Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

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Instructor Resources, Chapter Features, and Case Overview

section 1

Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

Instructor Resources

We strived to achieve four goals in preparing this package of Instructor Resources for the 5th Edition of *Essentials of Strategic Management*:

1. To equip you with all the resources and pedagogical tools you'll need to design and deliver a course that is on the cutting-edge and solidly in the mainstream of what students need to know about crafting and executing winning strategies.
2. To give you wide flexibility in putting together a course syllabus that you are comfortable with and proud of.
3. To give you a smorgasbord of options to draw from in keeping the nature of student assignments varied and interesting.
4. To help you deliver a course with upbeat tempo that wins enthusiastic applause from students.

We believe the contents of the package will be particularly informative and helpful to faculty members teaching the strategy course for the first time but we have also tried to embellish the content with ideas and suggestions that will prove valuable to experienced faculty looking for ways to refurbish their course offering and/or to keep student assignments varied and interesting.

A Quick Overview of the Entire Instructor Resource Package

The Instructor's Manual for *Essentials of Strategic Management* contains:

- A quick look at the topical focus of the text's 10 chapters (Section 1).
- An overview of the 12 cases in the text, along with a grid profiling the strategic issues that come into play in each case (Section 1 and Section 3).
- A discussion of the reasons to use a strategy simulation as an integral part of your strategy course. The two web-based strategy simulations—*The Business Strategy Game* or *GLO-BUS*—that are companions to this text incorporate the very kinds of strategic thinking, strategic analysis, and strategic decision-making described in the text chapters and connect beautifully to the chapter content. The automated online nature of both simulations entails minimal administrative time and effort on the instructor's part. You will be pleasantly shocked (and pleased!!) at the minimal time it will take you to incorporate use of *GLO-BUS* or *The Business Strategy Game* and the added degree of student excitement and energy that either of these competition-based strategy simulations brings to the course—see Section 2 for more details.
- Tips and suggestions for effectively using either *GLO-BUS* or *The Business Strategy Game* in your course (covered in both Section 2 and Section 3).
- The merits of incorporating the use of the *Connect™ Management* Web-based assignment and assessment platform accompanying the 5th Edition, into your course requirements. Connect includes chapter quizzes, case assignment exercises for all 12 cases, and two learning assurance exercises for all 10 chapters of the 5th Edition. Connect offers automatic grading for all chapter quizzes and one learning assurance exercise per chapter. ***Also, in this edition is a set of auto-graded exercises for all 12 cases in the text.*** Connect offers an easy-to-administer approach to testing and assessing individual-level student mastery of chapter concepts and case analysis (covered in Section 3).
- Ideas and suggestions on course design and course organization (Section 3 and Section 4).

Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

- Recommendations for sequencing the case assignments and guidance about how to use the cases effectively (Section 3).
- Our recommendations regarding which cases are particularly appropriate for written case assignments and oral team presentations (Section 3).
- Two sample course syllabi (Section 4).
- A variety of schedules of activities for face-to-face, hybrid, and online courses: (Section 4)
  - Two sample schedules of class activities and assignments for face-to-face courses offered during a 15-week term;
  - Two sample schedule of activities for hybrid courses offered during a 15-week term;
  - One sample schedule of class activities for face-to-face courses offered during a 10-week term;
  - One sample schedule of class activities for hybrid courses offered during a 10-week term;
  - One sample schedule of class activities for a 7-week online course; and
  - Two sample course schedules for face-to-face courses offered in 5-week terms.
- A set of Lecture Notes for each of the 10 chapters (Section 5).
- A comprehensive teaching note for each of the 12 cases in *Essentials of Strategic Management* (Section 6).

In addition to the Instructor's Manual, the support package for adopters also includes several important features that should be of interest. A 1000+ question test bank is available for printed or online exams in McGraw-Hill's EZTest Online web-based application.

Connect™ Management Web-based Assignment and Assessment Platform The 5th Edition package includes a robust collection of chapter quizzes, chapter learning assurance exercises, and case preparation exercises that should prove to ease instructors' grading and assessment obligations. Student understanding of chapter concepts can be assessed at the individual-level through chapter quizzes and applied learning assurance exercises that record each student's grade in a Web-based grade book. All chapter quizzes are automatically-graded and one Assurance of Learning exercise for each of the 10 chapters is automatically graded.

Included in this edition is a set of auto-graded exercises for all 12 cases in the text. ***The automatically graded case exercises follow the assignment questions in the case TN to fully prepare students to make meaningful contributions to class discussions of the cases. The Connect case exercises may also be used as graded assignments or a portion of graded case assignments—allowing the instructor to grade only students' recommendations for written case assignments.*** All students who purchase a Connect Plus eBook or a new copy of the text are automatically provided access to Connect at no additional charge.

PowerPoint Slides To facilitate delivery preparation of your lectures and to serve as chapter outlines, you'll have access to comprehensive PowerPoint presentations for each of the 10 chapters. The collection includes 350+ professional-looking slides displaying core concepts, analytical procedures, key points, and all the figures in the text chapters.

Accompanying Case Videos Eight of the cases (BillCutterz.com, Whole Foods, Panera Bread, Tesla, Deere & Co., PepsiCo, Southwest Airlines, and Toms Shoes) have accompanying video segments that are posted on YouTube) and that can be shown in conjunction with the case discussions. Suggestions for using each video are contained in the teaching note for that case.

Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

A Comprehensive Test Bank and EZ Test Software There is a 600+-question test bank, consisting of both multiple choice questions and short answer/essay questions that you can use in conjunction with McGraw-Hill's EZ Test electronic testing software to create tests from chapter- or topic-specific lists. The EZ Test software enables allows instructors to add their own questions to those that appear in the test bank. The EZ Test program gives you the capability to create and print multiple versions of the test and to administer the test via the Web at www.eztestonline.com. Tests can also be exported into a course management system such as WebCT, BlackBoard, PageOut, and Apple's iQuiz.

What to Expect in the 5th Edition

The distinguishing mark of the 5th edition is its enriched and enlivened presentation of the material in each of the 10 chapters, providing an as up-to-date and engrossing discussion of the core concepts and analytical tools as you will find anywhere. As with each of our new editions, there is an accompanying lineup of exciting new cases that bring the content to life and are sure to provoke interesting classroom discussions, deepening students' understanding of the material in the process.

While this 5th edition retains the 10-chapter structure of the prior edition, every chapter—indeed every paragraph and every line—has been reexamined, refined, and refreshed. New content has been added to keep the material in line with the latest developments in the theory and practice of strategic management. Scores of new examples have been added, along with fresh Concepts and Connections illustrations, to make the content come alive and to provide students with a ringside view of strategy in action. The result is a text that cuts straight to the chase in terms of what students really need to know and gives instructors a leg up on teaching that material effectively. It remains, as always, solidly mainstream and balanced, mirroring *both* the penetrating insight of academic thought and the pragmatism of real-world strategic management.

A stand-out feature of this text has always been the tight linkage between the content of the chapters and the cases. The lineup of cases that accompany the 5th edition is outstanding in this respect—a truly appealing mix of strategically relevant and thoughtfully crafted cases, certain to engage students and sharpen their skills in applying the concepts and tools of strategic analysis. Many involve high-profile companies that the students will immediately recognize and relate to; all are framed around key strategic issues and serve to add depth and context to the topical content of the chapters. We are confident you will be impressed with how well these cases work in the classroom and the amount of student interest they will spark.

Organization, Content, and Features of the Text Chapters

Our objective in undertaking a major revision of this text was to ensure that its content was current, with respect to both scholarship and managerial practice, and presented in as clear and compelling a fashion as possible. We established five criteria for meeting this objective, namely that the final product must:

- Explain core concepts in language that students can grasp and provide first-rate examples of their relevance and use by actual companies.
- Thoroughly describe the tools of strategic analysis, how they are used, and where they fit into the managerial process of crafting and executing strategy.
- Incorporate the latest developments in the theory and practice of strategic management in every chapter to keep the content solidly in the mainstream of contemporary strategic thinking.
- Focus squarely on what every student needs to know about crafting, implementing, and executing business strategies in today's market environments.
- Provide an attractive set of contemporary cases that involve headline strategic issues and give students ample opportunity to apply what they've learned from the chapters.

Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

We believe this Fifth Edition measures up on all five criteria and that you'll be amply convinced that ***no other leading text does a better job of setting forth the principles of strategic management and linking these principles to both sound theory and best practices.***

From others in the field:

1. *Our integrated coverage of the two most popular perspectives on strategic management positioning theory and resource-based theory is unsurpassed by any other leading strategy text.* Principles and concepts from both the positioning perspective and the resource-based perspective are prominently and comprehensively integrated into our coverage of crafting both single-business and multibusiness strategies. By highlighting the relationship between a firm's resources and capabilities to the activities it conducts along its value chain, we show explicitly how these two perspectives relate to one another. Moreover, in Chapters 3 through 8 it is emphasized repeatedly that a company's strategy must be matched not only to its external market circumstances but also to its internal resources and competitive capabilities.

2. *Our coverage of business ethics, core values, social responsibility, and environmental sustainability is unsurpassed by any other leading strategy text.* Chapter 9, "Ethics, Corporate Social Responsibility, Environmental Sustainability, and Strategy," is embellished with fresh content so that it can better fulfill the important functions of (1) alerting students to the role and importance of ethical and socially responsible decision making and (2) addressing the accreditation requirements that business ethics be visibly and thoroughly embedded in the core curriculum. Moreover, discussions of the roles of values and ethics are integrated into portions of other chapters to further reinforce why and how considerations relating to ethics, values, social responsibility, and sustain-ability should figure prominently into the managerial task of crafting and executing company strategies.

3. *The caliber of the case collection in the fifth edition is truly unrivaled* from the standpoints of student appeal, teachability, and suitability for drilling students in the use of the concepts and analytical treatments in Chapters 1 through 10. The 12 cases included in this edition are the very latest, the best, and the most on-target that we could find. The ample information about the cases in the Instructor's Manual makes it effortless to select a set of cases each term that will capture the interest of students from start to finish.

4. *The publisher's Connect assignment and assessment platform is tightly linked to the text chapters and case lineup.* The *Connect* package for the fifth edition allows professors to assign autograded quizzes and select chapter-end Assurance of Learning Exercises to assess class members' understanding of chapter concepts. In addition, our texts have pioneered the extension of the *Connect p*latform to case analysis. The autograded case exercises for each of the 12 cases in this edition are robust and extensive and will better enable students to make meaningful contributions to class discussions. The autograded *Connect* case exercises may also be used as graded assignments in the course.

5. The two cutting-edge and widely used strategy simulations—*The Business Strategy Game* and *GLO-BUS*—that are optional companions to the fourth edition give you unmatched capability to employ a text-case-simulation model of course delivery.

The following rundown summarizes the noteworthy features and topical emphasis in this new edition:

- Chapter 1 serves as a introduction to the topic of strategy, focusing on the managerial actions that will determine why a company matters in the marketplace. We introduce students to the primary approaches to building competitive advantage and the key elements of business-level strategy. Following Henry Mintzberg's pioneering research, we also stress why a company's strategy is partly planned and partly reactive and why this strategy tends to evolve. The chapter also discusses why it is important for a company to have a *viable business model* that outlines the company's customer value proposition and its profit formula. This brief chapter is the perfect accompaniment to your opening-day lecture on what the course is all about and why it matters.

Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

- Chapter 2 delves more deeply into the managerial process of actually crafting and executing a strategy—it makes a great assignment for the second day of class and provides a smooth transition into the heart of the course. The focal point of the chapter is the five-stage managerial process of crafting and executing strategy: (1) forming a strategic vision of where the company is headed and why, (2) developing strategic as well as financial objectives with which to measure the company's progress, (3) crafting a strategy to achieve these targets and move the company toward its market destination, (4) implementing and executing the strategy, and (5) evaluating a company's situation and performance to identify corrective adjustments that are needed. Students are introduced to such core concepts as strategic visions, mission statements and core values, the balanced scorecard, and business-level versus corporate-level strategies. There's a robust discussion of why *all managers are on a company's strategy-making, strategy-executing team* and why a company's strategic plan is a collection of strategies devised by different managers at different levels in the organizational hierarchy. The chapter winds up with a section on how to exercise good corporate governance and examines the conditions that led to recent high-profile corporate governance failures.

- Chapter 3 sets forth the now-familiar analytical tools and concepts of industry and competitive analysis and demonstrates the importance of tailoring strategy to fit the circumstances of a company's industry and competitive environment. The standout feature of this chapter is a presentation of Michael Porter's "five forces model of competition" *that has long been the clearest, most straightforward discussion of any text in the field.* Chapter revisions include an improved discussion of the macro-environment, focusing on the use of the PESTEL analysis framework for assessing the *p*olitical, *e*conomic, *s*ocial, *t*echnological, *e*nvironmental, and *l* egal factors in a company's macro-environment. New to this edition is a discussion of Michael Porter's Framework for Competitor Analysis used for assessing a rival's likely strategic moves.

- Chapter 4 presents the resource-based view of the firm, showing why resource and capability analysis is such a powerful tool for sizing up a company's competitive assets. It offers a simple framework for identifying a company's resources and capabilities and explains how the VRIN framework can be used to determine whether they can provide the company with a sustainable competitive advantage over its competitors. Other topics covered in this chapter include dynamic capabilities, SWOT analysis, value chain analysis, benchmarking, and competitive strength assessments, thus enabling a solid appraisal of a company's relative cost position and customer value proposition vis-à-vis its rivals.

- Chapter 5 deals with the basic approaches used to compete successfully and gain a competitive advantage over market rivals. This discussion is framed around the five generic competitive strategies—low-cost leadership, differentiation, best-cost provider, focused differentiation, and focused low-cost. It describes when each of these approaches works best and what pitfalls to avoid. It explains the role of *cost drivers* and *uniqueness drivers* in reducing a company's costs and enhancing its differentiation, respectively.

- Chapter 6 deals with the *strategy options* available to complement a company's competitive approach and maximize the power of its overall strategy. These include a variety of offensive or defensive competitive moves, and their timing, such as blue ocean strategy and first-mover advantages and disadvantages. It also includes choices concerning the breadth of a company's activities (or its scope of operations along an industry's entire value chain), ranging from horizontal mergers and acquisitions, to vertical integration, outsourcing, and strategic alliances. This material serves to segue into that covered in the next two chapters on international and diversification strategies.

- Chapter 7 explores the full range of strategy options for competing in international markets: export strategies; licensing; franchising; establishing a subsidiary in a foreign market; and using strategic alliances and joint ventures to build competitive strength in foreign markets. There's also a discussion of how to best tailor a company's international strategy to cross-country differences in market conditions and buyer preferences, how to use international operations to improve overall competitiveness, the choice between multidomestic, global, and transnational strategies, and the unique characteristics of competing in emerging markets.

Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

- Chapter 8 introduces the topic of corporate-level strategy—a topic of concern for multibusiness companies pursuing diversification. This chapter begins by explaining why successful diversification strategies must create shareholder value and lays out the three essential tests that a strategy must pass to achieve this goal (*the industry attractiveness, cost of entry, and better-off tests*). Corporate strategy topics covered in the chapter include methods of entering new businesses, related diversification, unrelated diversification, combined related and unrelated diversification approaches, and strategic options for improving the overall performance of an already diversified company. The chapter's analytical spotlight is trained on the techniques and procedures for assessing a diversified company's business portfolio—the relative attractiveness of the various businesses the company has diversified into, the company's competitive strength in each of its business lines, and the *strategic fit* and *resource fit* among a diversified company's different businesses. The chapter concludes with a brief survey of a company's four main post-diversification strategy alternatives: (1) sticking closely with the existing business lineup, (2) broadening the diversification base, (3) divesting some businesses and retrenching to a narrower diversification base, and (4) restructuring the makeup of the company's business lineup.

- Although the topic of ethics and values comes up at various points in this textbook, Chapter 9 brings more direct attention to such issues and may be used as a stand-alone assignment in either the early, middle, or late part of a course. It concerns the themes of ethical standards in business, approaches to ensuring consistent ethical standards for companies with international operations, corporate social responsibility, and environmental sustainability. The contents of this chapter are sure to give students some things to ponder, rouse lively discussion, and help to make students more ethically aware and conscious of *why all companies should conduct their business in a socially responsible and sustainable manner.* •

- Chapter 10 is anchored around a pragmatic, compelling conceptual framework: (1) building dynamic capabilities, core competencies, resources, and structure necessary for proficient strategy execution; (2) allocating ample resources to strategy-critical activities; (3) ensuring that policies and procedures facilitate rather than impede strategy execution; (4) pushing for continuous improvement in how value chain activities are performed; (5) installing information and operating systems that enable company personnel to better carry out essential activities; (6) tying rewards and incentives directly to the achievement of performance targets and good strategy execution; (7) shaping the work environment and corporate culture to fit the strategy; and (8) exerting the internal leadership needed to drive execution forward. The recurring theme throughout the chapter is that implementing and executing strategy entails figuring out the specific actions, behaviors, and conditions that are needed for a smooth strategy-supportive operation—the goal here is to ensure that students understand that the strategy-implementing/strategy executing phase is a make-it-happen-right kind of managerial exercise that leads to operating excellence and good performance.

In this latest edition, we have put our utmost effort into ensuring that the 10 chapters are consistent with the latest and best thinking of academics and practitioners in the field of strategic management and hit the bull's-eye in topical coverage for senior- and MBA-level strategy courses. The ultimate test of the text, of course, is the positive pedagogical impact it has in the classroom. If this edition sets a more effective stage for your lectures and does a better job of helping you persuade students that the discipline of strategy merits their rapt attention, then it will have fulfilled its purpose.

Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

TABLE 1

A Quick Profile of the Cases in the 5th Edition of Essentials of Strategic Management

		Accompanying video (Y = yes; N = no)	Connect Case Exercise (Y = yes; N = No)	Size: Small (S), Medium (M), Large (L)	The manager's role in crafting strategy	The manager's role in executing strategy	Vision, mission, and objectives	Crafting strategy in single-business companies	Industry and competitive analysis	Company resources and capabilities	Global or multinational strategy	E-business strategy issues	Diversification strategies and the analysis of multi-business corporations	Financial conditions and financial analysis	Staffing, people management, incentives and rewards	Organizational structure, core competencies, competitive capabilities, staffing	Policies, procedures, operating systems, best practices, continuous improvement	Corporate culture issues	Ethics, values, social responsibility	Exerting strategic leadership	Making action recommendations
Case 1	**BillCutterz.com: Business Model, Strategy, and Challenges of Exponential Growth**	Y	Y	S	X	X	X	X		X		X		X	X					X	X
Case 2	**Whole Foods Market in 2014: Vision, Core Values and Strategy**	Y	Y	L	X	X	X	X	X	X				X	X	X	X	X	X	X	X
Case 3	**Apple Inc. in 2015**	N	Y	L	X		X	X	X	X	X	X		X							X
Case 4	**Sirius XM Satellite Radio, Inc. in 2014: On Track to Succeed After a Near Death Experience?**	Y	Y	L	X		X	X	X	X		X		X							X
Case 5	**Panera Bread Company in 2015—What to Do to Rejuvenate the Company's Growth?**	Y	Y	M	X		X	X	X	X				X							X
Case 6	**Vera Bradley in 2015: Can Its Turnaround Strategy Reverse Its Continuing Decline?**	N	Y	M	X			X	X	X		X		X							X
Case 7	**Tesla Motors' Strategy to Revolutionize the Global Automobile Industry**	Y	Y	M	X	X	X	X	X	X				X					X	X	X
Case 8	**Deere & Company in 2015: Striving for Growth in a Weakening Global Agricultural Sector**	Y	Y	L	X			X	X	X	X			X							X
Case 9	**PepsiCo's Diversification Strategy in 2015**	Y	Y	L	X		X		X	X	X		X	X							X
Case 10	**Robin Hood**	N	Y	S	X	X	X		X	X					X	X	X	X	X	X	X
Case 11	**Southwest Airlines in 2014: Culture, Values, and Operating Practices**	Y	Y	L	X	X		X		X	X	X		X	X	X	X	X		X	X
Case 12	**Toms Shoes: A Dedication to Social Responsibility**	Y	Y	S	X	X	X	X	X	X	X						X	X	X		X

Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

The Case Collection in the 5th Edition

The 12-case line-up in this edition is flush with interesting companies and valuable lessons for students in the art and science of crafting and executing strategy.

- There's a good blend of cases from a length perspective—about one-third are under 10 pages, yet offer plenty for students to chew on; about a third are medium-length cases; and the remaining one-third are detail-rich cases that call for more sweeping analysis.
- At least 11 of the 12 cases involve companies, products, or people that students will have heard of, know about from personal experience, or can easily identify with.
- The lineup includes at least on four cases that will provide students with insight into the special demands of competing in industry environments where technological developments are an everyday event, product life cycles are short, and competitive maneuvering among rivals comes fast and furious.
- All of the cases involve situations where company resources and competitive capabilities play as large a role in the strategy-making, strategy-executing scheme of things as industry and competitive conditions do.
- Scattered throughout the lineup are 6 cases concerning non-U.S. companies, globally competitive industries, and/or cross-cultural situations; these cases, in conjunction with the globalized content of the text chapters, provide abundant material for linking the study of strategic management tightly to the ongoing globalization of the world economy.
- Three cases deal with the strategic problems of family-owned or relatively small entrepreneurial businesses.
- Ten cases involve public companies, thus allowing students to do further research on the Internet regarding recent developments at these companies.
- Eight of the 12 cases (BillCutterz.com, Whole Foods, Panera Bread, Tesla, Deere & Co., PepsiCo, Southwest Airlines, and Toms Shoes) have accompanying video segments that are posted on YouTube that can be shown in conjunction with the case discussions. The links to the YouTube videos are included in the teaching notes for the applicable cases.
- All of the 12 cases have accompanying Connect-based case preparation exercises. The exercises are based on the entire set of recommended assignment questions for the respective case and call upon a student to develop thoughtful, analysis-based answers (as opposed to stating seat-of-the-pants opinions).

A grid showing the issues that are prominent in each of the 12 cases in this edition is presented in Table 1.

Suggestions for sequencing the case assignments can be found in Section 3 of this IM. The 9 sample course outlines and schedules of class activities in Section 4 provide further suggestions about the sequencing of case assignments and how to integrate your coverage of the 10 chapters, the various case assignments, and use of a strategy simulation.

Specific details about how to utilize each case (including recommended assignment questions and recommended oral team presentation assignments are contained in the teaching notes for each of the cases (the TNs appear in Section 6).

Sample course syllabi displaying possible case sequencing and suggested case assignments are presented in Section 4 of this volume of the IM.

Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

It is worth mentioning at this juncture that there is a comprehensive table of financial ratios in the Appendix that provides the formulas and brief explanations of what each ratio reveals. Adopters of prior editions have told us that students find this table extremely helpful in guiding their analyses of the financial statements contained in the cases. You will probably want to call this table to the attention of class members and urge that they make full use of the information it contains.

We believe you will find the collection of 12 cases quite appealing, eminently teachable, and very suitable for drilling students in the use of the concepts and analytical treatments in Chapters 1 through 10. With this case lineup, you should have no difficulty whatsoever assigning cases that will capture the interest of students from start to finish.

Value-Adding Student Support Materials for the 5Th Edition of Essentials of Strategic Management

The text and text website include several kinds of support materials to help students grasp the material.

Key Points Summaries At the end of each chapter is a synopsis of the core concepts, analytical tools and other key points discussed in the chapter. These chapter-end synopses help students focus on basic strategy principles, digest the messages of each chapter, and prepare for tests.

***Connect*™ Management Web-based Assignment and Assessment Platform** Connect chapter quizzes, learning assurance exercises, and case exercises can be used as a graded component of the course, an assessment mechanism, or as an effective way to prepare students for chapter exams, in-class discussions of cases, written case assignments or oral case presentations. Whether Connect assignments are calculated into students' grades for the course or not, our robust collection of chapter quizzes, chapter learning assurance exercises, and case preparation exercises will give students valid and timely feedback about their mastery of the concepts and analytical tools presented in the text. All students who purchase a Connect Plus eBook or a new copy of the text are automatically provided access to Connect at no additional charge.

***The Business Strategy Game* and *GLO-BUS* Online Simulations** Using one of the two companion strategy simulations is a powerful and constructive way of emotionally connecting students to the subject matter of the course. We know of no more effective and interesting way to stimulate the competitive energy of students and prepare them for the rigors of real-world business decision-making than to have them match strategic wits with classmates in running a company in head-to-head competition for global market leadership. In Section 2 of this IM, we outline why using a competition-based strategy simulation as a course centerpiece makes great sense and provide you with detailed suggestions for successfully incorporating either *The Business Strategy Game* or *GLO-BUS* in your strategic management course.

Should you decide to incorporate use one of the two simulations in your course, the simplest (and usually the cheapest) way for students to obtain the simulation is via a credit card purchase at www.bsg-online.com (if you opt to use *The Business Strategy Game*) or at www.glo-bus.com (if you opt to use *GLO-BUS*). Purchasing the simulation direct at the web site allows students to bypass paying sometimes hefty bookstore markups (a savings that can amount to $10-$15). The second way for students to register for the simulation is by using a pre-paid access code that comes bundled with the 5th Edition when you order the text-simulation package through your bookstore—this requires use of a separate ISBN (the 5th Edition bundled with either simulation has a different ISBN number than just the 5th Edition ordered alone. Your McGraw-Hill rep can provide you with the correct ISBN for ordering the combination text-simulation package through your bookstore(s).

Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

Lecture Note Chapter 2

Charting a Company's Direction: Vision and Mission, Objectives, and Strategy

Chapter Summary

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

Lecture Outline

I. The Strategy Formulation, Strategy Execution Process

1. Crafting and executing a company's strategy is an ongoing process with five integrated phases:
   a. Developing a strategic vision that charts the company's long-term direction, a mission statement that describes the company's business, and a set of core values to guide the pursuit of the strategic vision and mission.
   b. Setting objectives for measuring the company's performance and tracking its progress in moving in the intended long-term direction.
   c. Crafting a strategy for advancing the company along the path to management's envisioned future and achieving its performance objectives.
   d. Implementing and executing the chosen strategy efficiently and effectively.
   e. Evaluating and analyzing the external environment and the company's internal situation and performance to identify corrective adjustments that are needed in the company's long-term direction, objectives, strategy, or approach to strategy execution.
2. **Figure 2.1, The Strategy Formulation, Strategy Execution Process,** displays this five-stage process, and the need for management to evaluate the company's performance on an ongoing basis.
3. **Table 2.1**, **Factors Shaping Decisions in the Strategy Formulation, Strategy Execution Process**, exhibits the external and internal considerations that come into play in the strategic management process.
4. The evaluation stage of the strategic management process shown in Figure 2.1 also allows for a change in the company's vision when it becomes evident to management that the industry has changed and rendered its vision obsolete. Such occasions can be referred to as **strategic inflection points**.
5. The first three stages of the strategic management process make up a strategic plan.

Essentials of Strategic Management The Quest for Competitive Advantage 5th edition Gamble Solutions Manual

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

A. The Vision Statement

1. Top management's views about the company's direction and future product-customer-market-technology focus are shaped by its views of the external industry and competitive environment and the internal situation and constitute a strategic vision for the company.

2. Well-conceived visions are *distinctive* and *specific* to a particular organization; they avoid generic, feel-good statements. A clearly articulated strategic vision communicates management's aspirations to stakeholders about "where we are going" and helps steer the energies of company personnel in a common direction.

3. For a strategic vision to function as a valuable managerial tool, it must provide understanding of what management wants its business to look like and provide managers with a reference point in making strategic decisions.

CORE CONCEPT

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

4. **Table 2.2, Characteristics of an Effectively Worded Vision Statement**, lists some characteristics of effective vision statements. For a strategic vision to function as a valuable managerial tool, it must provide understanding of what management wants its business to look like and provide managers with a reference point in making strategic decisions.

5. **Table 2.3, Common Shortcomings in Company Vision Statements**, provides a list of the most common shortcomings in company vision statements.

6. The Importance of Communicating the Strategic Vision

   a. A strategic vision has little value to the organization unless it's effectively communicated down the line to lower-level managers and employees.

   b. One effective method is to expressing the essence of the vision in a slogan.

   c. A well-thought-out, forcefully communicated strategic vision pays off in several respects:

      (1) Crystallizes senior executives' own views about the firm's long-term direction

      (2) Reduces the risk of rudderless decision making by management at all levels

      (3) Is a tool for winning the support of employees to help make the vision a reality?

      (4) Provides a beacon for lower-level managers in forming departmental missions

      (5) Helps an organization prepare for the future

7. An effectively communicated vision is a valuable management tool for enlisting the commitment of company personnel to engage in actions that move the company in the intended direction.

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Concepts & Connections 2.1

Examples of Strategic Visions – How Well Do They Measure Up?

Discussion Question: Are any of the Strategic Visions truly effective? Why or why not? What changes would you make to them?

Answer: Table 2.3 provides most of the answers. For example, UBS has an uninspiring vision statement. It fails to motivate personnel or to inspire shareholders and is not forward looking. Coca-Cola's vision statement is focused but is too long and is not forward looking. Of the group presented, the vision statement from Procter & Gamble seems to be the most effective. While it does have several shortcomings, it is flexible, directional, and forward looking. These three offset the broad nature of the statement.

B. Developing a Company Mission Statement

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

2. Ideally, a company's mission statement is sufficiently descriptive to:

   a. Identify the company's products or services.

   b. Specify the buyer needs it seeks to satisfy.

   c. Specify the customer groups or markets it is endeavoring to serve.

   d. Specify its approach to pleasing customers.

   e. Give the company its own identity.

CORE CONCEPT

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

3. Occasionally, companies state that their mission is to simply earn a profit. This is misguided – Profit is more correctly an *objective* and a *result* of what a company does.

C. Linking the Vision/Mission with Company Values

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

2. Company values statements tend to contain between four and eight values, which ideally, are tightly connected to and reinforce the company's vision, strategy, and operating practices.

3. The extent to which company values translate into actually living the values varies widely:

   a. At one extreme are companies with window-dressing values; the professed values are given lip service by top executives but have little discernible impact on either how company personnel behave or how the company operates.

CORE CONCEPT

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

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b. At the other extreme are companies whose executives are committed to grounding company operations on sound values and principled ways of doing business. Executives at these companies deliberately seek to ingrain the designated core values into the corporate culture—the core values thus become an integral part of the company's DNA and what makes it tick.

Concepts & Connections 2.2

Patagonia, Inc.: A Values-Driven Company

Discussion Question: Patagonia states in its mission statement that it builds the best products, causes no unnecessary harm, and uses business to inspire and implement solutions to the environmental crisis. How are these core values expressed in the operations of the firm?

Answer: Patagonia operationalizes its values in key areas of the operation:

- Routinely, the company opts for more expensive materials and labor to maintain internal consistency with the mission.
- Patagonia holds its manufacturers accountable through a variety of auditing partnerships and alliances.
- The company uses sustainable and recyclable materials which are ethically procured.
- The company has established foundations to support ecological causes, even giving 1 percent of profits to conservation causes.

III. Stage 2: Setting Objectives

A. The Purpose of Setting Objectives

1. The managerial purpose of setting ***objectives*** is to convert the strategic vision into specific performance targets.

CORE CONCEPT

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

2. What Kinds of Objectives to Set – Two very distinctive types of performance yardsticks are required:

   a. Those relating to financial performance

   b. Those relating to strategic performance

CORE CONCEPT

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

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

3. Achieving acceptable financial results is a must. Without adequate profitability and financial strength, a company's pursuit of its strategic vision, as well as its long-term health and ultimate survival, is jeopardized.

4. As a result of often competing objectives, utilizing a performance measurement system that strikes a *balance* between financial objectives and strategic objectives is optimal. This Balanced Scorecard approach is illustrated in **Table 2.4 The Balanced Scorecard Approach to Performance Management.**

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

CORE CONCEPT

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

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

Concepts & Connections 2.3

Examples of Company Objectives

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

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

Discussion Question: 2. What are some specific examples that are included in the Capsule?

Answer: Each of these companies has clearly stated what the company intends to do in specific terms:

- UPS – Increase percentage of business to consumer package deliveries... Increase intra-regional export shipments from...
- Alcoa – Increase revenues from higher margin aero/defense and transportation aluminum products from... Increase automotive sheet shipments from ...
- Yum Brands – Add 1,000 new Taco Bell units in the U.S. by 2020. Increase Taco Bell revenues from... Expand the number of Pizza Hut locations in China by...

IV. Stage 3: Crafting a Strategy

1. Strategy formulation should involve managers at all organizational levels.
2. In most companies, crafting strategy is a *collaborative team effort* that includes managers in various positions and at various organizational levels. Crafting strategy is rarely something only high-level executives do.
3. A Company's Strategy Making Hierarchy – The larger and more diverse the operations of an enterprise, the more points of strategic initiative it will have and the more managers at different organizational levels will have a relevant strategy-making role. Figure 2.2, A Company's Strategy Making Hierarchy illustrates this concept.

CORE CONCEPT

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

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

   a. Corporate strategy establishes an overall game plan for managing a set of businesses in a diversified, multi-business company.
   b. Business strategy is primarily concerned with strengthening the company's market position and building competitive advantage in a single business company or a single business unit of a diversified multi-business corporation.
   c. Functional-area strategies concern the actions related to particular functions or processes within a business.
   d. Operating strategies concern the relatively narrow strategic initiatives and approaches for managing key operating units.

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V. Stage 4: Implementing and Executing the Chosen Strategy

1. Easily, the most time demanding and consuming part is managing the implementation and execution of the strategy-management process.

2. In most situations, managing the strategy-execution process includes the following principal aspects:

   a. Staffing the organization with the needed skills and expertise

   b. Allocating ample resources to activities critical to good strategy execution.

   c. Ensuring that policies and operating procedures facilitate rather than impede effective execution

   d. Installing information and operating systems that enable company personnel to perform essential activities.

   e. Pushing for continuous improvement in how value chain activities are performed.

   f. Tying rewards and incentives directly to the achievement of performance objectives.

   g. Creating a company culture and work climate conducive to successful strategy implementation and execution

   h. Exerting the internal leadership needed to propel implementation forward.

VI. Stage 5: Evaluating Performance and Initiating Corrective Adjustments

1. The fifth phase of the strategy-management process – monitoring new external developments, evaluating the company's progress, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company vision, objectives, strategy, and/or strategy-execution methods.

2. Successful strategy execution entails vigilantly searching for ways to continuously improve and then making corrective adjustments whenever and wherever it is useful to do so.

3. A company's vision, objectives, strategy, and approach to strategy execution are never final; managing strategy is an ongoing process, not an every-now-and-then task.

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

1. Although senior managers have lead responsibility for crafting and executing a company's strategy, it is the duty of the board of directors to exercise strong oversight and see that the five tasks of strategic management are done in a manner that benefits shareholders, in the case of investor-owned enterprises, or stakeholders, in the case of not-for-profit organizations.

2. The board of directors share four important corporate governance obligations:

   a. Oversee the company's financial accounting and financial reporting practices.

   b. Diligently critique and oversee the company's direction, strategy, and business approaches.

   c. Evaluate the caliber of senior executives' strategy-formulation and strategy-execution skills.

   d. Institute a compensation plan for top executives that rewards them for actions and results that serve shareholder interests

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Concepts & Connections 2.4

Corporate Governance Failures at Fannie Mae and Freddie Mac

Discussion Question: What was the result of failed Corporate Governance at government sponsored mortgage giants Fannie Mae and Freddie Mac? Why did governance fail?

Answer: The result of failed governance was a failure to understand the risks of the subprime mortgage strategies. Decisions were not adequately monitored. Poor governance allowed for manipulation of financial data and the use of improper accounting procedures which overstated financial performance. Fannie Mae executives had fraudulently inflated earnings to receive bonuses linked to financial performance. Governance failed because the politically appointed boards didn't have the knowledge to understand what was happening, and did not adequately monitor managers, particularly the CEO.

Assurance of Learning Exercises

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

   Response:

   The student should develop a table similar to the following:

Company Name	Effective Elements	Shortcomings
American Express	• Easy to Communicate • Feasible • Easy to communicate	• Vague • Not distinctive
Hilton Hotels Corporation	• Directional • Focused • Feasible • Desirable	• Not forward-looking • Not distinctive
BASF	• Directional • Focused • Desirable	• Not forward looking

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

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

   Response:

   The student should identify objectives similar to the following:

   Starbucks, From their 2014 Annual Letter to Shareholders

   > Focus on food, premium single-cup, ready-to-drink coffee, and tea as enormous growth opportunities (Strategic)

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Grow to nearly $30 billion in revenue over the next five years (Financial)

Grow to 30,000-plus stores globally over the next five years (Strategic)

Double our annual operating income over the next five years (Financial)

Salesforce, From their 2015 Annual Report:

Offer multiple versions of business solutions at different price points to target wider range of customers (Strategic)

Focus expansion into high growth markets including marketing, communities, business intelligence, and cloud platforms (Strategic)

Salesforce, From their Fiscal 2016 First Quarter Results:

Increase revenue to $6.55 Billion for Fiscal 2016 (Financial)

Increase EPS to $0.17 to $0.18 for Fiscal 2016 (Financial)

Pfizer, From their 2013 2nd Quarter Report:

Plans to repurchase in the mid-teens of billions of dollars of our common stock in 2013 leveraging strong operating cash flow and proceeds generated from portfolio actions (Financial).

Accelerated growth (high-single-digit percentage) in revenue in emerging markets in the second half of 2013, along with overall operational revenue growth (mid-single-digit percentage) for 2013 (Financial).

Expand the therapeutic use of an existing drug Xeljanz, to include inhibition of progression of structural damage with an FDA decision by February 2014 (Strategic).

Move forward with plans to internally separate its commercial operations into three business segments, two of which will include Innovative business lines and a third which will include the Value business line (Strategic).

3. American Airlines' Chapter 11 reorganization plan filed in 2012 involved the company reducing operating expenses by $2 billion, while increasing revenues by $1 billion. The company's strategy to increase revenues included expanding the number of international flights and destinations and increasing daily departures for its five largest markets by 20 percent. The company also intended to upgrade its fleet by spending $2 billion to purchase new aircraft and refurbish the first-class cabins for planes not replaced. A final component of the restructuring plan included a merger with US Airways to create a global airline with more than 56,700 daily flights to 336 destinations in 56 countries. The merger was expected to produce cost savings from synergies of more than $1 billion and result in a stronger airline capable of paying creditors and rewarding employees and shareholders. Explain why the strategic initiatives at various organizational levels and functions require tight coordination to achieve the results desired by American Airlines.

Response:

The student should identify that company objectives need to be broken down into performance targets for each of the organization's separate businesses, product lines, functional departments, and individual work units, employees within various functional departments, and individual work units. This is because the larger and more diverse the operations of an enterprise, the more points of strategic initiative it will have and the more managers at different organizational levels will have a relevant strategy-making role. This is illustrated in figure 2.2, A Company's Strategy Making Hierarchy.

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A careful examination of the narrative on American Airlines Chapter 11 reorganization strategy provides such an example:

> Corporate Objectives – Increase revenue by $1 billion while reducing expenses by $2 billion
>
> Operational Objective – Expand international flights, destinations, and daily departures in the five largest markets
>
> Operational Objective – Upgrade fleet with $2 billion in refurbishment and new aircraft purchases.
>
> Operational Objective – Complete merger with US Airways to create a global airline with 56,700 daily flights to 336 destinations in 56 countries while saving $1 billion in costs.

The student should point out that the overall corporate objectives for revenue and cost control (thereby profit) cannot be fully realized if the operational objectives are not achieved. Further, the operational objectives are interrelated in that they rely on each other for success.

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

   Response:

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

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

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

   - Open Door: Our management believes open communication is critical to understanding and meeting our associates' and our customers' needs. Associates can trust and rely on the open door; it's one of the most important parts of our culture.
   - Sundown Rule: Observing the Sundown Rule means we do our best to answer requests by the close of business on the day we receive them. Whether it's a request from a store across the country or a call from down the hall, we do our very best to give each other and our customers same-day service. We do this by combining our efforts and depending upon each other to get things done.

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- Grass Roots Process: Sam's philosophy lives on today in Walmart's Grass Roots Process, our formal way of capturing associates' ideas, suggestions and concerns.
- 3 Basic Beliefs & Values: Our unique culture has helped make Walmart one of the world's most admired companies. Since Sam Walton opened Walmart in 1962, our culture has rested on three basic beliefs. We live out these beliefs each day in our interactions with our customers and each other.
- 10-Foot Rule: The 10-foot Rule is one of our secrets to customer service. During his many store visits, Sam Walton encouraged associates (employees) to take this pledge with him: "I promise that whenever I come within 10 feet of a customer, I will look him in the eye, greet him, and ask if I can help him."
- Servant Leadership: Sam Walton believed that effective leaders do not lead from behind their desks. "It's more important than ever that we develop leaders who are servants, who listen to their partners – their associates – in a way that creates wonderful morale to help the whole team accomplish an overall goal," Sam said.
- Teamwork: Sam Walton, our founder, believed in the power of teamwork. As our stores grow and the pace of modern life quickens, that philosophy of teamwork has only become more important over the years.
- Walmart Cheer: Don't be surprised if you hear our associates shouting this enthusiastically at your local Walmart store. It's our cheer, and while it might not sound serious, we take it seriously. It's one way we show pride in our company.

5. Based on the information provided in Concepts & Connections 2.4, explain how corporate governance at Freddie Mac failed the enterprise's shareholders and other stakeholders. Which important obligations to shareholders were fulfilled by Fannie Mae's board of directors? What is your assessment of how well Fannie Mae's compensation committee handled executive compensation at the government-sponsored mortgage giant?

   Response:

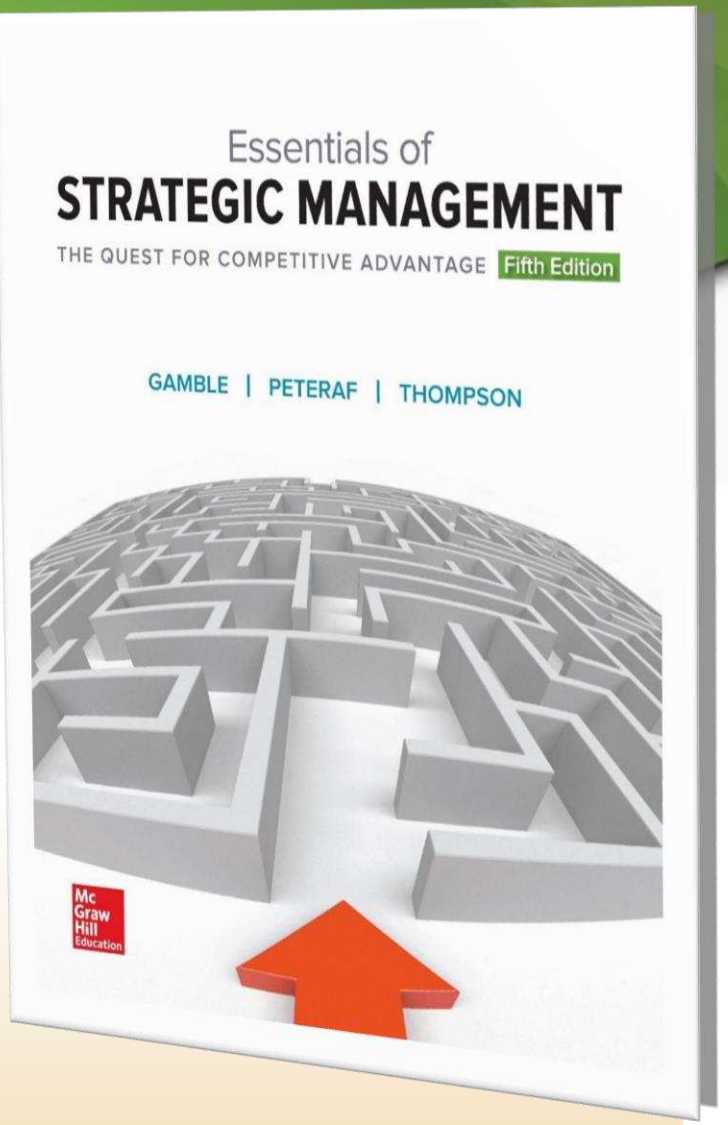
   The student should be able to provide an exhaustive list of failures of the Board of Directors. Leading failures resulting in the financial collapse include:

   - It was a politically appointed board
   - The Board did not understand the financial risks associated with the business strategy
   - The Board did not monitor the decisions of the CEO
   - The Board did not exercise effective oversight of the accounting principles employed which allowed executives to manipulate earnings statements
   - The Board approved an excessive compensation plan that allowed executives to gain performance bonuses based upon the manipulated earnings

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CHAPTER
2

Strategy Formulation, Execution, and Governance



PowerPoint Presentation by Charlie Cook

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LEARNING OBJECTIVES

LO1 Grasp why it is critical for company managers to have a clear strategic vision of where a company needs to head and why.

LO2 Understand the importance of setting both strategic and financial objectives.

LO3 Understand why the strategic initiatives taken at various organizational levels must be tightly coordinated to achieve companywide performance targets.

LO4 Learn what a company must do to achieve operating excellence and to execute its strategy proficiently.

LO5 Become aware of the role and responsibility of a company's board of directors in overseeing the strategic management process.

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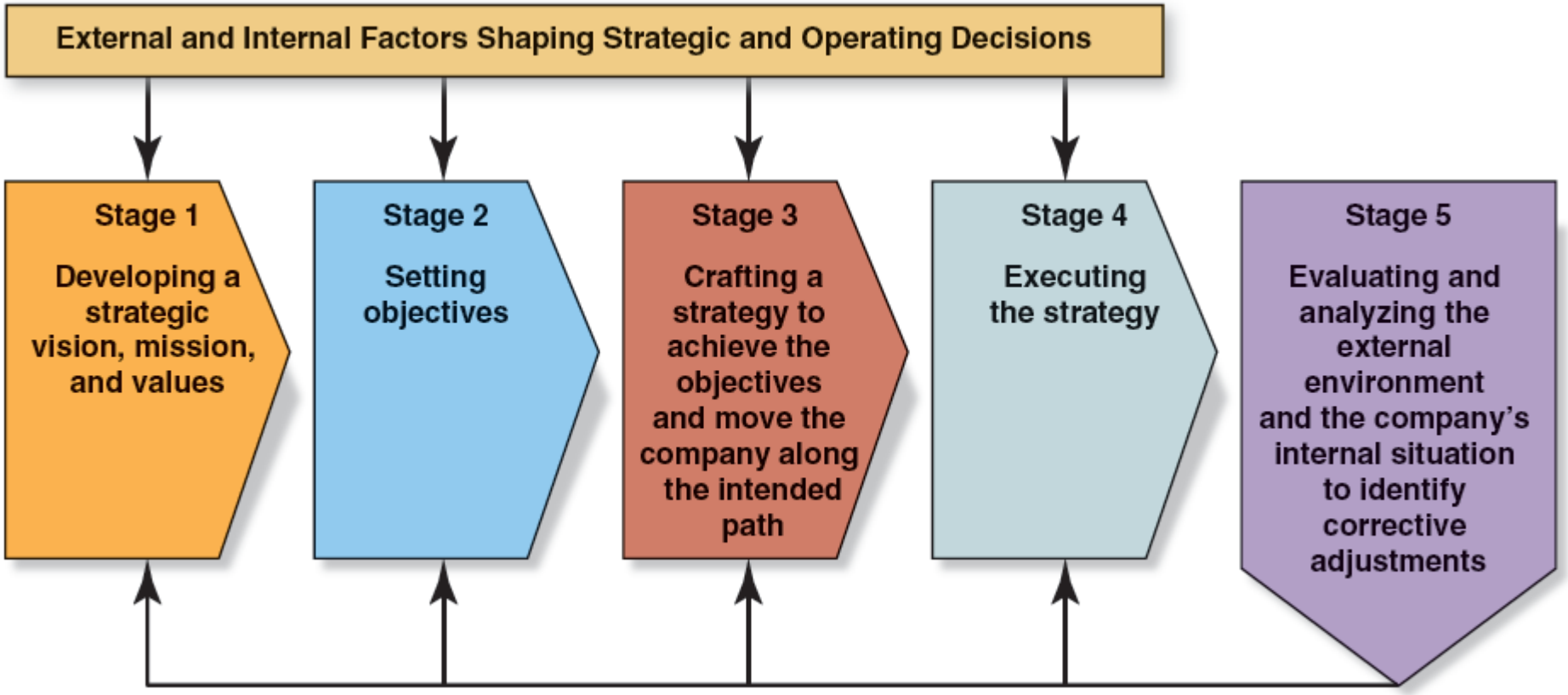
What Does the Strategy-Making, Strategy-Executing Process Entail?

1. Developing a strategic vision
2. Setting objectives
3. Crafting a strategy
4. Implementing and executing the chosen strategy
5. Monitoring developments, evaluating performance, and initiating corrective adjustments

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FIGURE 2.1 The Strategy Formulation, Strategy Execution Process



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TABLE 2.1 Factors Shaping Decisions in the Strategy Formulation, Strategy Execution Process

External Considerations	Internal Considerations
Does sticking with the company's present strategic course present attractive opportunities for growth and profitability?	Does the company have an appealing customer value proposition?
What kind of competitive forces are industry members facing and are they acting to enhance or weaken the company's prospects for growth and profitability?	What are the company's competitively important resources and capabilities and are they potent enough to produce a sustainable competitive advantage?
What factors are driving industry change and what impact on the company's prospects will they have?	Does the company have sufficient business and competitive strength to seize market opportunities and nullify external threats?
How are industry rivals positioned and what strategic moves are they likely to make next?	Are the company's costs competitive with those of key rivals?
What are the key factors of future competitive success and does the industry offer good prospects for attractive profits for companies possessing those capabilities?	Is the company competitively stronger or weaker than key rivals?

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CORE CONCEPT

A company's **strategic** plan lays out its future direction, performance targets, and strategy.

A **strategic inflection point** occurs when significant changes in an industry require that management must evaluate the risks of changing the company's future direction rather than staying on its established course.

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

- **Strategic Vision**
  - Is top management's view of "where we are going"—the firm's direction and its future product-market-customer-technology focus to stakeholders.
  - Is *distinctive* and *specific* to a particular organization.
  - Avoids use of generic, innocuous, and uninspiring language that could apply to most any firm.
  - Definitively states how the company's leaders intend to position the firm *beyond* where it is today.

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CORE CONCEPT

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

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TABLE 2.2 Characteristics of Effectively Worded Vision Statements

Graphic	Paints a picture of the kind of company that management is trying to create and the market position(s) the company is striving to stake out.
Directional	Is forward looking; describes the strategic course that management has charted and the kinds of product-market-customer-technology changes that will help the company prepare for the future.
Focused	Is specific enough to provide managers with guidance in making decisions and allocating resources.
Flexible	Is not so focused that it makes it difficult for management to adjust to changing circumstances in markets, customer preferences, or technology.
Feasible	Is within the realm of what the company can reasonably expect to achieve.
Desirable	Indicates why the directional path makes good business sense.
Easy to communicate	Is explainable in 5 to 10 minutes and, ideally, can be reduced to a simple, memorable “slogan”

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TABLE 2.3 Common Shortcomings in Company Vision Statements

Vague or incomplete	Short on specifics about where the company is headed or what the company is doing to prepare for the future.
Not forward looking	Doesn't indicate whether or how management intends to alter the company's current product-market-customer-technology focus.
Too broad	So all-inclusive that the company could head in most any direction, pursue most any opportunity, or enter most any business.
Bland or uninspiring	Lacks the power to motivate company personnel or inspire shareholder confidence about the company's direction.
Not distinctive	Provides no unique company identity; could apply to firms in any of several industries (including rivals operating in the same market arena).
Too reliant on superlatives	Doesn't say anything specific about the company's strategic course beyond the pursuit of such distinctions as being a recognized leader, a global or worldwide leader, or the first choice of customers.

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The Importance of Communicating the Strategic Vision

- **An engaging, inspirational vision**
  - Provides direction and energizes employees
  - Makes the organization's case for "where we are going and why"
  - Evokes positive support and excitement
  - Enlists the commitment of company personnel to engage in actions that move the company in its intended direction

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Expressing the Essence of the Vision in a Slogan

- **Nike**
  - *To bring innovation and inspiration to every athlete in the world.*
- **The Mayo Clinic**
  - *The best care to every patient every day*
- **Greenpeace**
  - *To halt environmental abuse and promote environmental solutions.*

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Why a Sound, Well-Communicated Strategic Vision Matters

1. It crystallizes senior executives' own views about the firm's long-term direction.
2. It reduces the risk of rudderless decision making by management at all levels.
3. It is a tool for winning the support of employees to help make the vision a reality.
4. It provides a beacon for lower-level managers in forming departmental missions.
5. It helps an organization prepare for the future.

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Strategic Vision versus Mission Statement

- **A strategic vision concerns a firm's *future* business path—"where we are going"**
  - Markets to be pursued
  - Future product/ market/customer/ technology focus
- **The mission statement of a firm focuses on its *present* business purpose—"who we are and what we do"**
  - Current product and service offerings
  - Customer needs being served

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Developing a Company Mission Statement

- **Ideally, a company mission statement is sufficiently descriptive to:**
  - Identify the company's products or services.
  - Specify the buyer needs it seeks to satisfy.
  - Specify the customer groups or markets it is endeavoring to serve.
  - Specify its approach to pleasing customers.
  - Give the company its own identity.

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CORE CONCEPT

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

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Example of a Mission Statement



The mission of Trader Joe's is to give our customers the best food and beverage values that they can find anywhere and to provide them with the information required for informed buying decisions. We provide these with a dedication to the highest quality of customer satisfaction delivered with a sense of warmth, friendliness, fun, individual pride, and company spirit.

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Strategic Mission, Vision and Profit

- **Occasionally, companies state that their mission is to simply *earn a profit*.**
- **Profit is more correctly an *objective* and a *result* of what a firm does.**
  - Profit is the obvious intent of every commercial enterprise.
- **Profit is not *"who we are and what we do."***

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Linking the Strategic Vision and Mission with Company Values

- **Values**
  - Provide guidance for desired actions and behaviors of employees as they conduct the company's business.

- Fair treatment
- Honor and integrity
- Ethical behavior
- Innovativeness
- Teamwork
- A passion for excellence
- Social responsibility
- Community citizenship

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CORE CONCEPT

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

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Stage 2: Setting Objectives (1 of 3)

- **Managerial Purpose in Setting Objectives**
  - To convert the strategic vision into specific performance targets
  - To create yardsticks to track progress and measure performance
- **Managerially Valuable Objectives**
  - Are well-stated (clearly worded).
  - Are challenging, yet achievable such that they stretch the organization to perform at its full potential.
  - Are quantifiable (measurable).
  - Contain a specific deadline for achievement.

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Stage 2: Setting Objectives (2 of 3)

- **What Kinds of Objectives to Set**
  - **Financial objectives**
    - Communicate management's targets for financial performance.
    - Are ***lagging indicators*** that reflect the results of past decisions and organizational activities.
    - Relate to revenue growth, profitability, and return on investment.

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Stage 2: Setting Objectives (3 of 3)

- **What Kinds of Objectives to Set (cont'd)**
  - **Strategic objectives**
    - Are related to a firm's marketing standing and competitive vitality.
    - Are ***leading indicators*** of a firm's future financial performance and business prospects.
    - If achieved, indicate that a firm's future financial performance will be better than its current or past performance.

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Core Concept

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

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

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

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CORE CONCEPT

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

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TABLE 2.4 The Balanced Scorecard Approach to Performance Measurement

Financial Objectives	Strategic Objectives	
• An *x* percent increase in annual revenues • Annual increases in earnings per share of *x* percent • An *x* percent return on capital employed (ROCE) or shareholder investment (ROE) • Bond and credit ratings of *x* • Internal cash flows of *x* to fund new capital investment	• Win an *x* percent market share • Achieve customer satisfaction rates of *x* percent • Achieve a customer retention rate of *x* percent • Acquire *x* number of new customers • Introduce *x* number of new products in the next three years • Reduce product development times to *x* months	• Increase the percentage of sales coming from new products to *x* percent • Improve information systems capabilities to give frontline managers defect information in *x* minutes • Improve teamwork by increasing the number of projects involving more than one business unit to *x*

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Examples of Financial Objectives

- An x percent increase in annual revenues
- Annual increases in earnings per share of *x* percent
- An *x* percent return on capital employed (ROCE) or shareholder investment (ROE)
- Bond and credit ratings of *x*
- Internal cash flows of *x* to fund new capital investment

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Examples of Strategic Objectives

- Win an *x* percent market share
- Achieve customer satisfaction rates of *x* percent
- Achieve a customer retention rate of *x* percent
- Acquire *x* number of new customers
- Introduce *x* number of new products in the ne*x*t three years
- Reduce product development times to *x* months
- Increase percentage of sales coming from new products to *x* percent
- Improve information systems capabilities to give frontline managers defect information in *x* minutes
- Improve teamwork by increasing the number of projects involving more than one business unit to *x*

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Short-Term and Long-Term Objectives

- **Short-term Objectives**
  - Are targets to be achieved soon.
  - Represent milestones or stair steps for reaching long-range performance.
- **Long-term Objectives**
  - Are targets to be achieved within 3 to 5 years

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The Need for Objectives at *All* Organizational Levels

- **Objectives are needed at all levels**
  1. To set business-level objectives
  2. To set establish functional-area objectives
  3. To set operating-level objectives
- **Long-term objectives take precedence over short-term objectives**

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Stage 3: Crafting a Strategy

- **Crafting a strategy means asking:**
  - ***how*** to attract and please customers
  - ***how*** to compete against rivals
  - ***how*** to position the firm in the marketplace and capitalize on attractive opportunities to grow the business
  - ***how*** best to respond to changing economic and market conditions
  - ***how*** to manage each functional piece of the business
  - ***how*** to achieve the firm's performance targets

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Strategy Formulation Involves Managers at All Organizational Levels

In most firms, crafting strategy is a collaborative team effort that includes managers in various positions and at various organizational levels. Crafting strategy is rarely something only high-level executives do.

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A Company's Strategy-Making Hierarchy

- **A firm's strategy is a collection of initiatives undertaken by managers at all levels in the organizational hierarchy.**
- **Crafting strategy is a collaborative effort that:**
  - Involves managers from various levels of the organization.
  - Rarely involves only high-level executives
  - Requires choosing among the various strategic alternatives.

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CORE CONCEPT

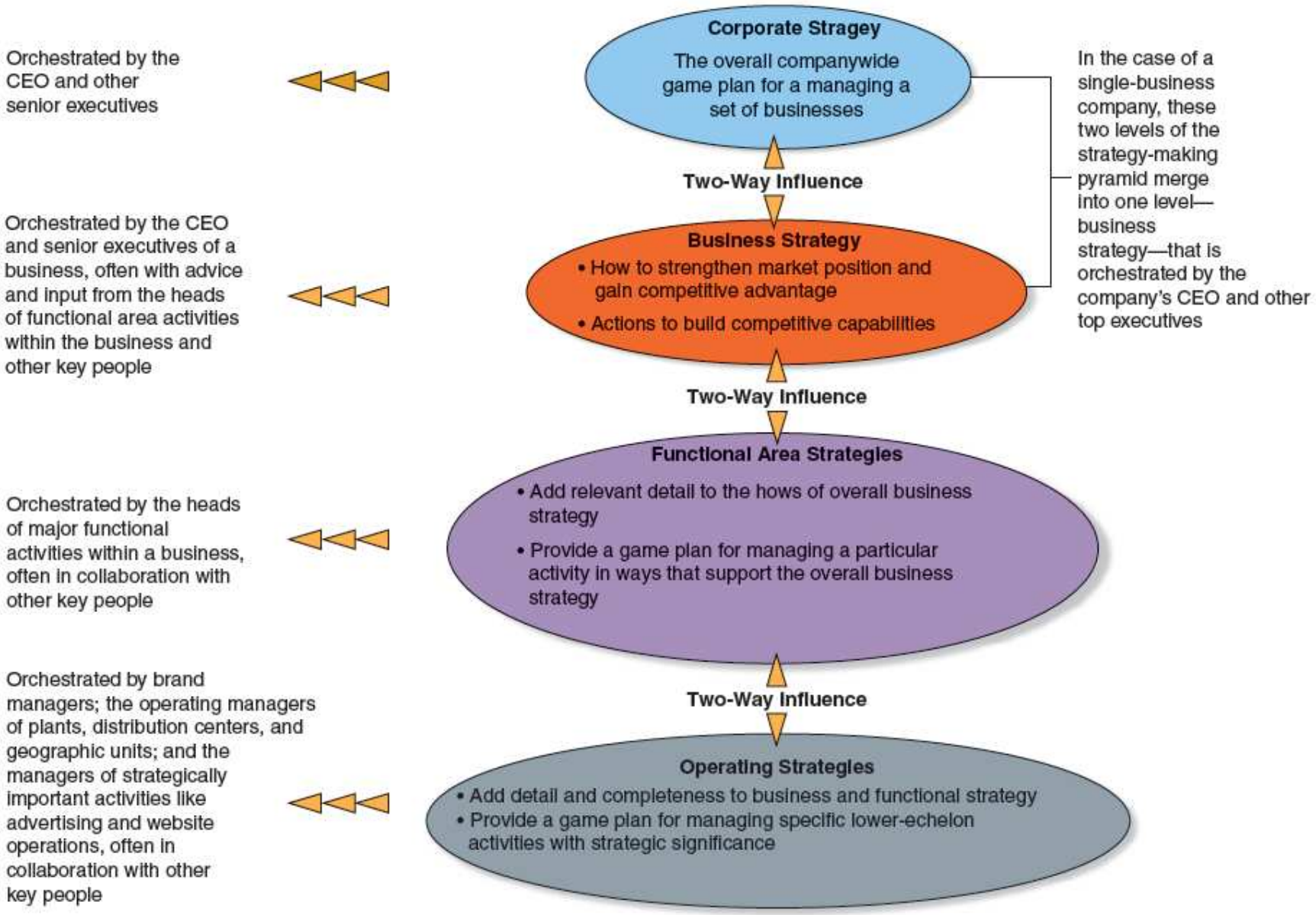
Corporate strategy establishes an overall game plan for managing a *set of businesses* in a diversified, multibusiness company.

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

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FIGURE 2.2 A Company's Strategy-Making Hierarchy



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The Strategy-Making Hierarchy

Corporate strategy	• Is orchestrated by the CEO and other senior executives and establishes an overall game plan for managing a set of businesses in a diversified, multibusiness company. • Addresses the questions of how to capture cross-business synergies, what businesses to hold or divest, which new markets to enter, and how to best enter new markets—by acquisition, creation of a strategic alliance, or through internal development.
Business strategy	• Is primarily concerned with building competitive advantage in a single business unit of a diversified company or strengthening the market position of a nondiversified single business company.
Functional-area strategies	• Are concerned with actions related to particular functions or processes within a business (marketing strategy, production strategy, finance strategy, customer service strategy, product development strategy, and human resources strategy).
Operating strategies	• Are relatively narrow strategic initiatives and approaches for managing key operating units (plants, distribution centers, geographic units) and specific operating activities such as materials purchasing or Internet sales.

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Stage 4: Implementing and Executing the Chosen Strategy (1 of 2)

- **Managing the strategy execution process involves:**
  - Staffing the organization to provide needed skills and expertise.
  - Allocating ample resources to activities critical to good strategy execution.
  - Ensuring that policies and procedures facilitate rather than impede effective execution.
  - Installing information and operating systems that enable personnel to perform essential activities.

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Stage 4: Implementing and Executing the Chosen Strategy (2 of 2)

- **Managing the strategy execution process involves:**
  - Pushing for continuous improvement in how value chain activities are performed.
  - Tying rewards and incentives directly to the achievement of performance objectives.
  - Creating a company culture and work climate conducive to successful strategy execution.
  - Exerting the internal leadership needed to propel implementation forward.

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Stage 5: Evaluating Performance and Initiating Corrective Adjustments

- **Deciding if there is a need for change:**
  - Monitoring for disruptive developments
  - Evaluating the firm's recent performance
  - Making corrective adjustments to strategy
- **Strategy execution is an ongoing and uneven process of organizational learning**
  - A firm's vision, objectives, strategy, and approach to strategy execution are never final.

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Corporate Governance: The Role of the Board Of Directors

- **The Role of the Board Of Directors in the Strategy-Formulation, Strategy-Execution Process:**

1. Oversee the firm's financial accounting and reporting practices.
2. Diligently critique and oversee the company's direction, strategy, and business approaches.
3. Evaluate the caliber of senior executives' strategy-making and strategy-executing skills.
4. Institute a compensation plan for top executives that rewards them for actions and results that serve shareholder interests.

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Strong Boards Lead to Good Corporate Governance

- **A Strong, Independent Board of Directors:**
  1. Is well informed about the company's performance.
  2. Guides and judges the CEO and other top executives.
  3. Has the courage to curb management actions it believes are inappropriate or unduly risky.
  4. Certifies to shareholders that the CEO is doing what the board expects.
  5. Provides insight and advice to management.
  6. Is intensely involved in debating the pros and cons of key decisions and actions.

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