Mastering Strategic Management v4 1st edition Ketchen Solutions Manual

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Chapter 1

Mastering Strategy: Art and Science

Introduction

Learning Objectives

After reading this chapter, students should be able to understand and articulate answers to the following questions:

1. What are strategic management and strategy?
2. Why does strategic management matter?
3. What elements determine company performance?

Plugging in to Strategic Management Challenges at Tesla

- 2020 proved to be a critical year in the development of electric car manufacturer Tesla, Inc.
- On the brink of bankruptcy just a decade earlier, Tesla announced they hit their goal of producing 500,000 cars in 2020. This production was a leap forward from just a few years ago in 2017 when tens of thousands of individuals paid a $1,000 deposit to reserve their option to purchase the automobile touted by some as, “The most important electric car ever built.”
- Tesla’s managers face a number of challenges as they aspire to lead the charge into a gasoline-free future.

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- Learning how to adapt and compete in dynamic markets such as this one is a key challenge within strategic management.
- As 2025 unfolded, Tesla faced significant challenges, reporting a 71% drop in first quarter net income amid declining sales in Europe and intensified competition from Chinese EV makers.
- Your study of strategic management will help you to critically examine and answer the kinds of challenges faced by Tesla and other companies who compete in an ever-changing competitive environment.

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1. Defining Strategic Management and Strategy

Learning Objectives

1. Learn what strategic management is.
2. Understand the key question addressed by strategic management.
3. Understand why it is valuable to consider different definitions of strategy.
4. Learn what is meant by each of the 5 Ps of strategy.

Teaching Suggestions

1. In the course of discussing this section, the instructor can discuss the examples of Apple, Kmart, and Old Navy in detail.
2. The instructor can ask the students to discuss an incidence in their life where they followed a set strategy to successfully achieve required results.

Section Notes

- **Strategic management** helps answer the key question: "Why do some companies outperform other companies?"
    - Examines how actions and events involving top executives, companies, and industries influence a company's success or failure.
    - Formal tools exist for understanding these relationships.
    - Creativity is just as important to strategic management.
    - Mastering strategy is part art and part science.
- Strategy is a complex concept that involves many different processes and activities within an organization.
    - Professor Henry Mintzberg articulated what he labeled as the "5 Ps of strategy."
    - "The 5 Ps of strategy" involve understanding the importance of how strategy can be viewed as a plan, ploy, position, pattern, and perspective.
    - However, none of these views alone are sufficient to master the concept of

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strategy.

- **Strategic plans** are the essence of strategy according to one classic view of strategy.
    - A strategic plan is a carefully crafted set of steps that a company intends to follow in order to be successful.
        - Virtually every organization creates a strategic plan to guide its future.
    - A **business model** should be a central element of a company's strategic plan.
        - Describes the process through which a company hopes to earn profits.
        - Requires that a company sell goods or services for more than it costs the companies to create and distribute those goods.
        - Provides customers with a good or service more cheaply than they can create it themselves.
        - When companies buy their ingredients in massive quantities, they pay far less for these items than any family could (an advantage called **economies of scale**).
- Strategic plans are important to individuals too.
    - Maintaining flexibility is wise for individuals planning their career strategies as well as for companies.
- For companies, unexpected twists and turns place limits on the value of strategic planning.
    - Strategy after unexpected twists and turns is less about a plan and more about making adjustments to a shifting situation.
    - For companies, changes in the behavior of competitors, customers, suppliers, regulators, and other external groups can all be sources of a metaphorical punch in the face.
    - As events unfold around a company, its strategic plan may reflect a competitive reality that no longer exists.
- A second way to view strategy is in terms of ploys.

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- A **strategic ploy** is a specific move designed to outwit or trick competitors.
- Ploys often involve using creativity to enhance success.
- Ploys can be especially beneficial when facing much stronger opponents.
- Some ploys are legal, but have questionable ethics.

- **Strategy as pattern** is a third way to view strategy.
  - This view focuses on the extent to which a company's actions over time are consistent.
  - A very consistent pattern can make a company predictable.
- Viewing strategy as a plan, ploy, and a pattern involve only the actions of a single company.
- In contrast, the next P—**strategy as position**—considers a company and its competitors.
  - Refers to a company's place in the industry relative to its competitors.
  - Companies can carve out a position by performing certain activities in a different manner than their rivals.
  - Positioning a company can be accomplished through managers, who make trade-offs that cut off certain possibilities, thus placing their companies in a unique strategic space.
  - When companies position themselves through unique goods and services customers value, business often thrives.
  - But when companies try to please everyone, they often find themselves without the competitive positioning needed for long-term success.
  - Companies sometimes change positions in search of greater competitive advantage and success, but this can be a risky move.
- The fifth and final, P—**strategy as perspective**—refers to how executives interpret the competitive landscapes around them.
  - Because each person is unique, two different executives could look at the same event and attach very different meanings to it.
  - Some strategists are willing to take a seemingly sour situation and see the

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potential sweetness, while other executives remain fixated on the sourness.
    - Being led by executives who adopt unique and positive perspectives can lead companies to find and exploit opportunities that others simply miss.

Research Round-Up: Does Planning Make Money?

- One study of eleven thousand small companies found that planning provides small companies with substantial performance improvements.
- All companies do not benefit equally.
- Small companies located in countries whose citizens cope well with uncertainty benefit more from planning than small companies located in countries whose citizens often try to avoid uncertainty. This is potentially because one group is more willing to adjust their plans as time goes on.

Small Business Spotlight: Should Foreign Car Specialties Expand Its Strategic Position?

- Jeff Lock established his small business, Foreign Car Specialties, in Akron, Ohio, in the 1970s with a focus on "complete high-end restoration, repair and customization of vintage British motor cars (model years 1925–1980)."
- Jeff's company has been extremely successful and his classic car restorations have won awards.
- Following Jeff's passing, his daughter Nikki took over the business. Nikki wonders if the focus should be expanded to include Japanese cars, since most owners of classic British cars are over 60 years old and moving closer to retirement and many classic car fans that are in their twenties and thirties prefer Japanese cars from the 1970s and 1980s over European cars.
- This would be a dramatic change, because the underlying technology and construction of the two categories of cars are quite different. And employees already have their hands full with British car owners who are willing to pay big money for their top-shelf work.

Key Takeaway

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- Strategic management focuses on companies and the different strategies that they use to become and remain successful. Multiple views of strategy exist, and the 5 Ps described by Henry Mintzberg enhance understanding of the various ways in which companies conceptualize strategy.

Exercises

1. Have you developed a strategy to manage your career? Should you make it more detailed? Why or why not?

   Answer: Student answers will vary.
   Strategy is a complex concept that involves many different processes and activities within an organization. A strategic plan is a carefully crafted set of steps that a company intends to follow in order to be successful. A student can examine if they have made steps to be followed in order to succeed in their career. Maintaining flexibility is wise for individuals planning their career strategies. A strategy can be made more detailed only if it involves making adjustments to a shifting situation.

2. Identify an example of each of the 5 Ps of strategy other than the examples offered in this section.

   Answer: Student answers will vary.
   A strategy can be viewed as a plan, as a ploy, as a position, as a pattern, and as a perspective. (i) A strategic plan is a carefully crafted set of steps that a company intends to follow in order to be successful. Nokia and Microsoft created a strategic plan to form a broad strategic partnership that would use their complementary strengths and expertise to create a new global mobile ecosystem. The two companies intend to jointly create market-leading mobile products and services designed to offer consumers, operators and developers, unrivalled choice and opportunity. As each company would focus on its core competencies, the partnership would create the opportunity for rapid time to market execution. (ii) A

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strategic ploy is a specific move designed to outwit or trick competitors. For example, a grocery chain might threaten to expand a store, so that a competitor doesn't move into the same area. (iii) Strategy as pattern is a view that focuses on the extent to which a company's actions over time are consistent. For instance, imagine a manager who makes decisions that further enhance an already highly responsive customer support process. Despite not deliberately choosing to build a strategic advantage, his pattern of actions nevertheless creates one. (iv) Strategy as position refers to a company's place in the industry relative to its competitors. For example, your strategy might include developing a niche product to avoid competition or choosing to position yourself amongst a variety of competitors, while looking for ways to differentiate your services. (v) Strategy as perspective refers to how executives interpret the competitive landscape around them. For instance, an organization that encourages risk-taking and innovation from employees might focus on coming up with innovative products as the main thrust behind its strategy. By contrast, an organization that emphasizes the reliable processing of data may follow a strategy of offering these services to other organizations under outsourcing arrangements.
Source: https://www.engadget.com/2014/04/25/microsoft-nokia-merger-details/

3. What business that you visit regularly seems to have the most successful business model? What makes the business model work?

Answer: Student answers will vary.
Walmart has one of the most successful business models. It has emerged as the largest retailer in the world. The founder of Walmart, Sam Walton, saw that general stores were turning a good profit, but he found a way to perfect the business model. Instead of catering to heavily populated areas, which conventional wisdom would advise, Walton started building stores in rural areas. Specifically, he built stores in towns with populations of 5,000 to 25,000 people (source: Magretta). Customers preferred to shop at these stores rather than drive to the nearest city. Because Walton was the first to go after these small markets,

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he had a significant advantage over any competitor that dared enter that terrain afterward. Today, Walmart wields so much power that a company's survival may depend on landing a deal with the retailer.

Source: http://money.howstuffworks.com/5-influential-business-models9.htm

Key Terms

- **Strategic management:** Strategic management examines how actions and events involving top executives (such as Elon Musk), companies (Tesla), and industries (the auto market) influence a company's success or failure.
- **Strategic plan:** A strategic plan is a carefully crafted set of steps that a company intends to follow in order to be successful.
- **Business model:** A business model describes the process through which a company hopes to earn profits.
- **Economies of scale:** A cost advantage that is created when a company can produce a good or service at a lower per unit price due to producing the good or service in large quantities.
- **Strategic ploy:** A strategic ploy is a specific move designed to outwit or trick competitors.
- **Strategy as pattern:** Strategy as pattern focuses on the extent to which a company's actions over time are consistent.
- **Strategy as position:** Strategy as position refers to a company's place in the industry relative to its competitors.
- **Strategy as perspective:** Strategy as perspective refers to how executives interpret the competitive landscape around them.

Additional Exercises

1. The instructor can ask the students to discuss instances where they have used strategy as a plan, ploy, pattern, position, and perspective in their life.

   Answer: Student answers will vary.

   A strategic plan is a carefully crafted set of steps that a company intends to follow

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in order to be successful. A strategic ploy is a specific move designed to outwit or trick competitors. Strategy as pattern focuses on the extent to which a company's actions over time are consistent. Strategy as position refers to a company's place in the industry relative to its competitors. Strategy as perspective refers to how executives interpret the competitive landscape around them. Students can cite examples of where they have used strategy as in these 5 different views.

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2. Intended, Emergent, and Realized Strategies

Learning Objectives

1. Learn what is meant by intended and emergent strategies and the differences between them.
2. Understand realized strategies and how they are influenced by intended, deliberate, and emergent strategies.

Teaching Suggestions

1. Divide the class into five groups. Ask each group to think of a business in which they would like to operate a business, come up with the business's intended strategies and describe the steps the business would take to realize those strategies.

Section Notes

- When an organization's environment is very stable and predictable, strategic planning can provide enough of a strategy for the organization to gain and maintain success.
    - The executives leading the organization can simple create a plan and execute it, and they can be confident that their plan will not be undermined by changes over time.
    - Only a few executives enjoy a stable and predictable situation.
    - Because change affects the strategies of almost all organizations, understanding the concepts of intended, emergent, and realized strategies is very important.
    - Also relevant are deliberate and nonrealized strategies.
- An **intended strategy** is the strategy that an organization hopes to execute.
    - Usually described in detail within an organization's strategic plans.
    - When a strategic plan is created for a new venture, it is called a business plan.

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- An **emergent plan** is an unplanned strategy that arises in response to unexpected opportunities and challenges.
    - Sometimes emergent strategies result in disasters or tremendous success.
- A **realized strategy** is the strategy that an organization actually follows.
    - A product of a company's intended strategy (i.e., what the company planned to do), the company's **deliberate strategy** (i.e., the parts of the intended strategy that the company continues to pursue over time) and its emergent strategy (i.e., what the company did in reaction to unexpected opportunities and challenges).
- A **non-realized strategy** refers to the parts of the intended strategy that are abandoned.

Strategy at the Movies: The Social Network

- Mark Zuckerberg created a website called "FaceMash" where the attractiveness of young women could be voted on.
- "FaceMash" evolved first into an online social network called TheFacebook that was for Harvard students only.
- When the network became surprisingly popular, it then morphed into Facebook, a website open to everyone.
- Ironically, Facebook's emphasis on connecting with existing and new friends is about as different as it could be from Zuckerberg's original concept.

Key Takeaway

- Most organizations create intended strategies that they hope to follow to be successful. Over time, however, changes in an organization's situation give rise to new opportunities and challenges. Organizations respond to these changes using emergent strategies. Realized strategies are a product of both intended and realized strategies.

Exercises

1. What is the difference between an intended and an emergent strategy?

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Answer: An intended strategy is the strategy that an organization hopes to execute. Intended strategies are usually described in detail within an organization's strategic plan. An emergent strategy is an unplanned strategy that arises in response to unexpected opportunities and challenges.

2. Can you think of a company that seems to have abandoned its intended strategy? Why do you suspect it was abandoned?

   Answer: Student answers will vary.
   A company may have abandoned its intended strategy because some elements of the strategy might have become obsolete or ineffective.

3. Would you describe your career strategy in college to be more deliberate or emergent? Why?

   Answer: Student answers will vary.
   A career strategy of a student can be considered deliberate if he or she has set her career goal, set a systematic design of steps to be followed, and works on each step with sincere dedication. A career strategy of a student is more emergent when he or she decides to do something in order to respond to unexpected events. A student who makes an emergent career strategy does not spend a long time on making his or her career goal. Instead, he or she prepares a career goal as per circumstances.

Key Terms

- **Intended strategy:** An intended strategy is the strategy that an organization hopes to execute.
- **Emergent strategy:** An emergent strategy is an unplanned direction that arises in response to unexpected opportunities and challenges.
- **Realized strategy:** A realized strategy is the plan of action that an organization

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actually follows.

- **Deliberate strategy:** A deliberate strategy is the parts of the intended plan that an organization continues to pursue over time.
- **Non-realized strategy:** A nonrealized strategy refers to the parts of the intended plan that are abandoned.

Additional Exercises

1. The instructor can ask the students to write an assignment differentiating intended, emergent, and realized strategies giving examples from their life or hypothetical examples.

   Answer: Student answers will vary.
   Students can give examples from their life or hypothetical examples with regard to intended, emergent, and realized strategies. This will help them differentiate the three strategies. An intended strategy is the strategy that an organization hopes to execute. An emergent strategy is an unplanned strategy that arises in response to unexpected opportunities and challenges. A realized strategy is the strategy that an organization actually follows.

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3. The History of Strategic Management

Learning Objectives

1. Consider how strategy in ancient times and military strategy can provide insights to businesses.
2. Describe how strategic management has evolved into a field of study.

Teaching Suggestions

1. The instructor can discuss the examples outlined in "strategy in ancient times" in detail.

Section Notes

- Great wisdom about strategy can be acquired by understanding the past, but ignoring the lessons of history can lead to costly strategic mistakes that could have been avoided.
- The earliest known discussion of strategy is offered in the Old Testament of the Bible.
    - Moses used the hierarchical delegation of authority which created a command structure that freed him to concentrate on the biggest decisions and helped him implement his strategies.
    - Similarly, the demands of strategic management today are simply too much for a chief executive officer to handle alone.
    - Many important tasks are thus entrusted to vice presidents and other executives.
- In ancient China, strategists and philosopher Sun Tzu offered thoughts on strategy that continue to be carefully studied by business and military leaders today.
    - He emphasized the creative and deceptive aspects of strategy.
    - Winning a battle without fighting is the best way to win.
        - Apple's behavior in the personal computer business offers a good example of this idea in action.

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- Most famous example of strategy in ancient times revolves around the Trojan horse.
    - In modern times, the term *Trojan horse* is used to refer to gestures that appear on the surface to be beneficial to the recipient but that mask a sinister intent.
    - Computer viruses also are sometimes referred to as Trojan horses.
- Another approach to strategy is attributed to King Arthur.
    - He is alleged to have considered himself and each of his knights to have an equal say in plotting the group's strategy.
    - King Arthur and his Knights of the Round Table invoke the concept of mission.
- Key military conflicts and events have shaped the understanding of strategic management.
- Indeed, the word *strategy* itself has its roots in warfare. Greek verb *strategos* means "army leader" and the idea of *stratego* (from which we get the word *strategy*) refers to defeating an enemy by effectively using resources.
- Niccolò Machiavelli's 1532 book *The Prince* is regarded as an insightful guide for conquering and ruling territories and offers clever recipes for success to government leaders.
    - The word *Machiavellian* is used today to refer to acts of deceit and manipulation.
- Wars also provide important lessons about strategic management:
    - American Revolutionary War: Illustrates the potential value of strategic alliances and nontraditional tactics.
    - Civil War: Illustrates how sometimes good strategies simply cannot overcome a stronger adversary.
    - World War II: An organization should not make assumptions about what its adversary can and cannot do.
        - Executives who make such assumptions about their competitors put their organizations' performance in jeopardy.
- Strategic management has been important throughout history, but the evolution of

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strategic management into a field of study has mostly taken place over the past century.

- **1900s**: Automobile maker Henry Ford organized assembly lines for creating automobiles that lowered costs dramatically.
- **1911**: Fredrick W. Taylor published his book, *The Principles of Scientific Management*.
- **1912**: Harvard University became the first higher education institution to offer a course focused on how business executives could lead their organizations to greater success.
- **1920s**: A&W Root Beer became the first franchised restaurant chain.
  - **Franchising** involves an organization (called a franchisor) granting the right to use its brand name, products, and processes to other organizations (known as franchisees) in exchange of an upfront payment (a franchise fee) and a percentage of franchisee's revenues (a royalty fee).
  - This simple yet powerful business model allows franchisors to grow their brands rapidly and provides franchisees with the safety of a proven business format.
  - Within a few decades, the franchising business model would fuel incredible successes for many franchisors and franchisees across a variety of industries.
- **1959**: The Ford Foundation and the "capstone" course.
- **1962**: Harvard professor Alfred Chandler published *Strategy and Structure: Chapters in the History of the Industrial Enterprise*; Sam Walton opens first Walmart.
- **1980**: *Strategic Management Journal*; *Competitive Strategy: Techniques for Analyzing Industries and Competitors* by Harvard professor Michael Porter.
- **1995**: Jeff Bezos launches Amazon.com.
- **2005**: Thomas Friedman's *The World is Flat*: *A Brief History of the Twenty-First Century*.

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- The launch of Amazon.com was a pivotal event in creating Internet-based commerce.
- Ethics is an important issue within the strategic management field.
    - Enron Corporation, WorldCom, Tyco, Qwest, and Global Crossing were found to have grossly exaggerated the strength of their performance.
    - After a series of revelations about fraud and corruption, investors in these companies and others lost billions of dollars, tens of thousands of jobs were lost, and some executives were sent to prison.
- Implications of international competition are of central interest to strategic management.
- Looking to the future, it appears likely that strategic management will prove to be more important than ever.
    - It promises to be a fascinating journey.
    - For example, in 2024, speculation began to arise that someday artificial intelligence could replace chief executive officers and lead companies.
    - Researchers will work to build additional knowledge about how organizations can maximize their performance.
    - Executives will need to keep track of the latest scientific findings.
    - Executives must leverage the insights that history offers on how to be successful while trying to avoid history's mistakes.

Key Takeaway

- Although strategic management as a field of study has developed mostly over the last century, the concept of strategy is much older. Strategic management can benefit greatly by understanding the lessons provided by ancient history and military strategy.

Exercises

1. What do you think was the most important event related to strategy in ancient times?

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Answer: Student answers will vary.

One of the most important aspects related to strategy in ancient times includes ideas given by strategist and philosopher Sun Tzu of China. He said that winning a battle without fighting is the best way to win. He wrote the book *The Art of War*. As this title implies, Sun Tzu emphasized the creative and deceptive aspects of strategy. Another famous example of strategy in ancient times revolves around the Trojan horse. According to legend, Greek soldiers wanted to find a way to enter the gates of Troy and attack the city from the inside. They devised a ploy that involved creating a giant wooden horse, hiding soldiers inside the horse, and offering the horse to the Trojans as a gift. The Trojans were fooled and brought the horse inside their city. When night arrived, the hidden Greek soldiers opened the gates for their army, leading to a Greek victory. In modern times, the term Trojan horse is used to refer to gestures that appear on the surface to be beneficial to the recipient but that mask a sinister intent. Computer viruses also are sometimes referred to as Trojan Horses.

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

Answer: Student answers will vary.

Key military conflicts and events have shaped the understanding of strategic management. Indeed, the word strategy itself has its roots in warfare. The Greek verb *strategos* means "army leader" and the idea of *stratego* (from which we get the word strategy) refers to the idea of defeating an enemy by effectively using resources. The strategic management of military strategy plans how to conquer and rule territories. Similarly, the strategic management of businesses plans how to face competitors. A military strategy emphasizes: Do not make assumptions about what your adversary can and cannot do. Executives who make similar assumptions about their competitors put their organizations' performance in jeopardy.

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

   Answer: Student answers will vary.
   Ethics have long been an important issue within the strategic management field. Attention to the need for executives to act ethically when creating strategies increased dramatically in the early 2000s when a series of companies such as Enron Corporation, WorldCom, Tyco, Qwest, and Global Crossing were found to have grossly exaggerated the strength of their performance. After a series of revelations about fraud and corruption, investors in these companies and others lost billions of dollars, tens of thousands of jobs were lost, and some executives were sent to prison. Executives can be considered more ethical today as they want to help their companies grow by creating strategies with moral principles. They want to totally avoid the severe losses and the legal consequences associated with scandals.

Key Term

- **Franchising:** Franchising involves an organization (called a franchisor) granting the right to use its brand name, products, and processes to other organizations (known as franchisees) in exchange for an up-front payment (a franchise fee) and a percentage of franchisees' revenues (a royalty fee).

Additional Exercises

1. The instructor can ask the students to discuss what aspect of strategic management as a field of study appeals to them.

   Answer: Student answers will vary depending on what aspect of strategic management as a field of study appeals to them.
   Some of the aspects of strategic management include: The ancient Chinese strategist Sun Tzu made it clear that strategic management is part art. But it is also

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part science. Frederick Taylor published a book titled The Principles of Scientific Management. The book was a response to Taylor's observation that most tasks within organizations were organized in a haphazard way. Taylor believed that businesses would be much more efficient if principles for management were derived through scientific investigation. In *The Principles of Scientific Management*, Taylor stressed how organizations could become more efficient through identifying the "one best way" of performing important tasks. Another aspect includes franchising, which involves an organization (called a franchisor) granting the right to use its brand name, products, and processes to other organizations (known as franchisees) in exchange for an upfront payment (a franchise fee) and a percentage of franchisees' revenues (a royalty fee). Two pivotal events that established strategic management as a field of study took place in 1980. One was the creation of the *Strategic Management Journal*. The introduction of the journal offered a forum for researchers interested in building knowledge about strategic management.

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4. Understanding the Strategic Management Process

Learning Objectives

1. Learn the strategic management process.
2. Understand the four steps in the strategic management process.

Teaching Suggestions

1. Before starting this section, the instructor can ask the students what steps they follow while executing a decided strategy.

Section Notes

- Strategic management is a process that involves building a careful understanding of how the world is changing, as well as a knowledge of how those changes affect a particular company.
- The strategic management process includes:
    - Understanding of strategy and performance.
    - Environmental and internal scanning.
        - Managers must constantly scan the external environment for trends and events that affect the overall economy, and they must monitor changes in the particular industry in which the company operates.
    - Strategy formulation.
        - This involves developing specific strategies and actions.
    - Strategy implementation.
        - One important element of strategy implementation entails crafting an effective organizational structure and corporate culture.

Top-Shelf Reading: *Zen and the Art of Motorcycle Maintenance*

- *Zen and the Art of Motorcycle Maintenance* uses the storyline of the narrator overcoming the challenges of navigating a motorcycle trip to parallel the myriad challenges associated with managers seeking to improve their companies.

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- The plot devices in this book align with research in strategic management suggesting that CEOs often prefer to prioritize gut instincts over objective data, and perhaps simply hope for good luck, even in the face of major strategic decisions such as a potential merger.
- A key theme of the book is the balance between a romantic perspective that values more superficial elements with a contrasting classic perspective that views life from a more analytical approach.

Key Takeaway

- Strategic management is a process that requires the ability to manage change. Consequently, executives must be careful to monitor and to interpret the events in their environment, to take appropriate actions when change is needed, and to monitor their performance to ensure that their companies are able to survive and, it is hoped, thrive over time.

Exercises

1. Who makes the strategic decisions for most organizations?

   Answer: Most often, strategic decisions of an organization are made by its executives.

2. Why is it important to view strategic management as a process?

   Answer: Strategic management is a process that involves building a careful understanding of how the world is changing, as well as knowledge of how those changes affect a particular company. It is important to view it as a process as it cannot be conducted without a systematic set of steps. The process enables a company to handle tense situations. Strategic management involves significantly different steps such as understanding strategy and performance, exploring the external environment for trends and events that affect the overall economy, evaluating their own resources, developing specific plans of actions, and

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implementing the strategy. These steps are exclusive and each step requires utmost attention. Hence, it is important to consider strategic management as a process.

3. What are the four steps of the strategic management process?

   Answer: The four steps of the strategic management process include:
   - Understanding of strategy and performance.
   - Environmental and internal scanning
   - Strategy formulation
   - Strategy implementation

4. How is chess relevant to the study of strategic management? What other games might help teach strategic thinking?

   Answer: Student answers will vary.
   Strategic management is implemented by an organization as it enables a company to survive in the fast-changing business environment amid several competitors. Chess is relevant to the study of strategic management as it helps one in knowing himself and his opponents. Similarly, strategic management helps a company in knowing its strengths and weaknesses and its competitors' details. Some other games that help teach strategic thinking include Monopoly—a board game, which combines strategic thinking and the luck of the dice.

Additional Exercise

1. Ask the students to discuss instances where they have used strategy as a plan, ploy, pattern, position, and perspective in their life.

   *Answer***:** Student answers will vary.
   A strategic plan is a carefully crafted set of steps that a firm intends to follow in order to be successful. A strategic ploy is a specific move designed to outwit or

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trick competitors. Strategy as pattern focuses on the extent to which a firm's actions over time are consistent. Strategy as position refers to a firm's place in the industry relative to its competitors. Strategy as perspective refers to how executives interpret the competitive landscape around them. Students can cite examples of where they have used strategy as in these 5 different views.

5. End-of-Chapter Exercises

1. Think about the best and worst companies you know. What is extraordinary (or extraordinarily bad) about these firms? Are their strategies clear and focused or difficult to define?

   Answer: Student answers will vary.
   Some of the best companies include Apple, Google, Walmart, and so on. Apple brands itself as the standard for quality, usability, and innovation. The company reinvented the personal computer with the Mackintosh. The company has grabbed the opportunities of global modernization and increased computer usage worldwide. The company has made significant profits over the past few years. The company maintains their strategic practices with nominal changes. This enables the company to function successfully according to changing circumstances. Google is extraordinary as it offers the majority of its products and partnerships—search, Gmail, Google Docs, blogging software, online photo collections, etc., for free. The company creates a 360-degree feeling of comfort and familiarity that engenders consumer relationships across its divisions. Google earns money from other companies for its rich stores of data about us. Walmart is an extraordinary organization which is the largest retailer in the world. Instead of catering to heavily populated areas, which conventional wisdom would advise, Sam Walton, founder of Walmart, started building stores in rural areas. Specifically, he built stores in towns with populations of 5,000 to 25,000 people

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[source: Magretta]. Customers preferred to shop at these stores rather than drive to the nearest city. Because Walton was the first to go after these small markets, he had a significant advantage over any competitor that dared enter that terrain afterward. Today, Walmart wields so much power that a company's survival may depend on landing a deal with the retailer. A company called Wonga has a bad business model. The company provides short term loans such as payday loans. It is a competitively bankrupt investment.
Source: http://money.howstuffworks.com/5-influential-business-models9.htm

2. If you were to write a "key takeaway" section for this chapter, what would you include as the material you found most interesting?

   Answer: Student answers will vary.
   Some of the aspects that can be used as key takeaways include:
   - Importance of business ethics
   - Strategic management as an art and science
   - SWOT analysis

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Mastering Strategic Management, v4.0

- Dave Ketchen & Jeremy Short

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Chapter 1
Mastering Strategy: Art and Science

Learning Objectives

After reading this chapter, you should be able to understand and articulate answers to the following questions:

1. What are strategic management and strategy?
2. Why does strategic management matter?
3. What elements determine company performance?

1.1 Defining Strategic Management and Strategy

Learning Objectives

1. Learn what strategic management is.
2. Understand the key question addressed by strategic management.
3. Understand why it is valuable to consider different definitions of strategy.
4. Learn what is meant by each of the 5 Ps of strategy.

What Is Strategic Management?

- **Strategic management:** Examines how actions and events involving top executives, companies, and industries influence a company's success or failure.



Defining Strategy: The Five Ps

Plan—a carefully crafted set of steps that a firm intends to follow in order to be successful



Virtually every firm creates a strategic plan to guide its future. Plans are important to individuals too. If you are reading this, you probably have a career plan that requires a college degree.

Ploy—a specific move designed to outwit or trick competitors



A pizzeria owner in Pennsylvania once tried to sabotage his competitors by placing mice in their shops. Although most strategic ploys are legal, this one was not and the perpetrator was arrested.

Pattern—the degree of consistency in a firm's strategic actions



Apple always responds to competitive challenges by innovating. Some of these innovations are complete busts, but enough are successful that Apple's overall performance is excellent.

Position—a firm's place in the industry relative to its competitors



Old Navy offers fashionable clothes at competitive prices. Old Navy is owned by the same corporation as the Gap and Banana Republic; each brand is positioned at a different pricing level.

Perspective—how executives interpret the competitive landscape around them



In the mid-1990s, the Internet was mainly a communication tool for academics and government. Jeff Bezos viewed the Internet as a sales channel and he began selling books online. Today, the company he created—Amazon.com—is a dominant retailer.

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Strategy as a Plan

As artificial intelligence continues to become more sophisticated, executives are better able to incorporate the insights it provides into their strategic process.

- **A strategic ploy** are the essence of strategy. A **business model** should be a central element of a company's strategic plan.
  - Larger companies have the advantage of **economies of scale**, such as Papa John's or Dominos.
  - Businesses can rely on uniqueness that is hard to imitate



Strategy as a Ploy

A **strategic ploy** is a specific move designed to outwit or trick competitors.



Strategy as a Pattern

Strategy as pattern focuses on the extent to which a company's actions over time are consistent.

- Apple is very consistent in its strategic pattern. It always responds to competitive challenges by innovating



Strategy as a Position

Strategy as a position considers a company and its competitors. Strategy as a position refers to a company's place in the industry relative to its competitors.



Strategy as a Perspective

Strategy as a perspective is how executives interpret the competitive landscape around them.

- The late Steve Jobs at Apple appeared to take a similar perspective; he saw opportunities where others could not, and his company has reaped significant benefits as a result. Apple's success has grown even stronger under Jobs's successor, Tim Cook.



1.1 Key Takeaway

Strategic management focuses on companies and the different strategies that they use to become and remain successful. Multiple views of strategy exist, and the five Ps described by Henry Mintzberg enhance understanding of the various ways in which companies conceptualize strategy.

1.2 Intended, Emergent, and Realized Strategies

Learning Objectives

1. Learn what is meant by intended and emergent strategies and the differences between them.
2. Understand realized strategies and how they are influenced by intended, deliberate, and emergent strategies.

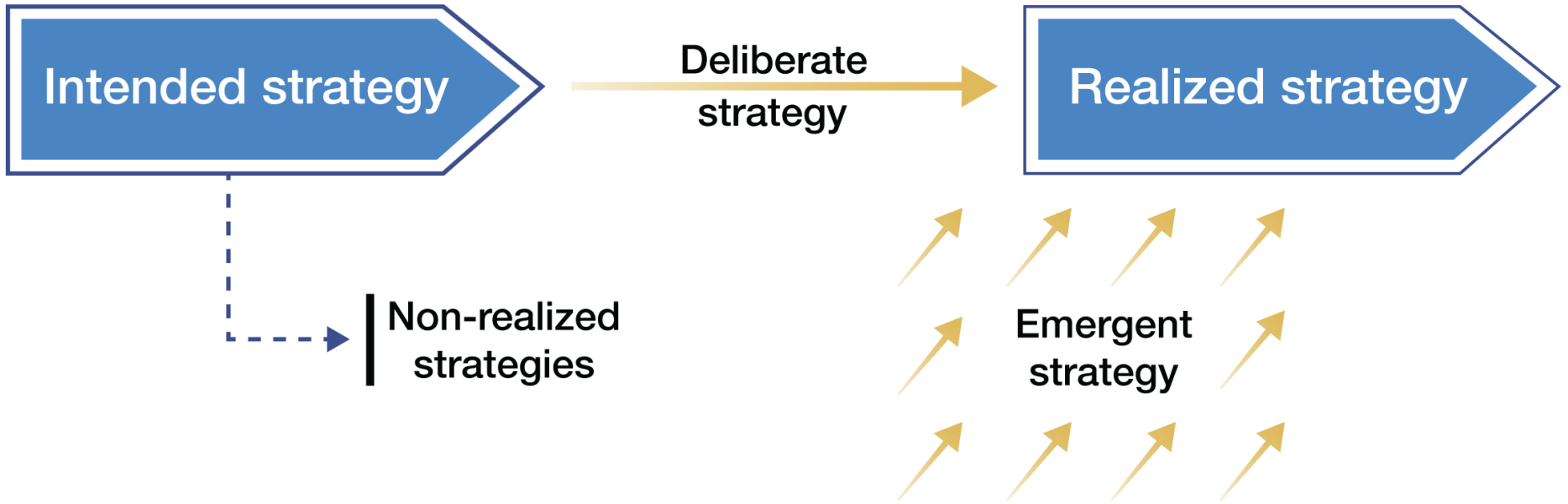
Figure 1.2: Strategic Planning and Learning: Intended, Emergent, and Realized Strategies

	Intended Strategy	Emergent Strategy	Realized Strategy
	David McConnell aspired to be a writer. When his books were not selling, he decided to give out perfume as a gimmick.	The perfumes McConnell gave out with his books were popular, inspiring the foundation of the California Perfume Company.	The company changed its name to Avon in 1939, and its direct marketing system remained popular for decades. Avon is now available online and in retail outlets worldwide.
	When Scott and Don Rasmussen were fired from the New England Whalers, they envisioned a cable television network that focused on sports events in the state of Connecticut.	As the network became successful, ESPN branched out beyond the local softball games and demolition derbies that were first broadcast.	ESPN is now billed as the worldwide leader in sports, owning several ESPN affiliates as well as production of ESPN magazine, ESPN radio, and broadcasting for ABC.
	In 1977, a cash-strapped advertiser gave a radio station managed by Lowell Paxson 112 electric can openers to pay off an overdue bill. The can openers were offered over the air for $9.95 and quickly sold out.	An idea emerged. Soon the radio station featured a regular show called "Suncoast Bargaineers." In 1982, Paxson and a partner launched the Home Shopping Club on local cable television in Florida.	Today the Home Shopping Network has evolved into a retail powerhouse. The company sells tens of thousands of products on television channels in several countries and over the internet.

Intended and Emergent Strategies

- **Intended strategy:** The strategy that an organization hopes to execute.
  - Described in detail within an organization's strategic plan.
  - When a strategic plan is created for a new venture, it is called a business plan.
- **Emergent strategy:** An unplanned strategy that arises in response to unexpected opportunities and challenges.
  - These strategies can sometimes result in disasters, but they can also lead to tremendous success.

Figure 1.3: A Model of Intended, Deliberate, and Realized Strategy



Realized Strategy

- **Realized strategy:** The strategy that an organization actually follows.
  - A product of a company's intended strategy, the company's **deliberate strategy**, and its emergent strategy.
- **Nonrealized strategy:** Refers to the parts of the intended strategy that are abandoned.



Strategy at the Movies: *The Social Network*

- Mark Zuckerberg created a website called “FaceMash” where the attractiveness of young women could be voted on.
- “FaceMash” evolved first into an online social network called TheFacebook that was for Harvard students only.
- When the network became surprisingly popular, it then morphed into Facebook, a website open to everyone.
- Ironically, Facebook’s emphasis on connecting with existing and new friends is about as different as it could be from Zuckerberg’s original concept.





1.2 Key Takeaway

- Most organizations create intended strategies that they hope to follow to be successful. Over time, however, changes in an organization's situation give rise to new opportunities and challenges. Organizations respond to these changes using emergent strategies. Realized strategies are a product of both intended and realized strategies.

1.3 The History of Strategic Management

Learning Objectives

1. Consider how strategy in ancient times and military strategy can provide insights to businesses.
2. Describe how strategic management has evolved into a field of study.

Strategy in Ancient Times

1491 BC



Moses uses hierarchical delegation of authority during the exodus from Egypt. Dividing a large set of people into smaller groups creates a command structure that enables strategies to be implemented.

500 BC



Sun Tzu's *The Art of War* provides a classic handbook on military strategy with numerous business applications, such as the idea "to win without fighting is best." This type of approach was used by businesses, such as Gap Inc. when they decided to create their own stores rather than competing for shelf space for their clothing within traditional department stores.

70 BC



Roman poet Virgil tells the story of the Trojan horse, a classic strategic ploy where the Greek forces hid a select number of soldiers in a large wooden horse that the Trojan army took into their heavily guarded city gates. Once inside the city, Greek soldiers were able to open the gates and allow in reinforcements which eventually led to the end of the war.

c. 530



King Arthur rules Britain. Legend says he made his famous round table so that no one, including him, would be seen as above the others. His mission to find the Holy Grail serves as an exemplar for the importance of the central mission to guide organizational actions.

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Lessons Offered by Military Strategy

- The word *strategy* has its roots in warfare.
  - Greek verb strategos means “army leader” and the idea of stratego (from which we get the word strategy) refers to defeating an enemy by effectively using resources.
- Niccolò Machiavelli’s 1532 book *The Prince* is regarded as an insightful guide for conquering and ruling territories and offers clever recipes for success to government leaders.
- Wars also provide important lessons about strategic management:
  - American Revolutionary War
  - Civil War
  - World War II
- An organization should not make assumptions about what its adversary can and cannot do.



Figure 1.6: The Modern History of Strategic Management

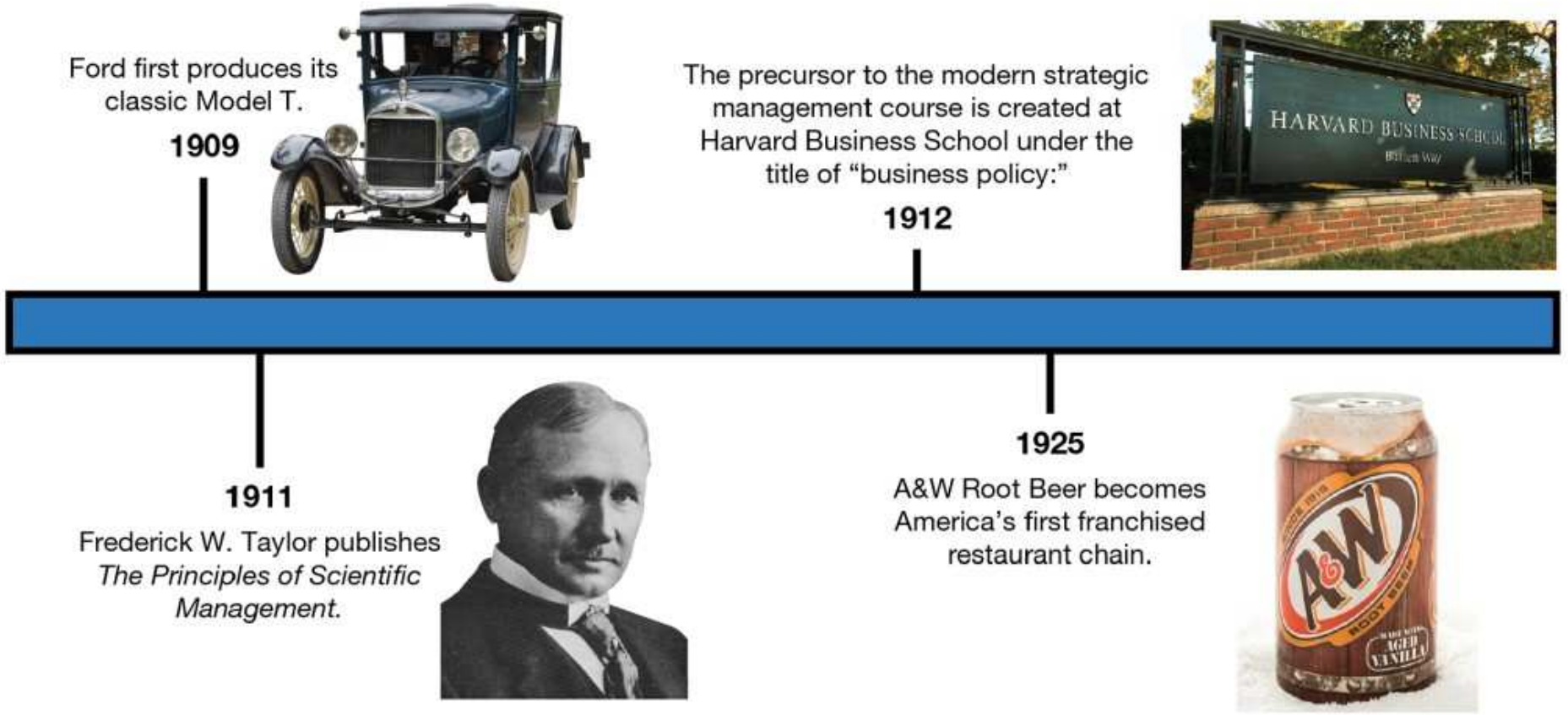


Figure 1.6: The Modern History of Strategic Management (continued)

The Ford Foundation recommends that business school curricula include a "capstone" course that integrates knowledge across business fields in order to help solve complex business problems.

1959

Alfred Chandler publishes *Strategy and Structure: Chapters in the History of the Industrial Enterprise.*

1962

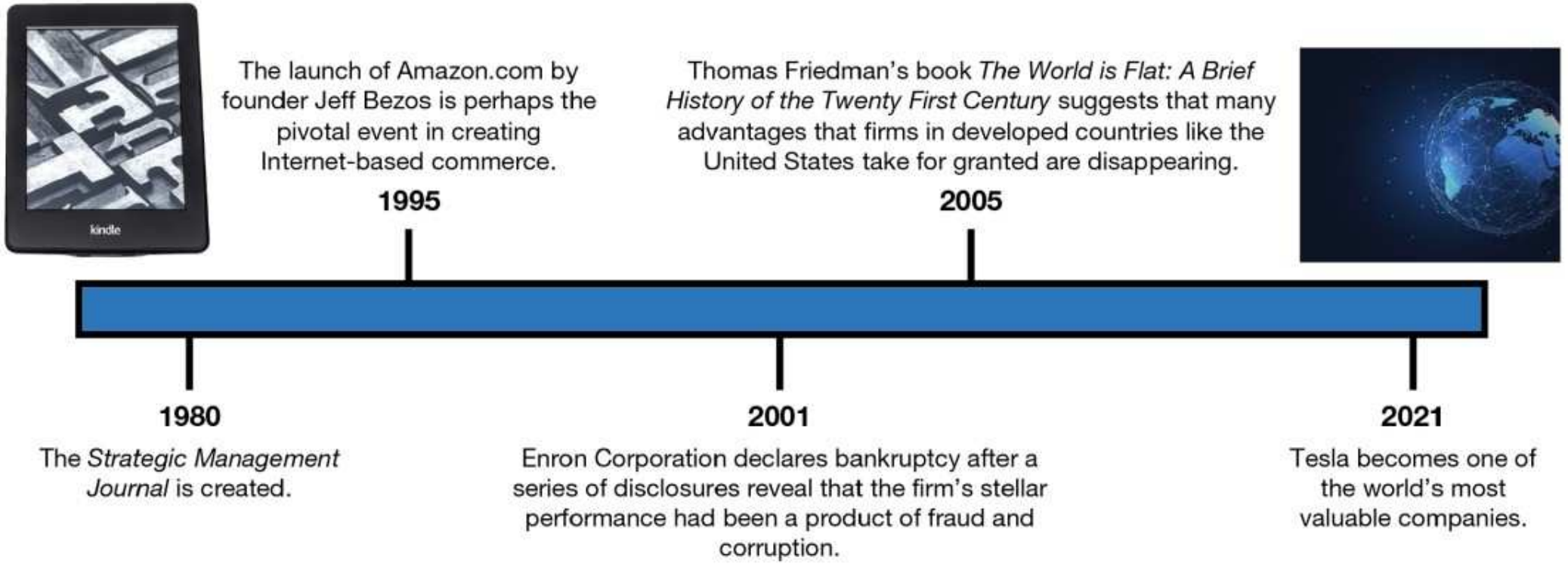


1962

Sam Walton opens the first Walmart in Arkansas, relying on a strategy that emphasizes low prices and high levels of customer service.



Figure 1.6: The Modern History of Strategic Management (continued 2)



Strategic Management as a Field of Study



Frederick W. Taylor's ideas from the early 1900s still influence companies today.

1.3 Key Takeaway

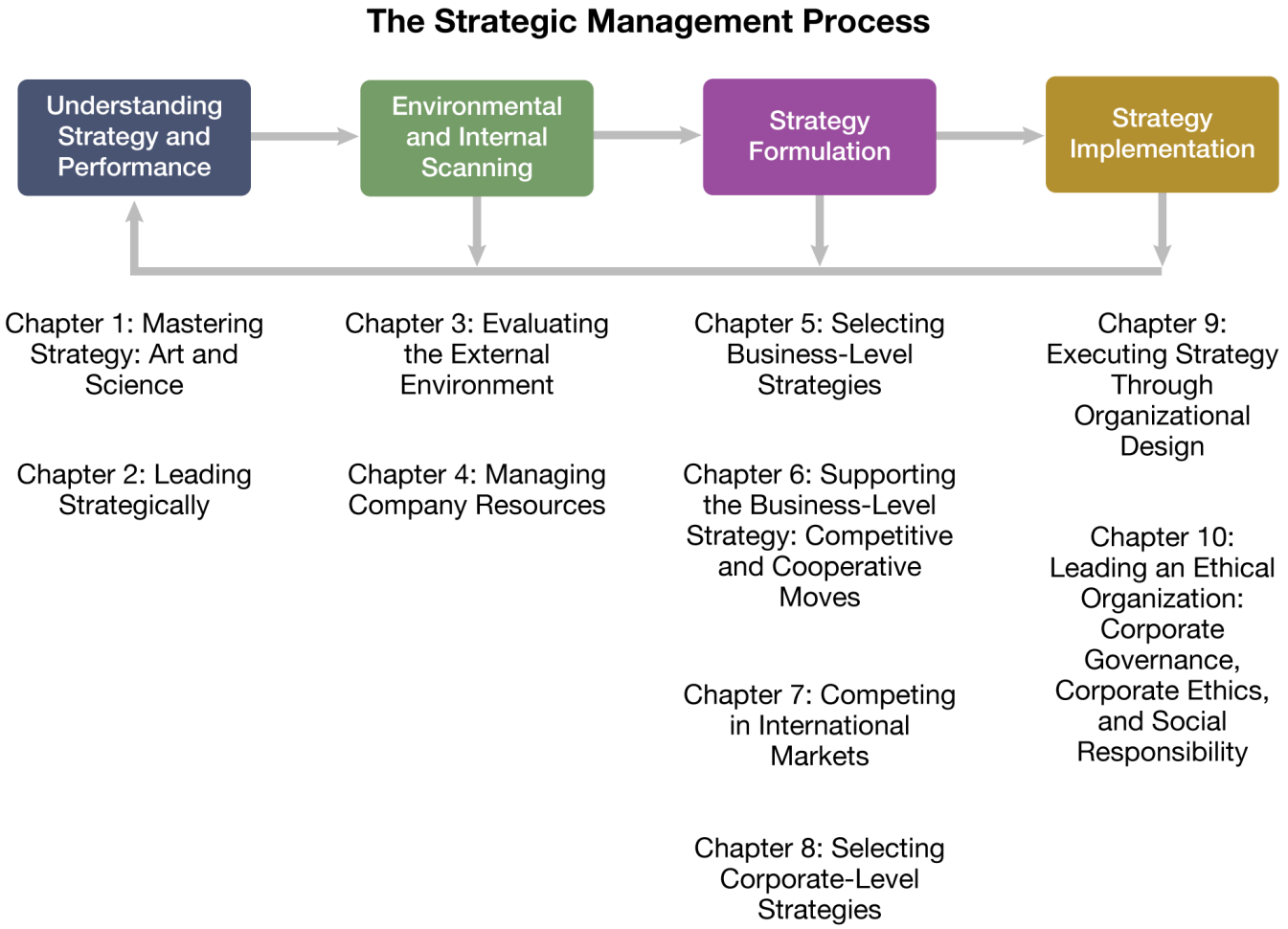
- Although strategic management as a field of study has developed mostly over the last century, the concept of strategy is much older. Strategic management can benefit greatly by understanding the lessons provided by ancient history and military strategy.

1.4 Understanding the Strategic Management Process

Learning Objectives

1. Learn the strategic management process.
2. Understand the four steps in the strategic management process.

Figure 1.7: Overall Model of the Strategic Management Process



Top-Shelf Reading: *Zen and the Art of Motorcycle Maintenance*

- *Zen and the Art of Motorcycle Maintenance* uses the storyline of the narrator overcoming the challenges of navigating a motorcycle trip to parallel the myriad challenges associated with managers seeking to improve their companies.
- The plot devices in this book align with research in strategic management suggesting that CEOs often prefer to prioritize gut instincts over objective data, and perhaps simply hope for good luck, even in the face of major strategic decisions such as a potential merger.
- A key theme of the book is the balance between a romantic perspective that values more superficial elements with a contrasting classic perspective that views life from a more analytical approach.

1.4 Key Takeaway

- Strategic management is a process that requires the ability to manage change. Consequently, executives must be careful to monitor and to interpret the events in their environment, to take appropriate actions when change is needed, and to monitor their performance to ensure that their companies are able to survive and, it is hoped, thrive over time.

Short Takes on Strategy

This entertaining episode introduces the field of strategic management, defining it as the study of how actions and events influence a company's success or failure. It presents the five Ps of strategy as described by Henry Mintzberg: strategy as a plan, a ploy, a pattern, a position, and a perspective, highlighting how these various lenses offer a comprehensive understanding of strategy. Finally, it traces the history of strategic management from ancient times and military tactics to its development as a formal academic field, outlining key historical examples and the evolution of its core principles.



Chapter Summary

- This chapter provides an overview of strategic management and strategy.
- Ideas about strategy span many centuries, and modern understanding of strategy borrows from ancient strategies as well as classic military strategies.
- There are numerous ways to conceptualize the idea of strategy and that effective strategic management is needed to ensure the long-term success of companies.
- The study of strategic management provides tools to effectively manage organizations, but it also involves the art of knowing how and when to apply creative thinking.
- Knowledge of both the art and the science of strategic management is needed to help guide organizations as their strategies emerge and evolve over time.
- These tools will also help you effectively chart a course for your career as well as to understand the effective strategic management of the organizations for which you will work.