Strategic Management - Theory & Cases - An Integrated Approach 14th edition Hill Solutions Manual

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Instructor Manual

Hill/Schilling, *Strategic Management: Theory and Cases*, Core ISBN: 9780357716670; Chapter 1: Strategic Leadership: Managing the Strategy-Making Process for Competitive Advantage

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Purpose and Perspective of the Chapter

This chapter is an introductory chapter. Its purpose is to define critical concepts and introduce the main components of the strategic leadership and management process. This chapter serves to establish the context within which subsequent chapters fit.

Chapter 1 begins with a discussion of the concept of strategy. The strategies an organization pursues have a major impact upon its performance relative to its peers. The firm's top managers have direct responsibility for choosing strategies that will lead to superior performance and provide competitive advantage.

Next, the chapter equates superior performance with profitability for profit-seeking enterprises. Sustained competitive advantage occurs when a firm is able to maintain above-average profitability over an extended period of time. Strategic management is just as crucial to nonprofits as it is to profit-seeking businesses. Much of this book is about identifying and describing the strategies that managers can pursue to achieve superior performance and provide their company with a competitive advantage. The book will provide a thorough understanding of the business model analytical techniques and skills necessary to identify and implement strategies successfully.

Chapter Objectives

The following objectives are addressed in this chapter:

1.1 Define strategic leadership.

1.2 Discuss leadership and its relationship to superior performance.

1.3 Explain what is meant by "competitive advantage."

1.4 Discuss the strategic role of managers at different levels within an organization.

1.5 Identify the primary steps in a strategic planning process.

1.6 Examine the criticisms of strategic planning.

1.7 Review the practice of strategic planning.

1.8 Explain strategic decision making and the cognitive biases that might lead to poor strategic decisions.

1.9 Discuss the characteristics of strategic leaders.

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Complete List of Chapter Activities and Assessments

Refer to the Learning Objectives Mapping document, posted on the online resources, for a comprehensive guide to how this chapter's learning activities and assessments support the learning objectives.

Chapter Objective	PPT slide	Activity/Assessment	Duration
		Opening Case	15 min
1.1	6	Knowledge Check 1.1	< 5 min
1.3	15–16	Discussion Activity 1	5–10 min
1.5	32	Polling Activity	< 5 min
1.6	36–37	Discussion Activity 2	5–10 min
1.7	42	Group Activity	10–20 min
1.8	47	Knowledge Check 1.2	< 5 min
1.1–1.9	50	Self-Assessment	15–30 min
1.1–1.9		End-of-Chapter Discussion Questions	45 min

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Key Terms

Availability error: A bias that arises from our predisposition to estimate the probability of an outcome based on how easy the outcome is to imagine.

Business model: The conception of how strategies should work together as a whole to enable the company to achieve competitive advantage.

Business unit: A self-contained division that provides a product or service for a particular market.

Cognitive biases: Systematic errors in decision making that arise from the way people process information.

Competitive advantage: The achieved advantage over rivals when a company's profitability is greater than the average profitability of firms in its industry.

Confirmation bias: Refers to the fact that decision makers who have strong prior beliefs tend to make decisions on the basis of these beliefs, even when presented with evidence that their beliefs are wrong.

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Devil's advocacy: A technique in which one member of a decision-making team identifies all the considerations that might make a proposal unacceptable.

Dialectic inquiry: The generation of a plan (a thesis) and a counterplan (an antithesis) that reflect plausible but conflicting courses of action.

Escalating commitment: A cognitive bias that occurs when decision makers, having already committed significant resources to a project, commit even more resources after receiving feedback that the project is failing.

Functional managers: Managers responsible for supervising a particular function; that is, a task, activity, or operation, such as accounting, marketing, research and development (R&D), information technology, or logistics.

General managers: Managers who bear responsibility for the overall performance of the company or for one of its major self-contained subunits or divisions.

Illusion of control: A cognitive bias rooted in the tendency to overestimate one's ability to control events.

Mission: The purpose of the company, or a statement of what the company strives to do.

Multidivisional company: A company that competes in several different businesses and has created a separate, self-contained division to manage each.

Outside view: Identification of past successful or failed strategic initiatives to determine whether those initiatives will work for the project at hand.

Profit growth: The increase in net profit over time.

Profitability: The return a company makes on the capital invested in the enterprise.

Reasoning by analogy: Use of simple analogies to make sense out of complex problems.

Representativeness: A bias rooted in the tendency to generalize from a small sample or even a single, vivid anecdote.

Return on invested capital (ROIC): Return on invested capital is equal to net profit divided by capital invested in the company.

Risk capital: Equity capital invested with no guarantee that stockholders will recoup their cash or earn a decent return.

Scenario planning: Formulating plans that are based upon "what-if" scenarios about the future.

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Shareholder value: Returns that shareholders earn from purchasing shares in a company.

Strategic leadership: Creating competitive advantage through effective management of the strategy-making process.

Strategy formulation: Selecting strategies based on analysis of an organization's external and internal environment.

Strategy implementation: Putting strategies into action.

Strategy: A set of related actions that managers take to increase their company's performance.

Sustained competitive advantage: A company's strategies enable it to maintain above-average profitability for a number of years.

SWOT analysis: The comparison of strengths, weaknesses, opportunities, and threats.

Values: A statement of how employees should conduct themselves and their business to help achieve the company mission.

Vision: The articulation of a company's desired achievements or future state.

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WHAT'S NEW IN THIS CHAPTER

The following elements are improvements in this chapter from the previous edition:

- New Opening Case: Peloton.
- Section 1-2a contains an updated discussion of superior performance using Procter & Gamble 2021 financials.
- The discussion of different levels of management in Section 1-4 has been updated using 3M as the primary example (was GE).
- Revisions to Figure 1.3 reflect change in flow of the book.
- New Strategy in Action 1.2 features the digital transformation of the New York Times (replaces feature on Time Incorporated).
- Example of New York Times now used extensively in Section 1-5.
- Section 1-6a has been rewritten with up-to-date references, including COVID pandemic.
- Expanded and update Closing Case: T-Mobile's Strategy under John Legere.

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CHAPTER OUTLINE

In the outline below, each element includes references (in parentheses) to related content. "CH.##" refers to the chapter objective; "PPT Slide #" refers to the slide number in the PowerPoint deck for this chapter (provided in the PowerPoints section of the Instructor Resource Center). Review learning objectives for Chapter 1. (PPT Slide 3).

Opening Case: Peloton

1-1. Strategy and Strategic Leadership (Learning Objective 1.1: Define strategic leadership. PPT Slides 4–6)

a. The strategies a company's managers pursue have a major impact on the company's performance relative to that of its competitors.

b. **Strategy** is a set of related actions that managers take to increase their company performance.

c. **Strategic leadership** is about how to most effectively manage a company's strategy-making process to create competitive advantage.

1. The strategy-making process is the process by which managers select and then implement a set of strategies that aim to achieve a competitive advantage.

d. **Strategy formulation** is the task of selecting strategies.

e. **Strategy implementation** is the task of putting strategies into action, which includes designing, delivering, and supporting products; improving the efficiency and effectiveness of operations; and designing a company's organization structure, control systems, and culture.

f. **Knowledge Check 1.1: < 5 minutes total.** (PPT Slide 6)
Which of the following best explains *strategy*?

(a) The actions an organization takes to attain superior performance.
(b) The actions an organization takes to attain its goals.
(c) The actions an organization is able to take based on its strengths and weaknesses.
(d) The actions that lead an organization to higher profits.

- **Answer: b.** The actions an organization takes to attain its goals.
- This is a bit of a trick questions because all the answers are part of what strategy is in an organization. Therefore, the overarching definition as actions toward goal attainment encompasses the others, which will be explained in greater detail throughout the chapter.

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1-2. Strategic Leadership and Superior Performance (Learning Objective 1.2: Discuss leadership and its relationship to superior performance. PPT Slides 7–11)

a. Strategic leadership is concerned with managing the strategy-making process to increase the performance of a company, thereby increasing the value of the enterprise to its owners, its shareholders.
b. To increase shareholder value, managers must pursue strategies that increase the profitability of the company and ensure that profits grow (**Figure 1.1: Determinants of Shareholder Value**).
c. To do this, a company must be able to outperform its rivals; it must have a competitive advantage.

1-2a. Superior Performance

a. **Shareholder value** refers to the returns that shareholders earn from purchasing shares in a company. These returns come from two sources:
    1. Capital appreciation in the value of a company's shares
    2. Dividend payments
b. Maximizing shareholder value is the ultimate goal of profit-making companies for two reasons:
    1. Shareholders provide a company with risk capital that enables managers to buy resources needed to produce and sell goods and services.
        i. **Risk capital** is capital that cannot be recovered if a company fails and goes bankrupt.
    2. Shareholders are the legal owners of a corporation, and their shares, therefore, represent a claim on the profits generated by a company.
        i. Managers have an obligation to invest those profits in ways that maximize shareholder value.
c. One way of measuring the **profitability** of a company is by the return that it makes on the capital invested in the enterprise.
    1. **Return on invested capital (ROIC)** that a company earns is defined as its net profit over the capital invested in the firm (profit/capital invested).
        i. Net profit means net income after tax.
        ii. Capital means the sum of money invested in the company—that is, stockholders' equity plus debt owed to creditors.
    2. So defined, profitability is the result of how efficiently and effectively managers use the capital at their disposal to produce goods and services that satisfy customer needs.

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d. The **profit growth** of a company can be measured by the increase in net profit over time.
    1. A company can grow its profits if it sells products in markets that are growing rapidly, gains market share from rivals, increases the amount it sells to existing customers, expands overseas, or diversifies profitably into new lines of business.
e. Together, profitability and profit growth are the principal drivers of shareholder value.
f. To both boost profitability and grow profits over time, managers must formulate and implement strategies that give their company a competitive advantage over rivals.

1-3. Competitive Advantage and a Company's Business Model (Learning Objective 1.3: Explain what is meant by "competitive advantage." PPT Slides 12–16)

a. To maximize shareholder value, managers must formulate and implement strategies that enable their company to outperform rivals—that give it a competitive advantage.
    1. A company is said to have a **competitive advantage** over its rivals when its profitability is greater than the average profitability and profit growth of other companies competing for the same set of customers.
    2. The higher its profitability relative to rivals, the greater its competitive advantage will be.
    3. A company has a **sustained competitive advantage** when its strategies enable it to maintain above-average profitability for a number of years.
b. A **business model** is managers' conception of how the set of strategies their company pursues should work together as a congruent whole, enabling the company to gain a competitive advantage and achieve superior profitability and profit growth.
    1. A business model can be thought of as a mental model, or gestalt, of how the various strategies and capital investments a company makes fit together to generate above-average performance.
    2. A business model addresses how the company:
        i. selects, acquires, and keeps its customers.
        ii. defines and differentiates its product offerings.
        iii. creates value for its customers.
        iv. produces goods or services and delivers to the market.
        v. increases productivity and lowers costs.

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vi. organizes its resources and activities.
vii. achieves and sustains high profitability and growth.

1-3a. Industry Differences in Performance

a. In addition to its business model and associated strategies, a company's performance is also determined by the characteristics of the industry in which it competes.
b. Different industries are characterized by different competitive conditions.
c. In some industries, demand is growing rapidly, and in others it is contracting.
d. Some industries might be beset by excess capacity and persistent price wars, others by strong demand and rising prices.

1-3b. Performance in Nonprofit Enterprises

a. Nonprofit enterprises such as government agencies, universities, and charities are not in "business" to make profits.
b. Nevertheless, they are expected to use their resources efficiently and operate effectively, and their managers set goals to measure their performance.
c. The managers of nonprofits need to map out strategies to attain these goals.
d. They also need to understand that nonprofits compete with each other for scarce resources, just as businesses do.
e. **Discussion Activity 1: 5–10 minutes total.** (PPT Slides 15–16)
How is profitability different from competitive advantage?
    - A company's profitability is equal to the return that it makes on the capital invested in the enterprise. In other words, it is the amount of money it gets for its products or services minus the amount of money it spent to create those products or services. Profitability is determined in large part by the strategies the company adopts.
    - Competitive advantage is indicated by greater profitability and profit growth than industry rivals, but it is achieved through the actions/strategies a company uses to be most effective within the industry.

Strategy in Action 1.1: The Gates Foundation—Eradicating Malaria

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1-4. Strategic Managers (Learning Objective 1.4: Discuss the strategic role of managers at different levels within an organization. PPT Slides 17–22)

a. In most companies, there are two primary types of managers:
   1. **General managers** bear responsibility for the overall performance of the company or for one of its major self-contained subunits or divisions.
      i. The overriding concern of general managers is the success of the whole company or the divisions under their direction.
      ii. They are responsible for deciding how to create a competitive advantage and achieve high profitability with the resources and capital they have at their disposal.
   2. **Functional managers** are responsible for supervising a particular function, that is, a task, activity, or operation, such as accounting, marketing, etc.

b. **Figure 1.2: Levels of Strategic Management** shows the organization of a **multidivisional company**.
   1. A company that competes in several different businesses and has created a separate self-contained division to manage each.
   2. The three main levels of management are corporate, business, and functional.

1-4a. Corporate-Level Managers

a. The corporate level of management consists of the chief executive officer (CEO), other senior executives, and corporate staff.
   1. The CEO is the principal general manager.
b. In consultation with other senior executives, the role of corporate-level managers is to oversee the development of strategies for the whole organization.
c. This role includes defining the goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the entire organization.
d. Corporate-level managers also provide a link between the people who oversee the strategic development of a firm and those who own it (the shareholders). Corporate-level managers, and particularly the CEO, can be viewed as the agents of shareholders.

1-4b. Business-Level Managers

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a. A **business unit** is a self-contained division (with its own functions—e.g., finance, purchasing, etc.) that provides a product or service for a particular market.
b. The principal general manager at the business level, or the business-level manager, is the head of the division.
c. The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

1-4c. Functional-Level Managers

a. Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, etc.) that constitute a company or one of its divisions.
b. A functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of an entire company or division.

1-5. The Strategic Planning Process (Learning Objective 1.5: Identify the primary steps in a strategic planning process. PPT Slides 23–32)

1-5a. A Model of the Strategic Planning Process

a. The formal strategic planning process has five main steps:
    1. Select the corporate mission and major corporate goals.
    2. Analyze the organization's external competitive environment to identify opportunities and threats.
    3. Analyze the organization's internal operating environment to identify the organization's strengths and weaknesses.
    4. Select strategies that build on the organization's strengths and correct its weaknesses in order to take advantage of external opportunities and counter external threats. These strategies should be consistent with the mission and major goals of the organization.
    5. Implement the strategies.
b. The task of analyzing the organization's external and internal environments and then selecting appropriate strategies constitutes strategy formulation.
c. Strategy implementation involves:
    1. putting the strategies (or plan) into action at the corporate, business, and functional levels.

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2. allocating roles and responsibilities among managers.
3. allocating resources setting short-term objectives.
4. designing the organization's control and reward systems.

d. Each step in **Figure 1.3: Main Components of the Strategic Planning Process** constitutes a sequential step in the strategic planning process.
   1. At step 1, each round, or cycle, of the planning process begins with a statement of the corporate mission and major corporate goals.
   2. The mission statement, then, is followed by the foundation of strategic thinking: external analysis, internal analysis, and strategic choice.
   3. The strategy-making process ends with the design of the organizational structure and the culture and control systems necessary to implement the organization's chosen strategy.

e. Some organizations go through a new cycle of the strategic planning process every year, which does not necessarily mean that managers choose a new strategy each year.
   1. In many instances, the result is simply to modify and reaffirm a strategy and structure already in place.
   2. The strategic plans generated by the planning process generally project over a period of 1 to 5 years, and the plan is updated, or rolled forward, every year.

f. In most organizations, the results of the annual strategic planning process are used as input into the budgetary process for the coming year so that strategic planning is used to shape resource allocation within the organization.

1-5b. Mission Statement

a. The first component of the strategic management process is crafting the organization's mission statement, which provides the framework—or context—within which strategies are formulated.
b. A mission statement has four main components:
   1. A statement of the raison d'être of a company or organization—its reason for existence—which is normally referred to as the mission
   2. A statement of some desired future state, usually referred to as the vision
   3. A statement of the key values that the organization is committed to
   4. A statement of major goals

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c. The Mission
    1. A company's **mission** describes what the company does.
    2. Drucker believed an important first step in the process of formulating a mission is to come up with a definition of the organization's business that answers these questions:
        i. What is our business?
        ii. What will it be?
        iii. What should it be?
    3. The responses to these questions guide the formulation of the mission.
    4. To answer the question, "What is our business?" a company should define its business in terms of three dimensions (as illustrated in **Figure 1.4: Defining the Business**):
        i. Who is being satisfied (what customer groups)?
        ii. What is being satisfied (what customer needs)?
        iii. How customers' needs are being satisfied (by what skills, knowledge, or distinctive competencies)?
    5. This approach stresses the need for a customer-oriented rather than a product-oriented business definition.

d. Vision
    1. The **vision** of a company defines a desired future state; it articulates, often in bold terms, what the company would like to achieve.

e. Values
    1. The **values** of a company state how managers and employees should conduct themselves, how they should do business, and what kind of organization they should build to help a company achieve its mission.
    2. Values are commonly seen as the bedrock of a company's organizational culture—the set of values, norms, and standards that control how employees work to achieve an organization's mission and goals.
    3. In one study of organizational values, researchers identified a set of values associated with high-performing organizations that help companies achieve superior financial performance through their impact on employee behavior:
        i. Respect for the interests of key organizational stakeholders—stockholders, bondholders, employees, customers, the communities in which the company does business, and the general public—the individuals or groups

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that have an interest, claim, or stake in the company, in what it does, and in how well it performs.

ii. Leadership encouragement of entrepreneurial behavior.

Strategy in Action 1.2: The Digital Transformation of the *New York Times*

1-5c. Major Goals

a. A goal is a precise and measurable desired future state that a company attempts to realize.
b. The purpose of goals is to specify with precision what must be done if the company is to attain its mission or vision.
c. Well-constructed goals have four main characteristics:
    1. They are precise and measurable.
    2. They address crucial issues.
    3. They are challenging but realistic.
    4. They specify a time period in which the goals should be achieved, when that is appropriate.
d. Well-constructed goals also provide a means by which the performance of managers can be evaluated.
e. The primary goal of most corporations is to maximize shareholder returns, and doing this requires both high profitability and sustained profit growth.

1-5d. External Analysis

a. The essential purpose of external analysis is to identify strategic opportunities and threats within the organization's operating environment that will affect how it pursues its mission.
b. Three interrelated environments should be examined when undertaking an external analysis:
    1. the industry environment in which the company operates.
    2. the country or national environment.
    3. the wider socioeconomic or macroenvironment.

1-5e. Internal Analysis

a. Internal analysis focuses on reviewing the resources, capabilities, and competencies of a company.
b. The goal is to identify the strengths and weaknesses of the company.

1-5f. SWOT Analysis and the Business Model

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a. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as a **SWOT analysis**.
    1. This analysis identifies strategies to exploit external opportunities, counter threats, build on and protect company strengths, and eradicate weaknesses.
    2. A SWOT analysis enables a company to create, affirm, or fine-tune a company-specific business model that will best align, fit, or match its resources and capabilities to the demands of the environment in which it operates.
    3. Managers compare and contrast the various alternative possible strategies against each other and then identify the set of strategies that will create and sustain competitive advantage.
    4. These strategies can be divided into four main categories:
        i. Functional-level strategies, directed at improving the effectiveness of operations within a company, such as manufacturing, marketing, etc.
        ii. Business-level strategies, which encompass the business's overall competitive theme, the way it positions itself in the marketplace to gain a competitive advantage, and the different positioning strategies that can be used in different industry settings—for example, cost leadership, differentiation, etc.
        iii. Global strategies, which address how to expand operations outside the home country to grow and prosper in a world where competitive advantage is determined at a global level.
        iv. Corporate-level strategies, which answer the primary questions—What business or businesses should we be in to maximize the long-run profitability and profit growth of the organization, and how should we enter and increase our presence in these businesses to gain competitive advantage?
b. The strategies identified through a SWOT analysis should be congruent with each other at the various levels.

1-5g. Strategy Implementation

a. Strategy implementation involves taking actions at the functional, business, and corporate levels to execute a strategic plan.
b. Implementation can include, for example:
    1. putting quality improvement programs into place.

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2. changing the way a product is designed.
3. positioning the product differently in the marketplace.
4. segmenting the marketing and offering different versions of the product to different consumer groups.
5. implementing price increases or decreases.

c. Strategy implementation entails designing the best organization structure and the best culture and control systems to put a chosen strategy into action.
d. A governance system needs to be in place to make sure that all within the organization act in a manner that is not only consistent with maximizing profitability and profit growth but also legal and ethical.

1-5h. The Feedback Loop

a. The feedback loop indicates that strategic planning is ongoing.
b. Once a strategy has been implemented, its execution must be monitored to determine the extent to which strategic goals and objectives are actually being achieved, and to what degree competitive advantage is being created and sustained.
c. Top managers can then decide whether to reaffirm the existing business model and the existing strategies and goals or suggest changes for the future.
d. **Polling Activity 1: < 5 minutes total.** (PPT Slide 32)
Strategic planning is . . .
(a) identifying organizational goals and the steps needed to achieve them.
(b) describing the steps to get from where a company is to where it wants to go.
(c) determining the approach the company uses to be successful.
(d) making sure a company has competitive advantage over its rivals.
- *Note:* This activity has no single correct answer. Students can be prompted to volunteer the reasoning for their response. In this particular activity, their answer can be related to what specific aspect of strategic planning resonates most with them.

1-6. Strategy as an Emergent Process (Learning Objective 1.6: Examine the criticisms of strategic planning. PPT Slides 33–37)

a. The planning model suggests that a company's strategies are the result of a plan, that the strategic planning process is rational and highly structured, and that top management orchestrates the process.

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b. Several scholars have criticized the formal planning model for three main reasons:
    1. The unpredictability of the real world
    2. The role that lower-level managers can play in the strategic management process
    3. The fact that many successful strategies are often the result of serendipity, not rational strategizing

1-6a. Strategy Making in an Unpredictable World

a. Critics of formal planning systems argue that uncertainty, complexity, and ambiguity mean small chance events can have a large and unpredictable impact on outcomes.
b. They claim that even the most carefully thought-out strategic plans are prone to being rendered useless by rapid and unforeseen change.
c. In such a world, being able to respond quickly to changing circumstances, and to alter the strategies of the organization accordingly, is paramount.

1-6b. Autonomous Action: Strategy Making by Lower-Level Managers

a. Others claim that too much importance is attached to the role of top management, particularly the CEO.
b. They believe individual managers deep within an organization can—and often do—exert a profound influence over the strategic direction of the firm.
c. Autonomous action may be particularly important in helping established companies deal with the uncertainty created by the arrival of a radical new technology that changes the dominant paradigm in an industry.

Strategy in Action 1.3: A Strategic Shift at Charles Schwab

1-6c. Serendipity and Strategy

a. Examples throughout business history tell of accidental events that helped to push companies in new and profitable directions.
b. These examples suggest that many successful strategies are not the result of well-thought-out plans, but of serendipity—stumbling across good things unexpectedly.
c. Serendipitous discoveries and events can open all sorts of profitable avenues for a company.

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d. But some companies have missed profitable opportunities because serendipitous discoveries or events were inconsistent with their prior (planned) conception of what their strategy should be.

1-6d. Intended and Emergent Strategies

a. According to Henry Mintzberg's model of strategy development, a company's realized strategy is the product of whatever planned strategies are actually put into action (the company's deliberate strategies) and any unplanned, or emergent, strategies (**Figure 1.5: Emergent and Deliberate Strategies**).
b. In this view, many planned strategies are not implemented because of unpredicted changes in the environment (they are unrealized).
c. Emergent strategies are the unplanned responses to unforeseen circumstances and arise from autonomous action by individual managers deep within the organization, from serendipitous discoveries or events, or from an unplanned strategic shift by top-level managers in response to changed circumstances and may:
    1. be often successful and may be more appropriate than intended strategies.
    2. emerge within an organization without prior planning, and in response to unforeseen circumstances.
    3. take root wherever people have the capacity to learn and the resources to support that capacity.
d. In practice, the strategies of most organizations are likely a combination of the intended and the emergent.
e. The message for management:
    1. recognize the process of emergence.
    2. intervene when appropriate, relinquishing bad emergent strategies and nurturing potentially good ones.
    3. be able to judge the worth of emergent strategies.
    4. think strategically.
f. Although emergent strategies arise from within the organization without prior planning, top management must still evaluate emergent strategies.
g. **Discussion Activity 2: 5–10 minutes total.** (PPT Slides 36–37)
How would you describe the differences between a deliberate strategy and an emergent strategy? Which do you feel management should pay more attention to?
    - Deliberate strategy is that which has been planned by management. Emergent strategy is unplanned by management

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and often arises through autonomous actions of lower-level managers and through serendipity.

- Both are important and many management experts (e.g., Mintzberg) feel that a combination of both is potentially best for an organization. The corporate culture necessary for producing emergent strategies, it can be argued, lead to greater success for organizations.

1-7. Strategic Planning in Practice (Learning Objective 1.7: Review the practice of strategic planning. PPT Slides 38–42)

a. Despite criticism, research suggests that formal planning systems do help managers make better strategic decisions.
b. For strategic planning to work, it is important that top-level managers plan not only within the context of the current competitive environment but also within the context of the future competitive environment.

1-7a. Scenario Planning

a. **Scenario planning** involves formulating plans that are based upon "what-if" scenarios about the future.
b. In the typical scenario-planning exercise, some scenarios are optimistic and some are pessimistic for which teams of managers are asked to develop specific strategies.
    1. A set of indicators, chosen as signposts, track trends and identify the probability that any particular scenario is coming to pass.
    2. Helps in understanding the dynamic and complex nature of the environment, in thinking through problems in a strategic fashion, and in generating a range of strategic options that might be pursued under different circumstances.
    3. Pushes managers to think outside the box, to anticipate what they might need to do in different situations.
    4. Reminds managers that the world is complex and unpredictable, and to place a premium on flexibility, rather than on inflexible plans based on assumptions about the future.
c. As a result of scenario planning, organizations might pursue one dominant strategy related to the scenario that is judged to be most likely, but they make some investments that will pay off if other scenarios come to the fore (**Figure 1.6: Scenario Planning**).

1-7b. Decentralized Planning

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a. Some companies make the mistake of viewing their strategic planning process as an exclusively top-management responsibility.
b. An "ivory tower" approach—where strategic plans are formulated in a vacuum by top managers—risks plans that show little understanding or appreciation of current operating realities.
c. Correcting the ivory tower approach to planning requires recognizing that successful strategic planning encompasses managers at all levels of the corporation.
    1. Much of the best planning can and should be done by business and functional managers who are closest to the facts; in other words, planning should be decentralized.
    2. Corporate-level planners should take on roles as facilitators who help business and functional managers do the planning by setting the broad strategic goals of the organization and providing the resources necessary to identify the strategies that might be required to attain those goals.
d. **Group Activity: 10–20 minutes total.** (PPT Slide 42)
   Form groups of 3–6 participants. Decide on an industry you would like to focus on and engage in scenario planning by describing several what-if events for that company in that industry, and outline some general steps you might take to address that event.
   - For example, you manage a restaurant, and a new restaurant opens across the street; or you manage a plastic tableware manufacturer, and your main supplier's facility burns to the ground.
   - Groups can share their industry and a scenario planning outcome with the larger class.
     - *Note*: This activity has infinite possible answers. Groups can be prompted to share the results of their discussions as time allows. In this particular activity, the main point is that what-ifs are wide ranging with effects from minor to catastrophic and that scenario planning is strategically important for businesses.

1-8. Strategic Decision Making (Learning Objective 1.8: Explain strategic decision making and the cognitive biases that might lead to poor strategic decisions. PPT Slides 43–47)

a. Even the best-designed strategic planning systems will fail to produce the desired results if managers do not effectively use the information at their disposal.

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b. One important way in which managers can make better use of their knowledge and information is to understand how common cognitive biases can result in poor decision making.

1-8a. Cognitive Biases and Strategic Decision Making

a. The rationality of decision making is bound by one's cognitive capabilities.
b. When making decisions, humans tend to fall back on certain rules of thumb, or heuristics, that help them make sense out of a complex and uncertain world.
c. These rules may also lead to severe and systematic errors in the decision-making process.
d. Systematic errors that appear time and time again seem to arise from a series of **cognitive biases** in the way that humans process information and reach decisions.
e. Some of the cognitive biases that people are prone to include:
    1. The **confirmation bias** refers to the fact that decision makers who have strong prior beliefs about the relationship between two variables tend to make decisions on the basis of these beliefs, even when presented with evidence that their beliefs are incorrect.
        i. They also tend to seek and use information that is consistent with their prior beliefs while ignoring information that contradicts these beliefs.
    2. **Escalating commitment** occurs when decision makers, having already committed significant resources to a project, commit even more resources if they receive feedback that the project is failing.
    3. **Reasoning by analogy** involves the use of simple analogies to make sense out of complex problems.
        i. The problem with this heuristic is that the analogy may not be valid.
    4. **Representativeness** is rooted in the tendency to generalize from a small sample or even a single vivid anecdote.
        i. This cognitive bias violates the statistical law of large numbers, which says that it is inappropriate to generalize from a small sample, let alone from a single case.
    5. The **illusion of control** refers to a tendency to overestimate one's ability to control events.

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i. General or top-level managers seem to be particularly prone to this bias—having risen to the top of an organization, they tend to be overconfident about their ability to succeed.

6. The **availability error** arises from our predisposition to estimate the probability of an outcome based on how easy the outcome is to imagine.

1-8b. Techniques for Improving Decision Making

a. The existence of cognitive biases raises a question—How can critical information affect the decision-making mechanism so that a company's strategic decisions are realistic and based on thorough evaluations?
b. Two techniques known to enhance strategic thinking and counteract cognitive biases are:
    1. **Devil's advocacy**, which requires the generation of a plan and a critical analysis of that plan.
        i. One member of the decision-making group acts as the devil's advocate, emphasizing all the reasons that might make the proposal unacceptable.
        ii. In this way, decision makers are made aware of the possible perils of recommended courses of action.
    2. **Dialectic inquiry** is more complex because it requires the generation of a plan (a thesis) and a counterplan (an antithesis) that reflect plausible but conflicting courses of action.
        i. Strategic managers listen to a debate between advocates of the plan and counterplan and then decide which plan will lead to higher performance.
        ii. The debate helps to reveal problems with definitions, recommended courses of action, and assumptions of both plans, allowing strategic managers to form a new and more encompassing conceptualization of the problem, which then becomes the final plan (a synthesis).
c. Another technique for countering cognitive biases is the **outside view**, championed by Nobel Prize winner Daniel Kahneman and associates.
    1. It requires planners to identify a reference class of analogous past strategic initiatives, determine whether those initiatives succeeded or failed, and evaluate the project at hand against those prior initiatives.
d. **Knowledge Check 1.2: < 5 minutes total.** (PPT Slide 47)

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The R&D department at a mattress manufacturer has been experimenting to find a fiber that is self-cleaning, but the main element of their approach is now under investigation by the Department of Environmental Protection. The researchers want to cease their activities and start over in another direction, but the company manager, who is responsible for all the capital already invested in the project, tells them to go on with their work. The company manager is exhibiting the cognitive bias of:

(a) confirmation bias.
(b) illusion of control.
(c) escalating commitment.
(d) availability error.

- **Answer: c.** escalating commitment.
- Escalating commitment, occurs when decision makers, having already committed significant resources to a project, commit even more resources even if they receive feedback that the project is failing. A more logical response would be to abandon the project and move on. rather than escalate commitment.

1-9. Strategic Leadership (Learning Objective 1.9: Discuss the characteristics of strategic leaders. PPT Slides 48–49)

a. A key strategic role of both general and functional managers is to use all their knowledge, energy, and enthusiasm to provide strategic leadership for their subordinates and develop a high-performing organization.
b. Several authors have identified a few characteristics of good strategic leaders that lead to high performance:
    1. Vision, eloquence, and consistency
    2. Articulation of a business model
    3. Commitment
    4. Being well informed
    5. Willingness to delegate and empower
    6. Astute use of power
    7. Emotional intelligence

1-9a. Vision, Eloquence, and Consistency

a. A key leadership task is to give an organization a sense of direction.
b. Strong leaders seem to:
    1. have a clear and compelling vision of where the organization should go.

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2. are eloquent enough communicate this vision to others within the organization in terms that energize people.
3. consistently articulate their vision until it becomes part of the organization's culture.

1-9b. Articulation of the Business Model

a. Good strategic leaders are able to identify and articulate the business model the company will use to attain its vision.
b. A business model is the managers' conception of how the various strategies that the company pursues fit together into a congruent whole.
c. Although individual strategies can take root in many different places in an organization, and although their identification is not the exclusive preserve of top management, only strategic leaders have the perspective required to make sure that the various strategies fit together into a congruent whole and form a valid and compelling business model.

1-9c. Commitment

a. Strong leaders demonstrate their commitment to the visions and business models by actions and words, and they often lead by example.

1-9d. Being Well Informed

a. Effective strategic leaders develop a network of formal and informal sources who keep them well informed about what is going on within the company.
b. Using informal and unconventional ways to gather information is wise because formal channels can be captured by special interests within the organization or by gatekeepers—managers who may misrepresent the true state of affairs to the leader.

1-9e. Willingness to Delegate and Empower

a. High-performance leaders are skilled at delegation.
b. They recognize that unless they learn how to delegate effectively, they can quickly become overloaded with responsibilities.
c. They also recognize that empowering subordinates to make decisions is a good motivational tool and often results in decisions being made by those who must implement them.

1-9f. The Astute Use of Power

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a. In a now-classic article on leadership, Edward Wrapp noted that effective leaders tend to be very astute in their use of power.
b. He argued that strategic leaders must often play the power game with skill and attempt to build consensus for their ideas rather than use their authority to force ideas through; they must act as members of a coalition or its democratic leaders rather than as dictators.

1-9g. Emotional Intelligence

a. Emotional intelligence is a term Daniel Goleman coined to describe a bundle of psychological attributes that many strong and effective leaders exhibit:
    1. Self-awareness—the ability to understand one's own moods, emotions, and drives, as well as their effect on others.
    2. Self-regulation—the ability to control or redirect disruptive impulses or moods, that is, to think before acting.
    3. Motivation—a passion for work that goes beyond money or status and a propensity to pursue goals with energy and persistence.
    4. Empathy—the ability to understand the feelings and viewpoints of subordinates and to take those into account when making decisions.
    5. Social skills—friendliness with a purpose.
b. According to Goleman, leaders who possess these attributes—who exhibit a high degree of emotional intelligence—tend to be more effective than those who lack these attributes.
    1. Their self-awareness and self-regulation help to elicit the trust and confidence of subordinates.
    2. People respect leaders who, because they are self-aware, recognize their own limitations and, because they are self-regulating, consider decisions carefully.
    3. These individuals tend to be more self-confident and therefore better able to cope with ambiguity and more open to change.
    4. A strong motivation exhibited in a passion for work can also be infectious, helping to persuade others to join together in pursuit of a common goal or organizational mission.

Self-Assessment (PPT Slide 50)

a. What attributes do believe companies must possess in order to be successful?
b. How would you assess your current capabilities against the characteristics of strategic leaders listed in the textbook?

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DISCUSSION QUESTIONS

You can assign these questions several ways: in a discussion forum in your LMS; as whole-class discussions in person; or as a partner or group activity in class.

1. **What do we mean by strategy? How does a business model differ from a strategy?**

   Strategy is an action a company takes to attain superior performance. Strategy also involves both thinking and doing. From Mintzberg's definition of strategy as a pattern in a stream of decisions or actions, strategy is more than what a company intends to do; it is also what it actually does. That is to say, a company's strategy is the product of (a) that part of its intended strategy that is actually realized and (b) its emergent strategy. A business model is managers' conception of how the various strategies that the company pursues fit together into a congruent whole.

2. **What do you think are the sources of sustained superior profitability?**

   Sustained superior profitability results when a company is able to increase profits, either by increasing revenues or decreasing expenses or both, and when that ability is difficult or impossible for competitors to imitate. Sustained superior profitability is most likely to occur when the advantages are intangible, such as management insight, disciplined cost cutting by employees, or a culture that nourishes creativity. Intangible resources are much more difficult to imitate than tangible ones, and thus provide a sustainable advantage. However, no firm can sustain an advantage forever. The advantage itself will tend to weaken over time, and competitors will learn to imitate that advantage or develop other advantages of their own that will counteract the power of the original advantage.

3. **What are the strengths of formal strategic planning? What are its weaknesses?**

   A formal strategic planning process results in a systematic review of all the external and internal factors that might have a bearing on the ability of the company to meet its strategic objectives. Formally identifying strengths, weaknesses, opportunities, and threats is a good way of alerting strategic managers to what needs to be done if the firm is to fulfill its strategic mission.

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However, like any rational process, strategic planning is limited by the fallibility of human decision makers. In particular, strategic managers may fall victim to their own cognitive biases. Thus, supposedly rational decisions can turn out to be anything but rational. This hazard can be minimized, however, if the organization uses decision-making techniques such as devil's advocacy or dialectic inquiry.

In addition, in a complex and uncertain world characterized by rapid change, strategic plans can become outdated as soon as they are made. In such circumstances, the company's plan can become a policy straitjacket, committing it to a course of action that is no longer appropriate. Change is something that cannot be insured against. Consequently, flexible, open-ended plans are perhaps the best way of giving the company room to maneuver in response to change. Moreover, consistent vision and strategic intent are probably more important than detailed strategic plans. The strategies that a company adopts might need to change with the times, but the vision can be more enduring.

4. **Can you think of an example in your own life where cognitive biases resulted in you making a poor decision? How might that mistake have been avoided?**

   Answers will vary. Cognitive biases prevent rational action and prevent leaders from being mentally prepared for trouble. Behavioral economists have documented cognitive biases in markets, such as over-optimism, over-pessimism, deal frenzy, failure to ignore sunk costs, and so on. Using the devil's advocate or dialectic inquiry approach ahead of making a decision may help to keep the distortions from cognitive biases at bay. Adopting an outside view and comparing it to past events is also helpful. Most importantly, an awareness of how cognitive biases can creep in and influence our thinking is helpful in avoiding them when making important decisions.

5. **Discuss the accuracy of the following statement: Formal strategic planning systems are irrelevant for firms competing in high-technology industries where the pace of change is so rapid that plans are routinely made obsolete by unforeseen events.**

   Formal strategic planning systems are not at their best in situations with rapid and unpredictable change. Formal systems are time consuming and may not be able to provide answers quickly enough when time is short. Also, formal systems depend upon detailed estimates and forecasts, which are difficult to do well when conditions are chaotic.

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Nevertheless, formal systems may still be useful in some ways, even in these challenging environments. For example, formal systems are often associated with detailed and directive plans, but they may also be used to prepare flexible, open-ended plans that are more appropriate for rapidly changing environments. Also, the activities of formal planning—gathering data, preparing forecasts, generating and considering multiple alternatives, and so on—are themselves good preparation for making strategic choices, and thus could be useful in any type of environment.

6. **Pick the current or a past president of the United States and evaluate his performance against the leadership characteristics discussed in the text. On the basis of this comparison, do you think that the president was/is a good strategic leader? Why or why not?**

   Students' answers will vary. Answering this question calls for students to rate the president according to the six main characteristics of good strategic leaders discussed in the text. There is no right answer to this question. Students' political biases will undoubtedly color the answers they give. It is the exercise itself that is important. Only with the passage of time will a more objective judgment of a president's leadership skills be possible.

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CLOSING CASE

T-Mobile's Strategy Under John Legere

Case Discussion Questions

1. **What challenges was T-Mobile facing before John Legere became CEO in 2014? Without a change in strategy, what do you think the future looked like for T-Mobile?**

   T-Mobile was operating in a saturated market without notable strategic advantage, and employee morale was a problem. Without a change in strategy to address those two major issues, T-Mobile was unlikely to survive with its small share of the market.

2. **How did Legere's un-carrier strategy change the nature of competition in the industry? What opportunities did the strategy seek to capitalize upon? How did T-Mobile's strengths play into this strategy? Why was T-Mobile able to gain subscribers from its rivals?**

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When John Legere assessed T-Mobile's culture, he saw its potential in stimulating company growth. As the new CEO, Legere provided clear strategic direction, threw out rules and procedures that were stifling the workforce, and restored a sense of excitement. After reviewing what customers really wanted, Legere led T-Mobile in bringing it to them, along with a distinctive marketing campaign. Incorporating the iPhone, expanding and upgrading their network, and being the first to offer unlimited plans all contributed to its increase in subscribers.

3. **What weaknesses do you think the merger with Sprint addressed? Why do you think it took two years for regulators to approve the merger? What does this tell you about the role of government in regulating competition? Do strategists need to take government into account when formulating strategy?**

   The merger with sprint brought a sizable share of the market with it and provided the scale T-Mobile needed to proceed with its rollout of 5G technology. Regulators, who had opposed an earlier bid by AT&T to acquire T-Mobile, are hesitant to give approval to mergers/acquisitions among large competitors that might hurt consumers if it reduces the level of competition in the market. That said, the effects of regulation always need to be part of the considerations when formulating strategy.

4. **Does T-Mobile now have a source of competitive advantage? How sustainable is its advantage?**

   Its statement that announced the Sprint and T-Mobile merger projected, "The combination of spectrum holdings, resulting network scale, and expected run rate cost synergies of $6+ billion, representing a net present value (NPV) of $43+ billion will supercharge T-Mobile's Un-carrier strategy to disrupt the marketplace and lay the foundation for U.S. companies and innovators to lead in the 5G era." This Un-Carrier philosophy of giving customers what they want is a big part of T-Mobile's competitive advantage. In the highly competitive world of wireless service providers, sustainability of such a competitive advantage requires T-Mobile to continue to look for opportunities to do more of what customers want that the other carriers aren't doing.

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APPENDIX

GENERIC RUBRICS

Providing students with rubrics helps them understand expectations and components of assignments. Rubrics help students become more aware of their learning process and progress, and they improve students' work through timely and detailed feedback.

Customize these rubric templates as you wish. The writing rubric indicates 40 points, and the discussion rubric indicates 30 points.

STANDARD WRITING RUBRIC

Criteria	Meets Requirements	Needs Improvement	Incomplete
Content	The assignment clearly and comprehensively addresses all questions in the assignment. 15 points	The assignment partially addresses some or all questions in the assignment. 8 points	The assignment does not address the questions in the assignment. 0 points
Organization and Clarity	The assignment presents ideas in a clear manner and with strong organizational structure. The assignment includes an appropriate introduction, content, and conclusion. Coverage of facts, arguments, and conclusions are logically related and consistent. 10 points	The assignment presents ideas in a mostly clear manner and with a mostly strong organizational structure. The assignment includes an appropriate introduction, content, and conclusion. Coverage of facts, arguments, and conclusions are mostly logically related and consistent. 7 points	The assignment does not present ideas in a clear manner and with strong organizational structure. The assignment includes an introduction, content, and conclusion, but coverage of facts, arguments, and conclusions are not logically related and consistent. 0 points
Research	The assignment is based upon appropriate and adequate academic literature, including peer reviewed journals and other scholarly work. 5 points	The assignment is based upon adequate academic literature but does not include peer reviewed journals and other scholarly work. 3 points	The assignment is not based upon appropriate and adequate academic literature and does not include peer reviewed journals and other scholarly work. 0 points
References/ Works Cited	The assignment follows the required citation guidelines. 5 points	The assignment follows some of the required citation guidelines. 3 points	The assignment does not follow the required citation guidelines. 0 points
Grammar and Spelling	The assignment has two or fewer	The assignment has three to five	The assignment is incomplete or unintelligible.

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	grammatical and spelling errors. 5 points	grammatical and spelling errors. 3 points	0 points

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STANDARD DISCUSSION RUBRIC

Criteria	Meets Requirements	Needs Improvement	Incomplete
Participation	Submits or participates in discussion by the posted deadlines. Follows all assignment instructions for initial post and responses. 5 points	Does not participate or submit discussion by the posted deadlines. Does not follow instructions for initial post and responses. 3 points	Does not participate in discussion. 0 points
Contribution Quality	Comments stay on task. Comments add value to discussion topic. Comments motivate other students to respond. 20 points	Comments may not stay on task. Comments may not add value to discussion topic. Comments may not motivate other students to respond. 10 points	Does not participate in discussion. 0 points
Etiquette	Maintains appropriate language. Offers criticism in a constructive manner. Provides both positive and negative feedback. 5 points	Does not always maintain appropriate language. Offers criticism in an offensive manner. Provides only negative feedback. 3 points	Does not participate in discussion. 0 points

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