acquired Tropicana, a maker of orange juice, the firm's strategy was growth by _____.
- a. related diversification
 - b. concentration
 - c. vertical integration
 - d. cooperation
8. In Porter's five forces framework, having _____ increases industry attractiveness.
- a. many rivals
 - b. many substitute products
 - c. low bargaining power of suppliers
 - d. few barriers to entry
9. A _____ in the BCG matrix would have a high market share in a low-growth market, and the correct grand or master strategy is _____.

- a. Dog, growth
 - b. Cash Cow, stability
 - c. Question Mark, stability
 - d. Star, retrenchment
10. Strategic alliances that link together airlines in code sharing and joint marketing agreements are examples of how businesses can use _____ strategies.
- a. divestiture
 - b. growth
 - c. cooperation
 - d. backward integration
11. The two questions asked by Porter to identify competitive strategies for a business or product line are: 1—What is the market scope? 2—What is the _____?
- a. market share
 - b. source of competitive advantage
 - c. core competency
 - d. industry attractiveness
12. According to Porter's model of competitive strategies, a firm that wants to compete with its rivals in a broad market by selling a very low-priced product would need to successfully implement a _____ strategy.
- a. retrenchment
 - b. differentiation
 - c. cost leadership
 - d. diversification
13. When Coke and Pepsi spend millions on ads trying to convince customers that their products are unique, they are pursuing a _____ strategy.
- a. transnational
 - b. concentration
 - c. diversification
 - d. differentiation
14. The role of the board of directors as an oversight body that holds top executives accountable for the success of business strategies is called _____.
- a. strategic leadership
 - b. corporate governance
 - c. logical incrementalism
 - d. strategic opportunism
15. An example of a process failure in strategic planning is _____.
- a. lack of participation
 - b. weak mission statement

- c. bad core values
- d. insufficient financial resources

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Short-Response Questions

- 16. What is the difference between corporate strategy and functional strategy?
- 17. What would a manager look at in a SWOT analysis?
- 18. What is the difference between focus and differentiation as competitive strategies?
- 19. What is strategic leadership?

Essay Question

- 20. Kim Harris owns and operates a small retail store selling the outdoor clothing of an American manufacturer to a predominately college-student market. Lately, a large department store outside of town has started selling similar but lower-priced clothing manufactured in China, Thailand, and Bangladesh. Kim believes she is starting to lose business to this store. Assume you are part of a student team assigned to do a management class project for Kim. Her question for the team is: "How can I best deal with my strategic management challenges in this situation?" How will you reply?

Management Skills & Competencies Make yourself valuable!

Evaluate Career Situations

What Would You Do?

1. The Mission Statement

You've just been given a great assignment to serve as personal assistant to the company president of a mid-sized firm operating just outside in a major city in the U.S. It will last for six months and then, if you've done a good job, the expectation is you'll be moved into a fast-track management position. The president comes to you and says: "It's time to revisit the mission statement and our corporate values. Set things up for us." There are about a dozen people on the top management team and the company as a whole employs 700+, all in one location. How will you proceed to get the mission and values of this company updated?

2. Cooperate or Compete, or Both?

A neighborhood business association has this set of members: coffee shop, bookstore, drugstore, dress shop, hardware store, and bicycle shop. The owners of these businesses are interested in how they might cooperate for better success. As a business consultant to the association, what strategic alliances would you propose as ways to join sets of these businesses together for mutual gain?

3. Saving a Bookstore

For some years you've owned a small specialty bookshop in a college town. You sell some textbooks but mainly cater to a broader customer base. The store always has the latest

fiction, nonfiction, and children's books in stock. You've recently experienced a steep decline in overall sales, even for those books that would normally be considered bestsellers. You suspect this is because of the growing popularity of e-books and e-readers such as the Amazon Kindle and Barnes & Noble Nook. Some of your friends say it's time to close the store and call it quits because your market is dying. Is it hopeless? Or, can a new business strategy save you?

Reflect on the Self-Assessment

Intuitive Ability

Instructions

Complete this survey as quickly as you can. Be honest with yourself. For each question, select the response that most appeals to you. [60](#)

1. When working on a project, do you prefer to
 - a. be told what the problem is but be left free to decide how to solve it?
 - b. get very clear instructions for how to go about solving the problem before you start?
2. When working on a project, do you prefer to work with colleagues who are
 - a. realistic?
 - b. imaginative?
3. Do you most admire people who are
 - a. creative?
 - b. careful?
4. Do the friends you choose tend to be
 - a. serious and hard working?
 - b. exciting and often emotional?
- 5.

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When you ask a colleague for advice on a problem you have, do you

- a. seldom or never get upset if he or she questions your basic assumptions?
 - b. often get upset if he or she questions your basic assumptions?
6. When you start your day, do you
 - a. seldom make or follow a specific plan?
 - b. usually first make a plan to follow?
7. When working with numbers, do you find that you
 - a. seldom or never make factual errors?
 - b. often make factual errors?
8. Do you find that you

- a. seldom daydream during the day and really don't enjoy doing so when you do it?
 - b. frequently daydream during the day and enjoy doing so?
9. When working on a problem, do you
- a. prefer to follow the instructions or rules that are given to you?
 - b. often enjoy circumventing the instructions or rules that are given to you?
10. When you are trying to put something together, do you prefer to have
- a. step-by-step written instructions on how to assemble the item?
 - b. a picture of how the item is supposed to look once assembled?
11. Do you find that the person who irritates you *the most* is the one who appears to be
- a. disorganized?
 - b. organized?
12. When an unexpected crisis comes up that you have to deal with, do you
- a. feel anxious about the situation?
 - b. feel excited by the challenge of the situation?

Scoring

Total the number of “a” responses selected for questions 1, 3, 5, 6, 11; enter the score here [a = ____]. Total the number of “b” responses for questions 2, 4, 7, 8, 9, 10, 12; enter the score here [b = ____]. Add your “a” and “b” scores and enter the sum here [a + b = ____]. This is your intuitive score. The highest possible intuitive score is 12; the lowest is 0.

Interpretation

In his book *Intuition in Organizations* (Newbury Park, CA: Sage, 1989), pp. 10–11, Weston H. Agor states, “Traditional analytical techniques ... are not as useful as they once were for guiding major decisions... . If you hope to be better prepared for tomorrow, then it only seems logical to pay some attention to the use and development of intuitive skills for decision making.” Agor developed the preceding survey to help people assess their tendencies to use intuition in decision making. Your score offers a general indication of your strength in this area. It may also suggest a need to further develop your skill and comfort with more intuitive decision-making approaches.

Contribute to the Class Exercise

Strategic Scenarios

Preparation

In today's turbulent economic environment, it is no longer safe to assume that an organization that was highly successful in the past will continue to be so in the near future—or that it will even be in existence. Changing times exact the best from strategic planners. Think about the situations currently facing the following well-known organizations. Think, too, about the futures they may face in competitive markets.

Chipotle	Domino's Pizza	Sony
Apple Computer	Nordstrom	Zynga
Netflix	National Public Radio	AT&T

Instructions

Form into groups. Choose one or more organizations from the list (or as assigned by your instructor) and answer for this organization the following questions:

1. What in the future might seriously threaten the success, perhaps the very existence, of this organization? As a group, develop at least three such *future scenarios*.
2. Estimate the probability (0% to 100%) of each future scenario occurring.
3. Develop a strategy for each scenario that will enable the organization to deal with it successfully.

Thoroughly discuss these questions within the group and arrive at your best possible consensus answers. Be prepared to share and defend your answers in general class discussion.

Manage a Critical Incident

Kickstarting a Friend's Business Idea

You've worked hard, made a fair amount of money, and have a nice stock portfolio. You're also known among your friends as "the guy with the money." As with lottery winners, you've become a bit of a target—some want handouts, some loans, and others just do their share of freeloading. But now one of your friends has come with a business proposal. She's just back from a trip to Southeast Asia and is raving about all the neat fabrics available in local markets in places like Cambodia, Thailand, and Vietnam. She's also a great fan of the TV show *Project Runway*. So, she wants to import fabrics, buy some sewing machines and materials, rent a