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Hitt 14e Case Teaching Notes

Case 1 The Rise and Demise of Airbus A380

Case Synopsis

Airbus and Boeing competed head to head and accounted for more than 90% of the market share in the aircraft production industry by the end of the 1990s. With increased economic growth, demand for large aircraft emerged, especially in Asia, which moved aviation from the traditional point-to-point model to a newer hub-and-spoke model. This shift was supported by larger aircraft with more seats, higher fuel efficiency, and less cost per seat for airlines.

The A380 was developed as a strategic tactic by Airbus to compete with Boeing in the very large aircraft market. Barriers to entry in the large aircraft market were high due to the costs involved, but Airbus management believed airlines would continue to take advantage of hub-and-spoke systems. Early response to the A380 was promising, with more than 50 orders from six airlines by 2001.

Seating capacity was believed to be the biggest advantage of the A380. The interior design was flexible, allowing for different class configurations, and the cabin was considered the quietest and most spacious available. The external market also saw benefits, with increased tourism and sales at airport retail and restaurant outlets. However, this change also led to increased congestion at large hub airports, and many airlines started to explore a return to point-to-point routes with smaller aircraft.

The 2008 economic crisis and increased competition from low-cost airlines weakened prospects for the A380. Smaller models proved more effective in meeting consumer demand and responding to changing market conditions. This led to a decrease in sales for the A380, and Airbus could not achieve its projected breakeven point. Airbus began to slash production of the A380 by 2017 due to diminishing orders and shrinking backlog, and by 2019, it slashed production to eight A380s annually, a demand dip of almost 92%. Airlines that used the A380 began to cut orders and open new point-to-point routes in favor of larger hub-and-spoke routes.

Other factors in the external market impacted the Airbus A380 as well. In addition to changing market conditions, a case was lodged by the World Trade Organization (WTO) against Airbus and its chief rival Boeing over unfair subsidies to aircraft makers. Airbus ran into assembly issues due to the huge number of suppliers, parts, and testing processes that were required to build new production facilities from scratch, as well as those needed to make the aircraft. Airports also had to make infrastructure upgrades, including widening runways, taxiways, and shoulders to accommodate the larger aircraft.

Boeing, Airbus's main competitor, began moving away from larger aircraft toward a more competitive mid-sized wide-bodied jet, allowing Boeing to respond more rapidly to changes in

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customer demand and the increased ability of secondary cities worldwide to offer international routes using a point-to-point model.

The A380 proved to have several disadvantages for airlines who purchased them. The aircraft could not be filled during low peak travel periods, and only a few airports could accommodate its size. The downtime was longer, and it had higher fuel requirements. Additionally, the aircraft had been developed with the goal of attracting airlines in China but failed to appeal to Chinese customers in the world's biggest market for aircraft.

Exhibit 3 (cont.) Airbus and Boeing Deliveries

Airplane Type	Narrow body	Wide body	Wide body	Narrow body	Wide body	Wide body	Wide body	Wide body
Seats	133	247	240	186	250	270	300	550
Year	A220	A300	A310	A320	A330	A340	A350	A380
1998		13	1	168	23	24		
1999		8		222	44	20		
2000		8		241	43	19		
2001		11		257	35	22		
2002		9		236	42	16		
2003		8		233	31	33		
2004		12		233	47	28		
2005		9		289	56	24		
2006		9		339	62	24		
2007		6		367	68	11		1
2008				386	72	13		12
2009				402	76	10		10
2010				401	87	4		18
2011				421	87			26
2012				455	101	2		30
2013				493	108			25
2014				490	108		1	30
2015				491	103		14	27
2016				545	66		49	28
2017				558	67		78	15
2018	20			626	49		93	12
2019	48			642	53		112	8

While Airbus was able to beat the competition in terms of aircraft deliveries early on, it continued to incur losses from the A380. The aviation industry consistently offered new technology, airframes, and engines, aiming to lower fuel burn, less noise, and more efficient

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flying. Narrow-body aircraft gained popularity and now had the advantage of extended range, fuel efficiency, and higher maximum take-off weight. Boeing responded to the A380 with its own innovative B787 Dreamliner.

Today, Airbus boasts the development of three environmentally friendly commercial aircraft and continues to protect its market share despite the failure of the A380 and a turbulent two-year period when the COVID-19 pandemic reduced industry profits and disrupted customer-facing processes. The company will need to continue to develop market-sensing competencies to respond to the increasing demand for narrow-body aircraft that support point-to-point routes originally believed to represent significantly less potential than the hub-and-spoke model but now represent the future of flight.

Learning Objectives

- Define strategic competitiveness, strategy, competitive advantage, above-average returns, and the strategic management process. (Chapter 1)
- Describe the competitive landscape and explain how globalization, technological changes, and expectations of socially responsible behavior shape it. (Chapter 1)
- Describe strategic leaders and what they do. (Chapter 1)
- Explain the importance of analyzing and understanding the firm's external environment. (Chapter 2)
- Define and describe the general environment and the industry environment. (Chapter 2)
- Discuss the four parts of the external environmental analysis process. (Chapter 2)
- Name and describe the general environment's seven segments. (Chapter 2)
- Identify the five competitive forces and explain how they determine an industry's profitability potential. (Chapter 2)
- Define strategic groups and describe their influence on firms. (Chapter 2)
- Describe what firms need to know about their competitors and different methods used to collect intelligence about them. (Chapter 2)
- Define capabilities and discuss their development. (Chapter 3)
- Describe four criteria used to determine if resources and capabilities are core competencies. (Chapter 3)
- Explain how firms analyze value chains to determine where they are able to create value when using their resources, capabilities, and core competencies. (Chapter 3)
- Discuss the relationship between customers and business-level strategies in terms of who, what, and how. (Chapter 4)
- Explain focus strategies as a business-level strategy, including the associated risks. (Chapter 4)
- Define competitors, competitive rivalry, competitive behavior, and competitive dynamics. (Chapter 5)
- Describe market commonality and resource similarity as the building blocks of competitor analysis. (Chapter 5)

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- Describe how firms can create value by using a related diversification strategy. (Chapter 6)
- Discuss global environmental trends and firm incentives affecting firms' decisions to pursue international strategies. (Chapter 8)
- Explain the political, legal, and economic risks that discourage firms from pursuing international strategies. (Chapter 8)
- Discuss the value of strategic leadership in determining the firm's strategic direction. (Chapter 12)
- Describe the importance of strategic leaders in managing the firm's resources. (Chapter 12)
- Describe how firms internally develop innovations. (Chapter 13)

Strategic Issues and Suggested Discussion Questions and Answers

1. For Airbus, was the A380 just a bad strategy, or was it a good strategy gone wrong in execution?

When Airbus began to pursue the expansion of its product line, the airline industry was being consolidated into two distinct market segments. The point-to-point market segments were well served by the late 1990s, with small companies such as Southwest Airlines using smaller aircraft to service these specific markets. Established airlines had dominant positions in their home countries and successfully held off competition by new entrants. With limited resources to expand, however, these airlines were not in a position to respond to the growing demand for the increasingly global scope of air travel.

The hub-and-spoke market, which was better suited for global travel, was dominated by only well-established and powerful carriers. If smaller carriers wanted to compete in the global market, they had to partner with these larger firms. Even for the larger, more powerful carriers, investment in new aircraft is expensive and time-consuming. New aircraft can take anywhere between one and two years to be developed and commercialized. To gain a competitive advantage, airlines wanted new models that were similar in technology to their existing fleet in order to minimize training and operating expenses. This led both Airbus and its main competitor, Boeing, to build commonality in their aircraft.

When Airbus announced the A380, it saw a rapid growth in market share, beating Boeing out with 52% of the market for new aircraft. The strategy seemed sound. Airbus believed that there was great market potential and that it could effectively compete with the Boeing B747, which was highly successful because of its lack of competition. Airbus identified and began to fill a niche. The B747 essentially had a monopoly on the market that Airbus intended to break.

Airbus had successfully formulated and implemented a value-creating strategy, which allowed it to continue to compete with Boeing in the marketplace. For the customer, especially in China and Middle East markets, superior value was created in aircraft designed for long-haul flights, such as the A380. These aircraft were easily reconfigured to meet the customer's needs and

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offered cost savings in a market segment. Airbus, with its A380, was able to respond to these growing markets, which then became the basis of its deliveries.

Senior management at Airbus felt strongly that the hub-and-spoke system would continue to expand, and new airlines would help grow the number of passengers and alleviate airport slot congestion, making these larger aircraft that could handle long-haul routes more attractive. However, in the aircraft industry, return on investment is a slow process. Development of these new aircraft could take anywhere from two to five years and cost as much as $20 billion. And the market changed during that time.

Boeing proved to be nimbler in its response to market changes. Airbus continued to build and sell these supercarriers while Boeing changed its perspective of the future. Boeing used a more conservative estimate of market demand and breakeven.

While it seemed like Airbus was using a sound strategy, the company failed to monitor and respond to changes in the external environment. The need to make significant infrastructure improvements limited the number of airports that could handle these large aircraft. Airbus failed to fully understand the response of the market in China and suppliers in that country, as well as changes in travel and tourism, especially after the COVID-19 pandemic halted global travel. The rapid economic expansion of China and India failed to materialize, and passenger volumes were not large enough to consider using larger aircraft. Airbus made a strong commitment to the high-capacity aircraft market, and backing out of it would be embarrassing.

2. What should Airbus leadership have learned from the demise of the A380?

One key lesson for Airbus would be to better consider the external environment. Airbus continued to follow its strategy of hub-and-spoke markets that would benefit from larger aircraft. Boeing, its main competitor, used more conservative estimates and began building aircraft with the point-to-point model used by more airlines. Advances in technology made the point-to-point model more cost-effective for the airlines.

Airbus failed to consider societal forces as well. While it would not be reasonable to expect Airbus to have foreseen the COVID-19 pandemic and its impact on the travel industry, it is reasonable to expect Airbus to understand trends in travel from the consumer perspective and what they want from an airline carrier. Having a better understanding of what motivates the consumer to choose one airline over another or one route over another would have allowed Airbus to better predict the future of aircraft needs. This is only one of many societal forces Airbus failed to understand.

Growing concerns over climate change create an economic impact for airlines and airplane producers such as Airbus. Consequently, customers demand more fuel efficiency with fewer emissions.

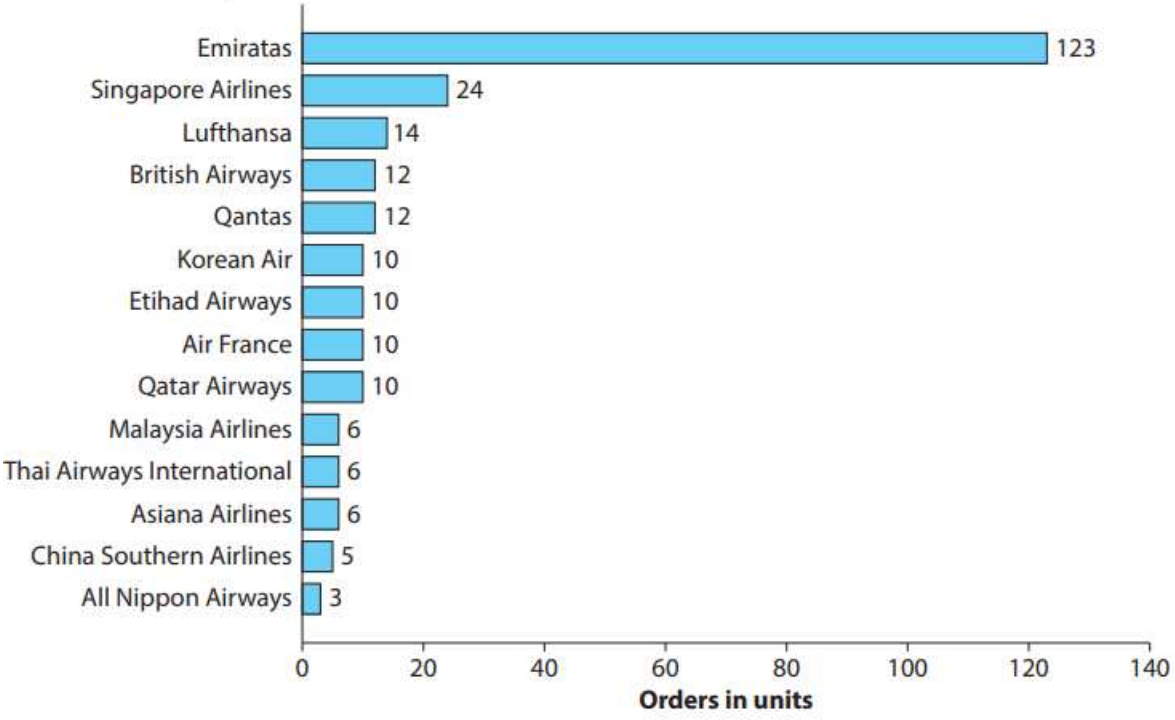
Airbus severely underestimated the impact of competitors and the legal environment. Notably, the United States government filed a case with the WTO against Airbus because of the funding

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provided by the European Union (EU), creating a loss of sales for the Boeing B747 aircraft. The EU responded in kind, and the WTO ruled that both countries were subsidizing their aircraft makers in an attempt to gain a competitive advantage.

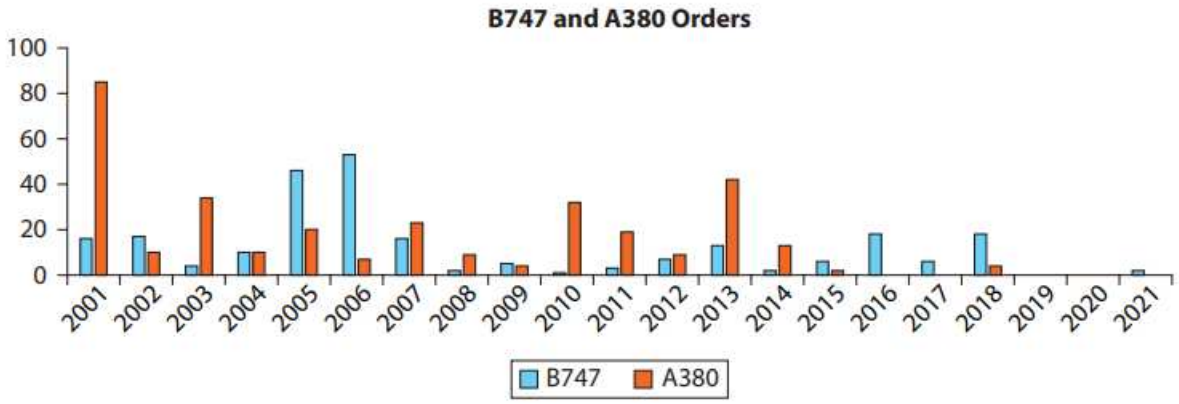
The majority of clients for the A380 were international. Airbus failed to consider international laws, restrictions, and national markets that might impact the sale of the A380 in those countries, given the length of time needed to produce the product.

Exhibit 5 Major Clients of The A380



While the cargo market was growing, demand in new markets such as China did not grow as expected. Other airlines lost interest in the A380, canceling many orders. As orders for the A380 continued to decline, Airbus made the decision to stop production.

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Economic forces heavily influence the airline industry as well. The size of the A380 proved to be a disadvantage during slow travel times and created additional costs in rebuilding the airport infrastructure required for the larger aircraft. This is evident in the flight choices travelers make, which impact the size of the aircraft, routes, and airport capabilities. Consumers have become more value-conscious, choosing low-cost carriers and budget airlines over larger aircraft with more expensive flights.

3. In the near future, how could Airbus stay competitive despite the demise of its magnificent A380?

An ongoing Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis would allow Airbus to regularly monitor strengths and weaknesses. Airbus must also use an ongoing value chain analysis that facilitates moving from the external environment to the internal organization. Analysis of the value chain activities and the support functions of the value chain provides opportunities to understand how external environmental trends affect the specific activities of a firm.

Airbus would benefit from considering Porter's factors of production related to the aircraft industry. While global supply chains, advanced digital technologies and communications, international joint ventures, outsourcing, and global platforms have leveled the competitive playing field a lot across countries, the four determinants of national advantage are still highly relevant to Airbus in determining whether a country is a good candidate for expansion.

Airbus failed to objectively consider demand conditions, characterized by the nature and size of customers' needs for the A380. If enough customers had purchased the A380, Airbus would have been able to develop scale-efficient facilities and enhance the capabilities and perhaps core competencies required to use those facilities. However, as delays increased the length of production time and costs rose, Airbus lost the ability to create scale efficiency. Airbus experienced many supplier issues, leading to even more delays and, in some instances, poor product quality.

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Airbus can apply lessons learned to its future. Airbus's Global Market Forecast predicted that almost 26,000 new passenger and freight aircraft would be required over the next 20 years, but airlines found that smaller models were more feasible in meeting consumer demand and adapting to changing market conditions.

4. **Will environmentally friendly planes become the new battlefield for the two rivals, Airbus and Boeing?**

Airbus and Boeing are competitors that collaborate on a regular basis to understand and improve the industry. Suppliers rely on the success of both Boeing and Airbus when developing new technologies and managing production costs. Although they are rivals, they can also create industry standards that work for both firms and continue their dominance in the market.

For example, the air transport industry has had a long-standing goal of reducing its carbon footprint by 50% by 2050. Airbus and Boeing are working to support this goal in different ways.

Airbus is pursuing the use of hydrogen-fueled aircraft. While the technology already exists, Airbus will have considerable work to do in terms of designing, testing, and certifying hydrogen-fueled aircraft. This is feasible within their allotted time frame but costly.

Boeing is pursuing the use of sustainable aviation fuels in all new aircraft. This would not require Boeing to exercise and test new aircraft to the extent that Airbus will, leading to a quicker time to market, the ability to gain more market share, and the creation of a competitive advantage.

Additional Resources

This 2019 article discusses what went wrong with the A380 and what it means for the future of the hub-and-spoke model: https://www.independent.co.uk/travel/news-and-advice/airbus-a380-boeing-emirates-singapore-airlines-british-airways-jumbo-a8778676.html Airbus A380

This 2019 article shares how Airbus failed to make the A380 the future of air travel:

https://www.wired.co.uk/article/airbus-a380-failure

Airbus lost billions of dollars on its A380, and it still considers it a success. Here's why:

https://onemileatatime.com/airbus-a380-success/

The A380 went from being a "symbol of economic strength" to experiencing total demise in 2019, while rival Boeing continues to compete:

https://www.reuters.com/article/us-airbus-a380-history-analysis-idUSKCN1Q30K4

This YouTube video explains how the A380 was developed to change the face of the aviation industry and why it is now the standard of future aircraft design:

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https://www.youtube.com/watch?v=vjA8ocbWqxg

Airbus CEO Guillaume Faury discusses current challenges on the road ahead for Airbus during this pivotal time when demand for commercial aircraft is surging and supply chain, production delays, and the Russia-Ukraine war are impacting almost all parts of the industry:

https://aviationweek.com/shownews/paris-air-show/airbus-ceo-guillaume-faury-reveals-plans-new-generation-narrowbody

Chief Commercial Officer Christian Scherer discusses Airbus as an industry disrupter and innovator and shares plans for the future:

https://www.flightglobal.com/airbus-at-50/christian-scherers-sales-vision/132563.article

Airbus shares its belief in sustainable aviation fuel as a key driver for achieving the industry's decarbonization ambitions and the future of the industry:

https://www.airbus.com/en/sustainability/respecting-the-planet/decarbonisation/sustainable-aviation-fuel

The competitive rivalry between Airbus and Boeing has changed the face of the aviation industry. Here is how:

https://www.linkedin.com/pulse/skies-fierce-rivalry-airbus-boeing-battle-raunak-singh/

Airbus reveals that it is developing a hydrogen-powered fuel cell engine and a potential solution to equip its zero-emission aircraft that will enter service by 2035:

https://www.airbus.com/en/newsroom/press-releases/2022-11-airbus-reveals-hydrogen-powered-zero-emission-engine

A new collaborative effort between Airbus and suppliers is supported by the European Union Clean Aviation Joint Undertaking (Clean Aviation). MTU Aero Engines AG (MTU), Pratt & Whitney, Collins Aerospace (Collins), GKN Aerospace, Airbus, and others aim to demonstrate the potential of technologies to improve fuel efficiency and reduce aircraft carbon emissions by up to 25% as compared to today's state-of-the-art propulsion systems for short- and medium-range aircraft:

https://www.airbus.com/en/newsroom/press-releases/2022-11-clean-aviation-switch-project-to-advance-hybrid-electric-and-water

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Instructor Manual

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CHAPTER 1: STRATEGIC MANAGEMENT AND STRATEGIC COMPETITIVENESS

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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 students to the concepts that will be covered in this book. This chapter serves to establish the context within which subsequent chapters fit and lays the foundation for the rest of the text.

Chapter 1 begins by introducing several key concepts that will be woven throughout the text. The most important of these is the strategic management process, which is the set of commitments, decisions, and actions firms take to achieve strategic competitiveness so they can earn above-average returns. The process begins with performing both internal and external analyses, after which a firm can determine how to create superior value for customers in ways that cannot be imitated, thus creating a competitive advantage.

The strategic management process is influenced by the competitive landscape, or the nature of competition within any given industry. Digitalization is among the factors that have recently influenced the competitive landscape, as are hypercompetition, technology, and knowledge. Another important factor is globalization, the increasing economic interdependence among countries and their organizations as reflected in the flow of products, financial capital, and knowledge across borders.

The next sections of the chapter explore the different models firms can use to determine the best strategies for achieving above-average returns. The older industrial organization model, or I/O model, assumes that the external environment imposes pressures and constraints that determine the best strategies. This model is also based on the idea that firms possess the same types of resources and can thus choose to compete in the most attractive industries. A more contemporary model is the resource-based model, which is based on the idea that every firm has unique resources, capabilities, and core competencies, thus the internal environment has greater impact on a firm's selection of the best strategies. Last, the stakeholder model is one in which individuals, groups, and organizations that have enforceable claims on a firm's performance both affect a firm's vision and mission and are affected by a firm's strategic outcomes. Stakeholders can be classified into primary stakeholders and secondary stakeholders.

After analyzing the external environment and the internal organization, a firm can then develop its vision, mission and values, which are covered in the following section of the chapter. Vision is the broad-strokes picture of what a firm wants to be and to achieve. Mission is a specific statement of the industry in which the firm intends to compete and the customers it intends to serve. Values define what should matter most to managers and employees when they make and implement strategic decisions.

The final two sections wrap up the chapter with a discussion of how strategic leaders, at all levels and in all areas of a firm, can help drive the strategic direction of

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the organization. The text then goes on to detail how each subsequent chapter of the book will reveal various aspects of the strategic management process: Part 1, analyses used to develop strategies; Part 2, strategies firms choose to use; and Part 3, the implementation of strategies.

Chapter Objectives

The following objectives are addressed in this chapter:

1.1 Define strategic competitiveness, strategy, competitive advantage, above-average returns, and the strategic management process.
1.2 Describe the competitive landscape and explain how globalization, technological changes, and expectations of socially responsible behavior shape it.
1.3 Use the industrial organization (I/O) model to explain how firms can earn above-average returns.
1.4 Use the resource-based model to explain how firms can earn above-average returns.
1.5 Use the stakeholder model to explain how firms can earn above-average returns.
1.6 Describe vision, mission, and values, and explain why they are important.
1.7 Describe strategic leaders and what they do.
1.8 Explain the strategic management process.

Complete List of Chapter Activities and Assessments

For additional guidance refer to the Teaching Online Guide.

Chapter Objective	PPT slide	Activity/Assessment	Duration
1.1–1.8	3	Chapter 1 Objectives	10 min
1.1	11	Knowledge Check	< 5 min
1.2	24	Polling Activity	< 10 min
1.3	30	Knowledge Check	< 5 min
1.4	36	Knowledge Check	< 5 min
1.5	45	Polling Activity	< 10 min
1.6	51–52	Discussion Activity	< 15 min
1.7	56	Knowledge Check	< 5 min

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KEY TERMS

Above-average returns: Returns in excess of what an investor expects to earn from other investments with a similar amount of risk.

Average returns: Returns equal to those an investor expects to earn from other investments with a similar amount of risk.

Capability: The capacity for a set of resources to perform a task or an activity in an integrative manner.

Competitive advantage: By implementing a chosen strategy, a firm creates superior value for customers, and when competitors are not able to imitate the value the firm's products create or find it too expensive to attempt imitation.

Core competencies: Capabilities that serve as a source of competitive advantage for a firm over its rivals.

Global economy: An economy in which goods, services, people, skills, and ideas move with limited barriers across geographic borders.

Global supply chain: A network of firms that spans multiple countries with the purpose of supplying goods and services.

Global value chain: The processes through which a firm receives raw materials, uses them to add value through manufacturing a product that provides greater utility for the consumer, and sells the product to another firm or the ultimate consumer of the product, in a global setting.

Globalization: The increasing economic interdependence among countries and their organizations as reflected in the flow of products, financial capital, and knowledge across country borders.

Hypercompetition: A condition where competitors engage in intense rivalry, markets change quickly and often, and entry barriers are low.

Mission: Specifies the businesses in which the firm intends to compete and the customers it intends to serve.

Organizational culture: The complex set of ideologies, symbols, and core values that individuals throughout the firm share and that influence how the firm conducts business.

Primary stakeholders: Individuals, groups, and organizations directly involved in the value-creating processes of the firm.

Protectionism: Involves actions taken by a government to protect its economy from adverse influences due to foreign trade.

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Resources: Inputs into a firm's production process, such as capital equipment, the skills of individual employees, patents, finances, and talented managers.

Risk: An investor's uncertainty about the economic gains or losses that will result from a particular investment.

Secondary stakeholders: Individuals, groups, and organizations that can both influence and are influenced by what the firm does, but they do not contribute directly to the value the firm creates.

Stakeholders: Individuals, groups, and organizations that can both influence and are affected by the objectives, actions, and outcomes of a firm.

Strategic competitiveness: Achieved by firms by successfully formulating and implementing a value-creating strategy.

Strategic flexibility: A set of capabilities firms use to respond to various demands and opportunities existing in today's dynamic and uncertain competitive environment.

Strategic leaders: People located in different areas and levels of the firm using the strategic management process to select actions that help the firm achieve its vision, fulfill its mission, and adhere to its values.

Strategic management process: The full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns.

Strategy: An integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.

Sustainability: A firm should not deplete or destroy natural elements upon which it depends for survival.

Values: Define what should matter most to managers and employees when they make and implement strategic decisions.

Vision: A picture of what the firm wants to be and, in broad terms, what it wants to ultimately achieve.

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WHAT'S NEW IN THIS CHAPTER

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

- New stakeholder model to explain how firms can earn above-average returns
- Organizational values added to vision and mission section
- Introduction of COVID-19 and Russian invasion as shocks to the business environment

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- Protectionism in the global economy
- Global supply chains and global value chains
- Introduction of artificial intelligence (AI) as a major technological change
- Big data and big data analytics
- Sustainability
- Dramatically updated discussion of CSR; introduction of ESG and Greenwashing

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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 the learning objectives for Chapter 1 (PPT Slide 3).

1-1. An Overview of Strategy and Strategic Competitiveness (Learning Objective 1.1, PPT Slides 4–11)

a. **Strategic competitiveness** is achieved when a firm successfully formulates and implements a value-creating strategy. By implementing a value-creating strategy that current and potential competitors are not simultaneously implementing and that competitors are unable to duplicate, or find too costly to imitate, a firm achieves a **competitive advantage**.

b. **Strategy** can be defined as an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.

c. So long as a firm can sustain (or maintain) a competitive advantage, investors will earn above-average returns. **Above-average returns** represent returns that exceed returns that investors expect to earn from other investments with similar levels of risk (investor uncertainty about the economic gains or losses that will result from a particular investment). In other words, above-average returns exceed investors' expected levels of return for given risk levels. Firms without a competitive advantage or those that do not compete in an attractive industry earn, at best, **average returns**, equal to those an investor expects to earn from other investments possessing a similar amount of risk.

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Teaching Note:
Point out that in the long run, firms must earn at least average returns and provide investors with average returns if they are to survive. If a firm earns below-average returns and provides investors with below-average returns, investors will withdraw their funds and place them in investments that earn at least average returns. At this point it may be useful to highlight the role institutional investors play in regulating above-average performances.

d. In smaller new venture firms, performance is sometimes measured in terms of the amount and speed of growth rather than more traditional profitability measures; new ventures require time to earn acceptable returns.
e. A framework that can assist firms in their quest for strategic competitiveness is the strategic management process, the full set of commitments, decisions, and actions required for a firm to systematically achieve strategic competitiveness and earn above-average returns. This process is illustrated in Figure 1.1.
f. **Figure 1.1: The Strategic Management Process** illustrates the dynamic, interrelated nature of the elements of the strategic management process and provides an outline of where the different elements of the process are covered in this text.
Feedback linkages among the three primary elements indicate the dynamic nature of the strategic management process: strategic inputs, strategic actions, and strategic outcomes.
    - Analysis, in the form of information gained by scrutinizing the internal environment and scanning the external environment, is used to develop the firm's vision and mission.
    - Strategic actions are guided by the firm's vision and mission and are represented by strategies that are formulated or developed and subsequently implemented or put into action.
    - Desired performance—strategic competitiveness and above-average returns—results when a firm is able to successfully formulate and implement value-creating strategies that others are unable to duplicate.
    - Feedback links together the elements of the strategic management process and helps firms continuously adjust or revise strategic inputs and strategic actions in order to achieve desired strategic outcomes.
g. In addition to describing the impact of globalization and technological change on the current business environment, this chapter also discusses three approaches to the strategic management process. The first, the industrial organization model, suggests that the external environment should be considered as the primary determinant of a

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firm's strategic actions. The second is the resource-based model, which perceives the firm's resources and capabilities (the internal environment) as critical links to strategic competitiveness. The third model is based on the notion that the quality of a firm's relationships with internal and external constituencies (stakeholders) can lead organizations to achieve above-average returns.

h. **Knowledge Check 1.1: <5 minutes total** (PPT Slide 11)
An organization can be confident that its strategy yields a competitive advantage after:
   a. competitors decide how they will pursue strategic competitiveness.
   b. competitors duplicate the firm's value-creating strategy.
   c. competitors' efforts to duplicate it have ceased or failed.
   d. competitors begin to imitate their product and strategies.
      - **Answer: c.** competitors' efforts to duplicate it have ceased or failed.
      - An organization can be confident that its strategy yields a competitive advantage after competitors' efforts to duplicate it have ceased or failed.

1-2 The Competitive Landscape (Learning Objective 1.2, PPT Slides 12–24)

a. The **competitive landscape** can be described as one in which the fundamental nature of competition is changing in a number of the world's industries. Further, the boundaries of industries are becoming blurred and more difficult to define.
b. The contemporary competitive landscape implies that traditional sources of competitive advantage—economies of scale and large advertising budgets—may not be as important in the future as they were in the past. The rapid and unpredictable technological change that characterizes this new competitive landscape implies that managers must adopt new ways of thinking. The new competitive mindset must value flexibility, speed, innovation, integration, and the challenges that evolve from constantly changing conditions.
c. A term often used to describe the new realities of competition is **hypercompetition**, a condition that results from the dynamics of strategic moves and countermoves among innovative, global firms: a condition of rapidly escalating competition that is based on price-quality positioning, efforts to create new know-how and achieve first-mover advantage, and battles to protect or to invade established product or geographic markets (discussed in more detail in Chapter 5).

1-2a The Global Economy

a. A **global economy** is one in which goods, services, people, skills, and ideas move freely across geographic borders.
b. The emergence of this global economy results in a number of challenges and opportunities.

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c. Companies scanning the global economy for opportunities might conclude that markets in the United States, China, and Japan yield potentially significant opportunities for them.
d. Any analysis must consider entry barriers to various economies in the form of tariffs. A tariff is a tax imposed by a government on goods imported into their country. It is one of the evidences of what is called **protectionism**, which involves actions taken by a government to protect its economy from adverse influences due to foreign trade.
e. When evaluating the attractiveness of a country for expansion, it is important to consider economic growth, since with growth comes increased demand for products and services.

Teaching Note:
The relative competitiveness of nations can be found in the World Economic Forum's Global Competitiveness Report, which can be accessed for free on the Internet. It is useful to assemble these data into an overhead or PowerPoint slide and show it in class. Students find it interesting to see where their country stands relative to the others listed. Allow enough time for them to see these numbers and sort out what it all means.

f. Globalization
- **Globalization** is the increasing economic interdependence among countries as reflected in the flow of goods and services, financial capital, and knowledge across country borders. This is illustrated by the following:
  - Financial capital might be obtained in one national market and used to buy raw materials in another one.
  - Manufacturing equipment bought from another market produces products sold in yet another market.
  - Globalization enhances the available range of opportunities for firms.
- Global competition has increased performance standards in many dimensions, including quality, cost, productivity, product introduction time, and operational efficiency. Moreover, these standards are not static; they are exacting, requiring continuous improvement from a firm and its employees. Thus, companies must improve their capabilities, and individual workers need to sharpen their skills. In the twenty-first century competitive landscape, only firms that meet, and perhaps exceed, global standards are likely to earn strategic competitiveness.

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Teaching Note:
As a result of the new competitive landscape, firms of all sizes must re-think how they can achieve strategic competitiveness by positioning themselves to ask questions from a more global perspective to enable them to (at least) meet or exceed global standards:

- Where should value-adding activities be performed?
- Where are the most cost-effective markets for new capital?
- Can products designed in one market be successfully adapted for sale in others?
- How can we develop cooperative relationships or joint ventures with other firms that will enable us to capitalize on international growth opportunities?

- A **global supply chain** is a network of firms that spans multiple countries with the purpose of supplying goods and services.
- A **global value chain** refers to the processes through which a firm receives raw materials, uses them to add value through manufacturing a product that provides greater utility for the consumer, and sells the product to another firm or the ultimate consumer of the product, in a global setting.
- Although globalization seems an attractive strategy for competing in the current competitive landscape, there are risks as well. These include such factors as:
  - The “liability of foreignness” (i.e., the risk of competing internationally)
  - Over-diversification beyond the firm’s ability to successfully manage operations in multiple foreign markets
- A point to emphasize: Entry into international markets requires proper use of the strategic management process.
- Though global markets are attractive strategic options for some companies, they are not the only source of strategic competitiveness. In fact, for most companies, even for those capable of competing successfully in global markets, it is critical to remain committed to and strategically competitive in the domestic market. And domestic markets can be testing grounds for possibly entering an international market at some point in the future.

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Teaching Note:
As a result of globalization and the spread of technology, competition will become more intense. Some principles to consider include the following:

- Customers will continue to expect high levels of product quality at competitive prices.
- Global competition will continue to pressure companies to shorten product-development–introduction time frames.
- Strategically competitive companies successfully leverage insights learned both in domestic and global markets, modifying them as necessary.
- Before a company can hope to achieve any measure of success in global markets, it must be strategically competitive in its domestic market.

Teaching Note:
Indicate that the risks that often accompany internationalization and strategies for minimizing their impact on firms are discussed in more detail in Chapter 8.

STRATEGIC FOCUS
Global Supply Chains and the Risks of Interconnectedness

1-2b Technology and Technological Changes

a. Three technological trends and conditions are significantly altering the nature of competition:
   - Increasing rate of technological change and diffusion
   - The information age
   - Increasing knowledge intensity

b. Both the rate of change and the introduction of new technologies have increased greatly over the last 15 to 20 years.

c. A term that is used to describe rapid and consistent replacement of current technologies by new, information-intensive technologies is *perpetual innovation*. This implies that innovation —discussed in more detail in Chapter 13—must be continuous and carry a high priority for all organizations.

d. The shorter product life cycles that result from rapid diffusion of innovation often means that products may be replicated within very short time periods, placing a competitive premium on a firm's ability to rapidly introduce new products into the marketplace. In fact, speed-to-market may become the sole source of competitive advantage.

e. The rapid diffusion of innovation may have made patents a source of competitive advantage only in the pharmaceutical and chemical industries. Many firms do not file patent applications to safeguard (for

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at least a time) the technical knowledge that would be disclosed explicitly in a patent application.

f. *Disruptive technologies* (in line with the Schumpeterian notion of "creative destruction") can destroy the value of existing technologies by replacing them with new ones. Current examples include the success of WiFi, the web browser, smartphones, and electric cars.

g. Information Technology and Big Data

- It is becoming increasingly apparent that knowledge—information, intelligence, and expertise—is a critical organizational resource, and increasingly, a source of competitive advantage. As a result,
  - Many companies are working to convert the accumulated knowledge of employees into a corporate asset.
  - Shareholder value is increasingly influenced by the value of a firm's intangible assets, such as knowledge.
  - There is a strong link between knowledge and innovation.

Teaching Note:
Intangible assets are discussed more fully in Chapter 3.

- The implication of this discussion is that to achieve strategic competitiveness and earn above-average returns, firms must develop the ability to adapt rapidly to change or achieve strategic flexibility.

Teaching Note:
This means that to achieve competitive advantage in the information-intensive competitive landscape, firms must move beyond accessing information to exploiting information by:

- Capturing intelligence
- Transforming intelligence into usable knowledge
- Embedding it as organizational learning
- Diffusing it rapidly throughout the organization

- **Strategic flexibility** represents the set of capabilities, in all areas of their operations, that firms use to respond to the various demands and opportunities that are found in dynamic, uncertain environments. This implies that firms must develop certain capabilities, including the capacity to learn continuously, that will provide the firm with new skill sets. However, those working within firms to develop strategic flexibility should understand that the task is not an easy one, largely because of

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inertia that can build up over time. A firm's focus and past core competencies may actually slow change and strategic flexibility.

Teaching Note:
Firms capable of rapidly and broadly applying what they learn achieve strategic flexibility and the resulting capacity to change in ways that will increase the probability of succeeding in uncertain, hypercompetitive environments. Some firms must change dramatically to remain competitive or return to competitiveness. How often are firms able to make this shift? Overall, does it take more effort to make small, periodic changes, or to wait and make more dramatic changes when these become necessary?

1-2c Social Responsibility

a. Today's competitive environment is also marked by the need to incorporate social responsibility into a firm's strategic management, often called corporate social responsibility, or CSR.
b. The push for sustainability incorporates many of society's expectations. The basic idea behind **sustainability** is that a firm should not deplete or destroy natural elements upon which it depends for survival.
c. Often large firms are also held accountable for the actions of the firms with which they do business. One of the most significant manifestations of this phenomenon is the criticism a large corporation receives when it outsources some of its production to firms in other countries that engage in labor practices such as employing minor children or paying meager wages to overworked employees with poor working conditions (sometimes called sweatshops).
d. Many investors want to invest in firms that are socially responsible. One of the economic reasons for such investments is that firms that are high in social responsibility are at less risk of legal suits, negative social media, walkouts, and so forth. In addition, research evidence is supportive of a small but positive relationship between corporate social responsibility and economic performance.
e. Many firms have emerged to track social responsibility of businesses, most often referred to with the title of ESG (environment, society, and governance).
    - The majority of large corporations publish sustainability reports which outline their activities in these areas. Unfortunately, some of those reports exaggerate the activities of the firm in areas such as protecting the environment, a phenomenon referred to as *greenwashing*.
    - There are organizations that hold businesses to a set of standards when reporting on sustainability, such as the ISO 14000 standards and the Global Reporting Initiative. However,

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there is not one set of standards that is universally accepted, and typically firms are not required to participate.

f. **Polling Activity 1.2: <10 minutes total** (PPT Slide 24)
Corporate social responsibility is …
   a. what makes a company stand out as a good investment over other companies.
   b. a necessary component of any firm's strategic management if they wish to be successful in today's competitive environment.
   c. what will drive large corporations to make better choices in the materials they use and how they source them.
   d. the best method to bring about change in production companies around the world that engage in sweatshop practices
      - **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 social responsibility resonates most with them.

1-3 The I/O Model of Above-Average Returns (Learning Objective 1.3, PPT Slides 25–30)

Teaching Note:
The recommended teaching strategy for this section is to first discuss the assumptions underlying the I/O model. Then, using Figure 1.2, introduce linkages in the I/O model and provide the background for an expanded discussion of the model in Chapter 2.

a. The I/O or Industrial Organization model adopts an external perspective to explain that forces outside of the organization represent the dominant influences on a firm's strategic actions. In other words, this model presumes that the characteristics of and conditions present in the external environment determine the appropriateness of strategies that are formulated and implemented in order for a firm to earn above-average returns. In short, the I/O model specifies that the choice of industries in which to compete has more influence on firm performance than the decisions made by managers inside their firm.
b. The I/O model is based on the following four assumptions:
   - The external environment imposes pressures and constraints on firms that determine strategies that will result in above-average returns. In other words, the external environment pressures the firm to adopt strategies to meet that pressure while simultaneously constraining or limiting the scope of strategies that might be appropriate and eventually successful.

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- Most firms competing in an industry or in an industry segment control similar sets of strategically relevant resources and thus pursue similar strategies. This assumption presumes that, given a similar availability of resources, most firms competing in a specific industry (or industry segment) have similar capabilities and thus follow strategies that are similar. In other words, there are few significant differences among firms in an industry.
- Resources used to implement strategies are highly mobile across firms. Significant differences in strategically relevant resources among firms in an industry tend to disappear because of resource mobility. Thus, any resource differences soon disappear as they are observed and acquired or learned by other firms in the industry.
- Organizational decision makers are assumed to be rational and committed to acting only in the best interests of the firm. The implication of this assumption is that organizational decision makers will consistently exhibit profit-maximizing behaviors.

c. According to the I/O model, which was a dominant paradigm from the 1960s through the 1980s, firms must pay careful attention to the structured characteristics of the industry in which they choose to compete, searching for one that is the most attractive to the firm, given the firm's strategically relevant resources. Then, the firm must be able to successfully implement strategies required by the industry's characteristics to be able to increase their level of competitiveness. The *five forces model* is an analytical tool used to address and describe these industry characteristics.

d. **Figure 1.2: The I/O Model of Above-Average Returns:** Based on its four underlying assumptions, the I/O model prescribes a five-step process for firms to achieve above-average returns:

- Study the external environment—general, industry, and competitive—to determine the characteristics of the external environment that will both determine and constrain the firm's strategic alternatives.
- Locate an industry (or industries) with a high potential for returns based on the structural characteristics of the industry. A model for assessing these characteristics, the Five Forces Model of Competition, is discussed in Chapter 2.
- Based on the characteristics of the industry in which the firm chooses to compete, strategies that are linked with above-average returns should be selected. A model or framework that can be used to assess the requirements and risks of these strategies (the generic strategies are called cost leadership & differentiation) are discussed in detail in Chapter 4.

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- Acquire or develop the critical resources—skills and assets—needed to successfully implement the strategy that has been selected. A process for scrutinizing the internal environment to identify the presence or absence of critical skills is discussed in Chapter 3. Skill-enhancement strategies, including training and development, are discussed in Chapter 11.
- The I/O model indicates that above-average returns will accrue to firms that successfully implement relevant strategic actions that enable the firm to leverage its strengths (skills and resources) to meet the demands or pressures and constraints of the industry in which it has elected to compete. The implementation process is described in Chapters 10 through 13.

e. The I/O model has been supported by research indicating:
   - 20% of firm profitability can be explained by industry characteristics.
   - 36% of firm profitability can be attributed to firm characteristics and the actions taken by the firm.
   - Overall, this indicates a reciprocal relationship, or even an interrelationship, between industry characteristics (attractiveness) and firm strategies that result in firm performance.

f. **Knowledge Check 1.3: <5 minutes total** (PPT Slide 30)
   The industrial organization (I/O) model assumes that:
   a. firms acquire different resources and develop unique capabilities based on how they combine and use the resources.
   b. the external environment imposes pressures and constraints that determine the strategies that would result in above-average returns.
   c. any resource differences that develop between firms will be long term.
   d. firms can earn above-average returns by producing standardized products at costs below those of competitors.
      - **Answer: b.** the external environment imposes pressures and constraints that determine the strategies that would result in above-average returns.
      - The four assumptions of the model are: (1) the external environment is assumed to impose pressures and constraints that determine the strategies that would result in above-average returns; (2) most firms competing within an industry or within a segment of that industry are assumed to control similar strategically relevant resources and to pursue similar strategies in light of those resources; (3) resources are assumed to be highly mobile, meaning that any resource differences that might develop between firms will be short-lived; and (4) organizational decision makers are assumed to be rational individuals who are

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committed to acting in the firm's best interests, as shown by their profit-maximizing behaviors.

1-4 The Resource-Based Model of Above-Average Returns (Learning Objective 1.4, PPT Slides 31–36)

Teaching Note:
The recommended teaching strategy for this section is similar to that suggested for the I/O model. First explain the assumptions of the resource-based model. Then use Figure 1.3 to introduce linkages in the resource-based model and provide the background for an expanded discussion of the model in Chapter 3.

a. The resource-based model adopts an internal perspective to explain how a firm's unique bundle or collection of internal resources and capabilities represent the foundation on which value-creating strategies should be built.
b. **Resources** are inputs into a firm's production process, such as capital equipment, individual employee's skills, patents, brand names, finance, and talented managers. These resources can be tangible or intangible.
c. **Capabilities** are the capacity for a set of resources to perform, in combination, a task or activity.

Teaching Note:
Thus, according to the resource-based model, a firm's resources and capabilities, found in its internal environment, are more critical to determining the appropriateness of strategic actions than are the conditions and characteristics of the external environment. So, strategies should be selected that enable the firm to best exploit its core competencies, relative to opportunities in the external environment.

d. **Core competencies** are resources and capabilities that serve as a source of competitive advantage for a firm. Often related to functional skills, core competencies—when developed, nurtured, and applied throughout a firm—may result in strategic competitiveness.
e. **Figure 1.3: The Resource-Based Model of Above-Average Returns:** The resource-based model of above-average returns is grounded in the uniqueness of a firm's internal resources and capabilities. The five-step model describes the linkages between resource identification and strategy selection that will lead to above-average returns.
    - Firms should identify their internal resources and assess their strengths and weaknesses. The strengths and weaknesses of firm resources should be assessed relative to competitors.

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- Firms should identify the set of resources that provide the firm with capabilities that are unique to the firm, relative to its competitors. The firm should identify those capabilities that enable the firm to perform a task or activity better than its competitors.
- Firms should determine the potential for their unique sets of resources and capabilities to outperform rivals in terms of returns. Determine how a firm's resources and capabilities can be used to gain competitive advantage.
- Locate an attractive industry. Determine the industry that provides the best fit between the characteristics of the industry and the firm's resources and capabilities.
- To attain a sustainable competitive advantage and earn above-average returns, firms should formulate and implement strategies that enable them to exploit their resources and capabilities to take advantage of opportunities in the external environment better than their competitors.

f. Resources and capabilities can lead to a competitive advantage when they are valuable, rare, costly to imitate, and non-substitutable.
   - Resources are valuable when they support taking advantage of opportunities or neutralizing external threats.
   - Resources are rare when possessed by few, if any, competitors.
   - Resources are costly to imitate when other firms cannot obtain them inexpensively (relative to other firms).
   - Resources are non-substitutable when they have no structural equivalents.

g. **Knowledge Check 1.4: <5 minutes total** (PPT Slide 36)
   Which of the following is an assumption of the resource-based model?
   a. Resources and capabilities are not highly mobile across firms.
   b. A firm's performance across time is due primarily to the industry's structural characteristics rather than to the firm's unique resources and capabilities.
   c. Most firms competing within an industry or within a segment of that industry are assumed to control similar strategically relevant resources and to pursue similar strategies in light of those resources.
   d. Organizational decision makers are assumed to be rational individuals who are committed to acting in the firm's best interests, as shown by their profit-maximizing behaviors.
      - **Answer: a.** Resources and capabilities are not highly mobile across firms.
      - The four assumptions of the model are: (1) differences in firms' performances across time are due primarily to their unique resources and capabilities rather than the industry's structural

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characteristics; (2) firms acquire different resources and develop unique capabilities based on how they combine and use the resources; (3) resources and capabilities are not highly mobile across firms; and (4) the differences in resources and capabilities are the basis of competitive advantage.

1-5 The Stakeholder Model of Above-Average Returns (Learning Objective 1.5, PPT Slides 37–45)

a. **Stakeholders** are the individuals and groups who can affect and are affected by the strategic outcomes achieved and who have enforceable claims on a firm's performance.
b. The stakeholder concept reflects that individuals and groups have a "stake" in the strategic outcomes of the firm because they can be either positively or negatively affected by those outcomes and because achieving the strategic outcomes may be dependent on the support or active participation of certain stakeholder groups.
c. **Primary stakeholders** are directly involved in the value-creating processes of the firm. They include suppliers, employees, customers, the communities in which the firm operates, and financiers such as the firm's shareholders and banks.
d. **Secondary stakeholders** can both influence and are influenced by what the firm does, but they do not contribute directly to the value the firm creates.
e. Many successful organizations have learned that taking especially good care of primary stakeholders can lead to competitive advantage and high performance.
f. Some of the sources of competitive advantage, and the value they create, are outlined in **Figure 1.4: The Stakeholder Model of Above-Average Returns**.
g. This sort of management is often called *managing for stakeholders* or *stakeholder-oriented management*.

Teaching Note:
By reviewing the primary expectations or demands of each stakeholder group it becomes obvious that a potential for conflict exists. For instance, shareholders generally invest for wealth-maximization purposes and are therefore interested in a firm maximizing its return on investment or ROI. However, if a firm increases its ROI by making short-term decisions, the firm can negatively affect employee or customer stakeholders.

h. If the firm is strategically competitive and earns above-average returns, it can afford to simultaneously satisfy all stakeholders. When earning average or below-average returns, tradeoffs must be made. At the level

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of average returns, firms must at least minimally satisfy all stakeholders. When returns are below average, some stakeholders can be minimally satisfied, while others may be dissatisfied.

i. Well-treated stakeholders reciprocate by treating the firm and its other stakeholders well in return.

j. One of the fundamental drivers of reciprocity is fairness, or what scholars call organizational justice. *Organizational justice* can be divided into three primary types: distributional, procedural, and interactional.
   - *Distributional justice* means that stakeholders feel as though they are receiving value through their relationship with their firm that is commensurate with what they contribute to the firm.
   - *Procedural justice* means that the firm listens to stakeholders and considers their positions when making important decisions that are likely to affect them. This does not mean that the firm will always make decisions that have no negative impact on any stakeholder, although this is a worthwhile objective.
   - *Interactional justice* means that all stakeholders are treated with honesty, respect, and integrity. Formal and informal (i.e., promises) contracts are made and kept. Day-to-day transactions with stakeholders typically are positive, and if something goes wrong, the firm does its best to remedy the situation.

k. Stakeholders that experience this kind of fairness are likely to reciprocate through a higher level of motivation to work with the firm and provide a level of effort and loyalty that they might not provide to another firm in the same industry.

l. Organizational justice also leads to higher levels of stakeholder trust, and this means stakeholders will be much more likely to share important information with them.

m. Feelings of trust among employees means they will be much more likely to share information with management about how to improve products or services, or to improve the efficiency with which they are made and delivered.

n. Suppliers who trust a firm will be more willing to invest resources in developing new components for sale to the firm and are also more likely to share information with them that could improve their products and production processes because they believe that the information will not be used opportunistically against them.

o. These factors can lead to higher levels of innovation, sales growth, and operational efficiency.

STRATEGIC FOCUS
Corporate Social Responsibility, Corporate Social Performance, and ESG

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1-5a Managing for Stakeholders

a. Although research confirms a positive relationship between managing for stakeholders and firm performance, not all firms that manage in this way will have above-average returns.

Teaching Note:
The rest of this book outlines many other important components of devising strategies for stakeholder management.

b. Stakeholder management is only one important component in the strategic management process.
c. Situations may occur in which a firm would perform better if they simply engaged in what are called *arms-length* transactions with stakeholders. This means that a firm doesn't try to develop close relationships with stakeholders, but simply responds to market forces in buying and selling products and other resources. This approach could be more efficient when innovation, loyalty, and higher levels of stakeholder motivation are not as important, but it doesn't mean the firm should treat stakeholders poorly. Poor treatment of stakeholders is likely to lead to competitive problems over time as stakeholders choose not to engage with the firm.
d. The stakeholder model suggests that a firm should treat stakeholders better than competing firms but does not suggest overzealousness that could lead to "giving away the store."
e. Although organizations have dependency relationships with all their primary stakeholders, they are not equally dependent on all stakeholders at all times. Unequal dependencies mean that stakeholders possess different degrees of ability to influence an organization.
f. The I/O, resource-based, and stakeholder models all help firms devise competitive strategies. They do not contradict each other, but rather view the organization through three different lenses. They are also helping in determining a firm's overall purpose, as reflected in vision, mission, and values.
g. **Polling Activity 1.5: <10 minutes total** (PPT Slide 45)
Which of the models is best at helping firms devise competitive strategies and determining a firm's overall purpose?
    a. The I/O model of above-average returns
    b. The resource-based model of above-average returns
    c. The stakeholder model of above-average returns
        - **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 which model

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resonates most with them. Ensure that students understand that the I/O, resource-based, and stakeholder models all help firms devise competitive strategies. They do not contradict each other, but rather view the organization through three different lenses. They are also helpful in determining a firm's overall purpose, as reflected in vision, mission, and values, which are the topics of the next section.

Teaching Note:
Stakeholder management has introduced some interesting notions into business practice. For example, business schools typically teach that there are three main stakeholder groups (owners, customers, and employees) and that they should be tended to in that order. That is, it is important to begin with the idea that the primary purpose of the firm is to maximize shareholder wealth (i.e., tend to the interests of the owners first). Then it is common to introduce notions such as, "The customer is always right." This suggests that customer interests are to be tended to next. Finally, we get around to looking to the needs of employees, if resources make that possible. This is the standard approach, but some firms have turned this idea on its head. For example, some companies have been extremely successful by taking great efforts to select the right employees and treat them well, which then spills over into appropriate treatment of the customer. As you might guess, the company assumes that these emphases will naturally lead to positive outcomes for stockholders as well (as has been the case). This issue can lead to interesting discussions with students about their thoughts on the topic.

1-6 Vision, Mission, and Values (Learning Objective 1.6, PPT Slides 46–52)

Teaching Note:
Refer students to Figure 1.1, which indicates the link or relationship between identifying a firm's internal resources and capabilities and the conditions and characteristics of the external environment with the development of the firm's vision and mission.

1-6a Vision

a. **Vision** is a picture of what the firm wants to be, and in broad terms, what it wants to ultimately achieve. Vision is "big picture" thinking with passion that helps people feel what they are supposed to be doing.
b. Vision statements:
    - reflect a firm's values and aspirations.

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- are intended to capture the heart and mind of each employee (and hopefully, many of its other stakeholders).
- tend to be enduring, whereas its mission can change in light of changing environmental conditions.
- tend to be relatively short and concise, easily remembered.
- rely on input from multiple key stakeholders.

c. Examples of vision statements:
   - Our vision is to be the world's best quick-service restaurant. (McDonald's)
   - To make the automobile accessible to every American (Ford's vision when established by Henry Ford)

d. The CEO is responsible for working with others to form the firm's vision. However, experience shows that the most effective vision statement results when the CEO involves a host of people to develop it.

e. A vision statement should be clearly tied to the conditions in the firm's external and internal environments, and it must be achievable. Moreover, the decisions and actions of those involved with developing the vision must be consistent with that vision.

1-6b Mission

a. A firm's **mission** is an externally focused application of its vision that states the firm's unique purpose and the scope of its operations in product and market terms.

b. As with the vision, the final responsibility for forming the firm's mission rests with the CEO, though the CEO and other top-level managers tend to involve a larger number of people in forming the mission. This is because middle- and first-level managers and other employees have more direct contact with customers and their markets.

c. A firm's vision and mission must provide the guidance that enables the firm to achieve the desired strategic outcomes (strategic competitiveness and above-average returns—illustrated in Figure 1.1) that enable the firm to satisfy the demands of those parties having an interest in the firm's success: organizational stakeholders.

d. Earning above-average returns often is not mentioned in mission statements. The reasons for this are that all firms want to earn above-average returns and that desired financial outcomes result from properly serving certain customers while trying to achieve the firm's intended future. In fact, research has shown that having an effectively formed vision and mission has a positive effect on performance (growth in sales, profits, employment, and net worth).

1-6c Values

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a. The **values**—sometimes called core values—of an organization define what should matter most to managers and employees when they make and implement strategic decisions.
b. Values help guide what is rewarded and reinforced in the organization. They are a practical application of business ethics.
c. Values can help a firm define its purpose and answer the fundamental question of what the firm stands for. If they are well communicated and reinforced, they should help determine the way stakeholders are treated and their priority in important decisions.
d. Core values are sometime incorporated into a firm's mission statement, but today more and more firms are putting them in separate statements to reinforce to stakeholders what they stand for.
e. **Discussion Activity 1.6: <15 minutes total** (PPT Slides 51–52)
Why are ineffectively developed vision, mission, and values statements problematic for a firm? Why do you feel management should pay attention to these statements?
Answers:
- Ineffectively developed vision, mission, and values statements fail to provide the direction a firm needs to take appropriate strategic actions.
- This is undesirable in that a firm's vision, mission, and values are critical aspects of the analysis and the foundation required to engage in strategic actions that help to achieve strategic competitiveness and earn above-average returns.

1-7 Strategic Leaders (Learning Objective 1.7, PPT Slides 53–56)

Teaching Note:
One way of covering this section is through a series of questions and answers.

a. **Strategic leaders** are people located in different areas and levels of the firm using the strategic management process to select actions that help the firm achieve its vision and fulfill its mission.
b. CEOs are responsible for making certain their firm uses the strategic management process successfully. However, many others help choose a firm's strategy and the actions to implement it.
c. All managers (as strategic leaders) must think globally and act locally.
d. The most effective CEOs and top-level managers understand how to delegate strategic responsibilities to people throughout the firm who influence the use of organizational resources.
e. **Organizational culture** refers to the complex set of ideologies, symbols, and core values that individuals throughout the firm share and that

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influence how the firm conducts business. Organizational culture is the social energy that drives—or fails to drive—the organization.

f. **Knowledge Check 1.7: <5 minutes total** (PPT Slide 56)
How can a firm avoid managerial hubris (overconfidence) at the top of the organization?
   a. Act globally.
   b. Set goals for each employee.
   c. Establish a vision for the company.
   d. Delegate strategic responsibilities.
      - **Answer: d.** Delegate strategic responsibilities.
      - Delegation helps to avoid managerial hubris at the top by distributing strategic leadership responsibilities and decision making throughout the firm.

1-8 The Strategic Management Process (Learning Objective 1.8, PPT Slides 57–59)

Teaching Note:
The final section of this chapter reviews Figure 1.1 (The Strategic Management Process), providing both an outline of the process and the framework for the next 12 chapters. Thus, students should refer back to Figure 1.1 as you present the material to come next.

a. A-S-P process:
   - The *analyses* (A) firms use to develop strategies.
   - The firm's analyses provide inputs that are the foundation for choosing one or more *strategies* (S) and deciding which one(s) to implement.
   - The strategic management process calls for disciplined approaches to serve as the foundation for developing a competitive advantage.
   - The process has a major effect on the *performance* (P) of the firm.

b. Chapters 2 and 3 provide more detail regarding the strategic inputs to the strategic management process: analysis of the firm's external and internal environments that must be performed so that sufficient knowledge is developed regarding external opportunities and internal capabilities. This enables the development of the firm's vision and mission.

c. Chapters 4 through 9 discuss the strategy formulation stage of the process. Topics covered include:
   - Deciding on business-level strategy, or how to compete in a given business (Chapter 4)

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- Understanding competitive dynamics, in that strategies are not formulated and implemented in isolation but require understanding and responding to competitors' actions (Chapter 5)
- Setting corporate-level strategy, or deciding in which industries or businesses the firm will compete, how resources will be allocated, and how the different business units will be managed (Chapter 6)
- The acquisition of business units and the restructuring of the firm's portfolio of businesses (Chapter 7)
- Selecting appropriate international strategies that are consistent with the firm's resources, capabilities and core competencies, and external opportunities (Chapter 8)

d. Developing cooperative strategies with other firms to gain competitive advantage (Chapter 9)

e. The final sections of the text, Chapters 10–13, examine actions necessary to effectively implement strategies. Effective implementation has a significant impact on firm performance. Topics covered include:
   - Methods for governing to ensure satisfaction of stakeholder demands and attainment of strategic outcomes (Chapter 10)
   - Structures that are used and actions taken to control a firm's operations (Chapter 11)
   - Patterns of strategic leadership that are most appropriate given the competitive environment (Chapter 12)
   - Linkages among corporate entrepreneurship, innovation, and strategic competitiveness (Chapter 13)

   f. Knowledge about these four dimensions helps the firm prepare an anticipated response profile for each competitor.

g. Mastery of this strategic management process contributes positively to a firm's efforts to achieve strategic competitiveness and, in doing so, to create value for its stakeholders.

Teaching Note:
Students should realize that none of the chapters stand alone, just as no single step or facet of the strategic management process stands alone. If the strategic management process is to result in a firm being strategically competitive and earning above-average returns, all facets of the process must be treated as both interdependent and interrelated.

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REVIEW 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. Review Questions (Chapter Review) Duration 35 minutes.
    a. What are strategic competitiveness, strategy, competitive advantage, above-average returns, and the strategic management process?
        i. Answer: *Strategic competitiveness* is achieved when a firm successfully formulates and implements a value-creating strategy.
        ii. Answer: A *strategy* is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.
        iii. Answer: A *competitive advantage* is achieved when a firm's current and potential competitors either are not able to simultaneously formulate and implement its value-creating strategy, are unable to duplicate the benefits of the strategy, or find the strategy too costly to imitate.
        iv. Answer: *Above-average returns* are returns that are in excess of what an investor expects to earn from other investments with a similar level or amount of risk.
        v. Answer: The *strategic management process* (see Figure 1.1) is the full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns.
    b. What are the characteristics of the current competitive landscape? What factors are the primary drivers of this landscape?
        i. Answer: In the current competitive landscape, the nature of competition has changed. As a result, managers making strategic decisions must adopt a new mindset that is global in orientation. Firms must learn to compete in highly chaotic environments that produce disorder and a great deal of uncertainty.
        ii. Answer: The two primary factors that have created the current competitive landscape are globalization of industries and markets and rapid and significant technological change. The implication for business firms is that to be successful, they must be able to meet or exceed global performance standards (in terms of such factors as quality, price, product features, speed to market) and be able to keep up with both the rapid pace of technological change as well as the rapid diffusion of innovation.
    c. According to the I/O model, what should a firm do to earn above-average returns?

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i. Answer: The I/O model suggests that conditions and characteristics of the external environment (the general, industry, and competitive environments) are the primary inputs to and determinants of strategies that firms should formulate and implement to earn above-average returns. Assumptions of the I/O model are that: (1) the external environment imposes pressures and constraints that determine which strategies will result in superior profitability, (2) most firms competing in an industry (or industry segment) control similar strategically relevant resources and pursue similar strategies in light of resource similarity, (3) resources used to implement strategies are highly mobile across firms, and (4) decision makers are assumed to be rational and committed to acting in the firm's best interests.
The I/O model thus challenges firms to seek out the industry (or industry segment) with the greatest profit potential and then learn how to use their resources to implement value-creating strategies given the structural characteristics of the industry.

d. What does the resource-based model suggest a firm should do to earn above-average returns?
   i. Answer: The resource-based model assumes that each firm is a collection of unique resources and capabilities that provides the basis for its strategy and is the primary source of its profitability. It also assumes that over time, firms acquire different resources and develop unique capabilities. Thus, all firms competing within an industry (or industry segment) may not possess the same strategically relevant resources and capabilities. In addition, resources may not be highly mobile across firms.
   Thus, the resource-based model challenges firms to formulate and implement strategies that allow the firm to best exploit its core competencies—capabilities that are valuable, rare, costly to imitate, and non-substitutable—relative to opportunities in the external environment. Resources and capabilities that meet the criteria of core competencies then serve as the basis of a firm's sustainable competitive advantage, enabling it to achieve strategic competitiveness and earn above-average returns.
e. Based on the stakeholder model, what can a firm do to earn above-average returns?
   i. Answer: Stakeholders are individuals and groups who can affect and are affected by strategic outcomes achieved and who have enforceable claims on a firm's performance. In other words, stakeholders have a stake (or a vested interest) in the actions of the firm. Stakeholders can influence organizations because they have the ability to withhold or provide participation that is essential to a firm's survival, competitiveness, and profitability.

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f. What are vision, mission, and values?
    i. Answer: *Vision* is a picture of what the firm wants to be, and in broad terms, what it wants to ultimately achieve. Vision is "big picture" thinking with passion that helps people feel what they are supposed to be doing.
    ii. Answer: *Mission* is externally focused and represents a statement of a firm's unique purpose and the scope of its operations in product and market terms. It provides general descriptions of the products a firm intends to produce and the markets it will serve using its internally based core competencies.
    iii. Answer: *Values* define what should matter most to managers and employees when they make and implement strategic decisions.

g. How would you describe the work of strategic leaders?
    i. Answer: Strategic leaders are people located in different parts of the firm using the strategic management process to help the firm reach its vision and mission. Regardless of their location in the firm, successful strategic leaders are decisive and committed to nurturing those around them and are committed to helping the firm create value for customers and returns for shareholders and other stakeholders.
    Strategic leaders can be described as hard working, thorough, honest, questioning, visionary, persuasive, analytical, and decision makers. They also have a penchant for wanting the firm and its people to accomplish more.
    The work of strategists includes scanning the environment—both internally and externally—to seek out information that will assist the firm in achieving its mission and satisfying its vision.
    Strategists would think about how the resources and capabilities of the firm could be nurtured and exploited to develop core competencies that would enable the firm to make use of environmental opportunities, achieve strategic competitiveness, and attain a competitive advantage that results in above-average returns.

h. What are the elements of the strategic management process? How are they interrelated?
    i. Answer: The parts of the strategic management process (illustrated in Figure 1.1) are strategic inputs, strategic actions, and strategic outcomes. *Strategic inputs* are represented by the firm's vision and mission that result from the assessment of the firm's resources, capabilities, and competencies and conditions in the external environment. These strategic inputs—vision and mission—drive the firm's *strategic actions* or the formulation and implementation of strategy. The strategic outcomes of successfully formulating and implementing value-creating

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strategies are *strategic competitiveness* and *above-average returns*. A feedback loop links strategic outcomes with strategic inputs.

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ADDITIONAL ACTIVITIES AND ASSIGNMENTS

1. **Mini-Case**: *Kipling Instruments Faces a Severe Economic and Ethical Dilemma*
    a. Students will read the mini-case and then answer the subsequent questions.
    b. Questions can be answered as part of a class discussion, small group discussion, or independently.
2. **Mini-Case Questions**
    a. Is Kipling Instruments in an attractive industry? What are the factors that make the industry attractive or unattractive? Based on this analysis, do you think it is easy or difficult to earn above-average returns in this industry?
        i. Answer: Student answers will vary based on students' assessment of what makes an industry attractive or unattractive and their assessment of Kipling Instruments.
        ii. Answer: Student answers will vary based on their opinion of whether it is easy or difficult to earn above-average returns in this industry
    b. Describe the primary resources Kipling uses in its business. Could any of these resources be considered core competencies leading to a competitive advantage over Kipling's rivals in the industry? If they are, do you believe the competitive advantage is likely to be sustainable?
        i. Answer: Student answers will vary due to their assessment of Kipling's primary resources and their categorization of these resources as core competencies or not.
        ii. Answer: Student answers will vary based on their opinion of whether Kipling's competitive advantage is sustainable.
    c. If Sherry decides to tell Way-to-Go about the problem with the smoke detectors, what will be the possible impact on Kipling's primary stakeholders (founder, employees, community, bank, suppliers, customers)? On balance, would a decision to tell Way-to-Go do more harm or good?
        i. Answer: Student answers will vary based on their assessment of possible impacts of sharing the smoke detector information and then, how harmful or beneficial that decision would be.
    d. Assuming that Sherry decides to tell Way-to-Go about the problem, what are some of the short-term actions Sherry can take to try to rescue the company?

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i. Answer: Student answers will vary depending upon their analysis of what actions would be helpful to the company.

e. From a strategic (longer-term) perspective, what should Kipling consider doing to enhance performance and avoid this type of situation in the future?
   i. Answer: Student answers will vary but need to include sound reasoning for their response.

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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	The assignment is based upon adequate academic literature but	The assignment is not based upon appropriate and adequate academic

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	literature, including peer reviewed journals and other scholarly work. 5 points	does not include peer reviewed journals and other scholarly work. 3 points	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 grammatical and spelling errors. 5 points	The assignment has three to five grammatical and spelling errors. 3 points	The assignment is incomplete or unintelligible. 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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