Strategic Management and Business Policy
Toward Global Sustainability
Thirteenth Edition

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May 2011

Dear Colleague:

We have personally prepared this instructor's manual to the 13th edition of our textbook, *Strategic Management and Business Policy*, with you in mind. It comes in two parts: **Concepts Instructor's Manual**, which covers the chapters, and **Case Instructor's Manual**, which covers the cases. David Hunger is the author of this Concepts Instructor's Manual. Alan Hoffman is the author of the separate Case Instructor's Manual.

This **Concepts Instructor's Manual** is composed of three parts:

Part A. SUGGESTIONS FOR TEACHING STRATEGIC MANAGEMENT

- Suggestions for case method teaching
- Possible course outlines

Part B. CHAPTER NOTES

- Brief abstract of each chapter
- List of topics discussed
- Suggested answers to each chapter's discussion questions
- Additional discussion questions for class or exam use
- Suggestions for use of end-of-chapter strategic practice exercise
- Supplementary lecture modules as available

Part C. PART ENDING CASE NOTES

- Possible ways to use the part-ending short cases
- Application of concepts to the cases

In addition, **PowerPoint slides** and a **computerized test bank** accompany this book. Both are provided for download at www.pearsonhighered.com/irc. **Videos on DVD** are provided for instructors using our textbook. For more information, contact your local Prentice Hall sales representative or call Prentice Hall at 800-526-0485.

This supplementary package should provide you with the materials you need to teach a successful course in strategic management/business policy. We wish you the best and welcome your comments and suggestions.

Best regards,

Thomas L. Wheelen
J. David Hunger

STRATEGIC MANAGEMENT

AND

BUSINESS POLICY

13th Edition

PART A

SUGGESTIONS FOR TEACHING STRATEGIC MANAGEMENT

SUGGESTIONS FOR TEACHING STRATEGIC MANAGEMENT

Strategic management...Business policy...Strategy. Whatever its name, it's typically considered a "capstone" course in most business schools. Its primary job is to examine a business firm as a whole and to integrate the various functional disciplines. It generally includes industry analysis and competitive strategy with a healthy dose of SWOT analysis. It may also include corporate governance and/or social responsibility and ethics, depending upon the instructor. The course is generally expected to take a practical view of how business corporations actually function "in the real world." Nevertheless, there are many ways to teach strategic management. Some people are strong proponents of "the case method." Others argue that simulations are the best method of giving students a "hands-on" understanding of strategic decision making. A number of instructors also use experiential exercises, group projects, and audio-visual presentations. Very few, if any, argue for a straight lecture/discussion type of strategy course at the undergraduate and master's level. Each approach, however, has its strengths and weaknesses.

Lecture/discussion, for example, is a good way to communicate a lot of information and to critically analyze theoretical concepts. In a strategy course, however, the emphasis is typically upon developing integrative and problem-solving skills. This is a weakness of the lecture/discussion approach.

The *simulation*, in contrast, is an excellent method to develop these skills and to put the learning in the hands of the student rather than in the hands of the instructor. It also emphasizes strategy implementation, an aspect of strategic management often receiving little emphasis in most strategy courses. Its weaknesses include turning the instructor from a teacher into an administrator. If teams are used, there is a strong tendency for students to let the "computer geeks" take charge of decision making as the objective turns from strategy making to "playing the game".

The Case Method

The most popular as well as the most perceived effective approach to teaching strategic management is the case method. Its strengths include a real-world orientation (believed to generate student involvement) and the ability to focus on developing decision-making skills by taking an integrative and conceptual, yet action-oriented approach. This method may not go well, however if the instructor is inexperienced in the use of cases and/or the students are not motivated to do more than a superficial reading of the cases. A capable case instructor must be able to force the typical student to go beyond satisficing at a very low level (e.g., "In my opinion, they ought to fire the CEO.").

If given a free rein, the average undergraduate tends to Monday morning quarterback the case. For example, if everyone knows that Hershey Foods successfully developed and marketed a new type of sugar-free candy this year, there is a strong tendency to recommend this solution rather than other alternative courses of action. As a result, an instructor new to the case method must ensure that students truly understand that the best solution to any case problem is not (a) the one the instructor mentions, (b) what the company actually did, or (c) the most obvious solution. The best solution comes from the best analysis. This means that the instructor must work hard to ensure that students don't take the easy route by merely stating the symptoms as if they were underlying problems and going immediately to their desired solution without regard for other alternatives.

Suggestions for Using Cases

There are many ways to use cases. Some instructors prefer to generate open class discussion. Others prefer to assign cases to student teams for oral presentations. Most like to have students write an analysis of at least one case during the course, often as a final exam. See the Appendix to the Chapter Twelve Notes at the end of Part B of this Concepts Instructor's Manual for Suggested Teaching Suggestions and Materials.

Open Class Case Discussion. One approach is for the instructor to lead the discussion with penetrating questions and answers like Professor Kingsfield in the classic film, "The Paper Chase." The vast majority prefers to begin the

analysis with a few key questions and hope to get the students to take over the discussion. The instructor then tends to fade into the background or puts key points on the blackboard. This is what is meant by "Harvard style" case analysis and discussion. Here are some suggested ideas for leading successful open-class case discussions:

1. Read the case over carefully before class. Then study the case. Calculate common size financial statements, key ratios, and adjust for inflation, if appropriate. Any obvious problem areas?

2. Read the teaching note for the case. Use the Instructor's Manual! Read previous student papers if available.

3. Decide how you're going to run the class. What key points need to be addressed? Can you break the class up into teams and have them role play or analyze certain parts of the case and present them to the class? Prepare an outline of how you would like the discussion to go and guess how much time is needed per major point.

4. Put together a usable seating chart. If the class meets for a long period of time, ask the students to make their own name cards and to bring them to class each time. Take pieces of paper and magic markers for them to use at the first meeting (1 marker for each row in the class). Be prepared to keep track of discussion in pencil on your seating chart. If you call on them, mark a check next to their names. If the answer is very good, put a + next to the check. If it is just a satisfactory answer, simply leave the check as is. If the answer is poor, place a minus next to the check. If someone volunteers, mark a vertical straight line next to their name. If it's a great comment, make it a plus sign. You can either do this during class or immediately after (if you have the time). Then transfer your marks to a separate sheet with dated columns. (Use a computerized spreadsheet.)

5. Start with the basics. Call on someone to state the basic facts of the case. Ask him or her to describe the firm. When was it founded? What does it make? How well is it doing? The first undergraduate will probably respond in terse sentences such as, "It makes electronic parts." Getting more information may require you to play dentist - pulling sentence fragments out like teeth. "What kind of electronic parts? Who buys them? How are they made? What are its sales? Is it profitable?" As the typical undergraduate begins to falter and skims wildly through the pages in the book, hopefully you will hear from a volunteer. Keep rolling.

6. Go through your outline section by section. Put the topic headings on the blackboard as they are discussed and write in key points under each. Remember to leave enough time to develop alternatives with pros and cons for each. Force the class to make a decision. Have them personally vote for their desired alternatives - then push them to justify them. Give yourself five minutes at the end of class to sum up the discussion and to point out the key learning objectives of the case discussion. Above all, try not to carry a case over to the next class meeting. Students will typically have forgotten it completely by then and all momentum will be lost. If you have to carry it over, summarize the previous discussion and then ask them to write their solution on paper to hand in like a pop quiz. Everyone will want to orally justify their personal solution after they hand in their paper. You will probably have a hard time closing down the discussion!

7. As a final note, you may wish to tell them what actually happened to the firm in the case (if you know). They enjoy hearing a postscript. Please remind them, however, that there is no one best solution and that what actually happened may not have been the best solution. Encourage creativity. Above all, start writing some cases yourself. It will give you a lot more confidence as a case discussion leader. Good luck!

Student Oral Presentations. A second approach to using cases is the student oral presentation. This has been used quite successfully by a number of instructors. By the second week of class, the students are placed into teams, each composed of three to five people. Each team is then assigned a case to present during the semester. This approach

may be used during the second half of the semester if the instructor chooses to lead open case discussions during the first half. It may also be used during the first half instead of open case discussion if a simulation or project is planned for the second half of the course. Among its *advantages* are:

- The instructor gets off stage and is no longer responsible for case analysis.

- The students develop important group and presentation skills as well as learning how to handle themselves under pressure in a questioning period.

- The level of analysis is typically deeper than in the average open class case discussion (unless the instructor is extremely competent in leading cases or the students are unusually motivated to prepare for the discussions).

The biggest *disadvantage* of the student oral presentation is that unless something else is assigned, most undergraduates and a large number of graduate students who are not presenting will only superficially read the case. They are likely to hold back from asking any penetrating questions of the presenting group and may choose to skip classes when they are not themselves presenting. If not carefully arranged, the presentations can thus deteriorate into unimaginative speeches aimed at the instructor. We therefore recommend that the instructor assign at least some written analysis to a couple non-presenting teams. The instructor should also give fairly comprehensive feedback to the presenting team within a week of the presentation. We also recommend that you don't schedule all oral presentations back-to-back. Intersperse them with lectures or open class discussions.

Written Case Analysis. There are at least three approaches to use with written case analyses. One is the comprehensive student report that covers all the issues in the case in a complete manner including references and exhibits (ratios, pro forma financial statements, product life cycle drawings, etc.). A second approach is the short report prepared in response to a specific question such as, "If the firm continues with its present strategies and objectives, where will it be in five years?" A third approach, which we strongly recommend, is the strategic audit. It forces the student to do a complete strategic analysis as in the comprehensive report, but it is only a three to four-page outline and is thus quick to read and easy to grade.

Both the short report and the strategic audit are useful during open class case discussion in order to ensure adequate student preparation for class. The instructor's job as discussion leader is made much easier as students compete with each other to orally "sell" their points of view in class. Good arguments can develop. The instructor may use the board to list the pros and cons of each argument and ask for a student vote on the issues. The short report and the strategic audit are also useful adjuncts to student oral presentations. If one or two teams bring completed reports or audits to class on the same case being presented orally, much more interest is generated in class during the presentation and questioning periods.

Possible Course Outlines

A number of policy instructors, including us, have a strong bias in favor of 75-minute classes meeting twice a week. Open class discussion or oral presentations of complex strategy cases usually require at least an hour's worth of time. Given the usual rigmarole involved in starting and ending a class, it is very difficult to handle a case well in a 50-minute period unless the case is analyzed over two class sessions. Nevertheless, we provide possible course outlines for both kinds of classes. Another variable is the semester versus the quarter. We provide outlines in Exhibits 1, 2, and 3 for the semester system and assume that they can be reduced for a quarter system course simply by not using a second half management simulation or a team project and by adjusting the number of cases accordingly.

One other variable, which complicates the development of a course outline, is the decision concerning the timing of the lectures on strategic management. Some instructors choose to spend the first part of the course lecturing over the book while the students quickly read the chapters. Others attempt to intersperse lectures with case discussions or

presentations. The key question seems to be: How much information do students need before they can competently analyze their first comprehensive strategic management case? This is completely up to the instructor. We believe that a use of the strategic audit will help students to competently analyze their first comprehensive case even if they have not gone beyond corporate strategy in Chapter Seven. We have found this point to be a good time to begin oral presentations, for example. The first case, should, however, emphasize strategy formulation over implementation and be reasonably easy to analyze with each following case increasing in difficulty.

Exhibit 1

COURSE OUTLINE FOR 30 CLASS MEETINGS OF 75 MINUTES EACH

DAY	ACTIVITY
1	Introduction. Discuss syllabus.
2	Lecture/discussion of Chapter One: Basic Concepts.
3	Discussion of Chapter Two & a short case on Corporate Governance.
4	Discussion of Chapter Three & a short case on social responsibility or ethics. Form teams.
5	Lecture/discussion of Chapter Four focusing on trends in the societal environment.
6	Class discussion of Industry Analysis using an industry note if available.
7	Lecture/discussion of Chapter Five emphasizing the resource-based approach.
8	Open class discussion of a case appropriate for early part of course.
9	Lecture/discussion of Chapter Six: Formulation of Business Strategy.
10	Class discussion of a case appropriate for early part of course.
11	Lecture/discussion of Chapter Seven: Formulation of Corporate Strategy.
12	Class discussion of a case appropriate for the early part of the course.
13	Lecture/discussion of Chapter Eight: Formulation of Functional Strategy & Choice.
14	Mid-Term Exam.
15	Lecture/discussion of Chapter Twelve: Suggestions for Case Analysis.
16	Lecture/discussion of Chapter Nine: Implementation – Organizing.
17	Oral team presentation 1 of a case appropriate for the midpoint of the course.
18	Lecture/discussion of Chapter Ten: Implementation - Staffing & Directing.
19	Oral team presentation 2 of a case appropriate for the midpoint of the course.
20	Lecture/discussion of Chapter Eleven: Evaluation & Control.
21	Oral team presentation 3 of a case appropriate for the midpoint of the course.
22	Lecture/discussion of Web Chapter on Technology & Innovation.
23	Oral Team presentation 4 of a case dealing with technology.
24	Lecture/discussion of Web Chapter on Entrepreneurial Ventures & Small Businesses.
25	Oral team presentation 5 of a complex entrepreneurial case.
26	Lecture/discussion of Web Chapter on Not-For-Profit Organizations.
27	Oral team presentation 6 of a complex case.
28	Oral team presentation 7 of a complex case.
29	Review for final exam or oral presentation 8 of a complex case.
30	Final Exam/Paper.

EXHIBIT 2

COURSE OUTLINE FOR 30 CLASS MEETINGS OF 75 MINUTES EACH
(<u>WITH</u> simulation or project at end)

<u>DAY</u>	<u>ACTIVITY</u>
1	Introduction. Discuss syllabus. Lecture/discussion of Chapter One.
2	Lecture/discussion of Chapter Two and short corporate governance case.
3	Lecture/discussion of Chapter Three and short Ethics/Social Responsibility case.
4	Lecture/discussion of Chapter Four, Environmental Scanning.
5	Lecture/discussion of Chapter Five, Organizational Analysis.
6	Lecture/discussion of Chapters Six and Twelve.
7	Open class discussion of a case appropriate for the early part of the course.
8	Lecture/discussion of Chapter Seven.
9	Open class discussion of a case appropriate for the early part of the course.
10	Lecture/discussion of Chapter Eight.
11	Open class discussion or oral presentation of a case appropriate for the midpoint of the course.
12	Lecture/discussion of Chapters Nine and Ten.
13	Open class discussion or oral presentation of a case appropriate for the midpoint of the course.
14	Lecture/discussion of Chapter Eleven.
15	Open class discussion or oral presentation of a more complex case appropriate for the late part of the course.
16	Lecture/discussion of Web Chapter on Technology & Innovation.
17	Open class discussion or oral presentation of a fairly complex case.
18	Lecture/discussion of Web Chapter on Entrepreneurial Ventures & Small Businesses.
19	Open class discussion or oral presentation of a complex case.
20	Lecture/discussion of Web Chapter on Not-For-Profit Organizations.
21	Open class discussion or oral presentation of a complex case appropriate to the late part of the course.
22	Midterm exam (test or written case analysis).
23-29	Management simulation or team projects.
30	Final Exam/Paper.

EXHIBIT 3

COURSE OUTLINE FOR 45 CLASS MEETINGS OF 50 MINUTES EACH
(With or without simulation or project at end)

DAY	ACTIVITY
1	Introduction: Discuss syllabus.
2	Lecture/discussion of Chapter One: Introduction.
3	Lecture/discussion of Chapter Two: Governance.
4	Class discussion of a short Corporate Governance case.
5	Lecture/discussion of Chapter Three: Social Responsibility/Ethics.
6	Class discussion of a short social responsibility/ethics case.
7	Lecture/discussion of Chapter Four: Scanning the Societal Environment.
8	Lecture/discussion of Chapter Four: Industry Analysis & Forecasting.
9	Class discussion of a particular industry.
10	Lecture/discussion of Chapter Five: Organizational Analysis.
11	Lecture/discussion of Chapter Twelve: How to Do Case Analysis.
12	Class discussion of a short case appropriate for early part of course.
13	Lecture/discussion of Chapter Six: Business Strategy.
14	Class discussion of a short case appropriate for early part of course.
15	Lecture/discussion of Chapter Seven: Corporate Strategy.
16	Class discussion of a short case appropriate for early part of course.
17	Lecture/discussion of Chapter Eight: Functional Strategy/Strategic Choice.
18	Class discussion of a case appropriate for middle of course focusing on situation analysis.
19	Continuation of case discussion focusing on alternatives.
20	Lecture/discussion of Chapter Nine: Organizing.
21	Class discussion of a case appropriate for middle of course focusing on situation analysis.
22	Continuation of case discussion focusing on alternatives.
23	Lecture/discussion of Chapter Ten: Staffing & Directing.
24	Class discussion of a case focusing on implementation issues.
25	Lecture/discussion of Chapter Eleven: Evaluation & Control.
26	Mid-term exam.
27	Class discussion of fairly complex case focusing on situation analysis.
28	Continuation of case discussion focusing on alternatives.
29	Lecture/discussion of Web Chapter on Technology & Innovation.
30	Class discussion of a complex technology case focusing on situation analysis.
31	Continuation of case discussion focusing on alternatives.

EXHIBIT 3 (Continued)

DAY	ACTIVITY
32	Lecture/discussion of Web Chapter on Entrepreneurial Ventures & Small Businesses.
33	Class discussion of an entrepreneurial case focusing on situation analysis.
34	Continuation of case discussion focusing on alternatives.
35	Lecture/discussion of Web Chapter on Not-For-Profit Organizations.
36	Midterm Exam.
37- 44	Management simulation or team projects.
45	Final Exam/Paper.

STRATEGIC MANAGEMENT

AND

BUSINESS POLICY

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PART B

CHAPTER NOTES

CHAPTER ONE

BASIC CONCEPTS OF STRATEGIC MANAGEMENT

This chapter sets the stage for the study of strategic management and business policy. It summarizes research supporting the conclusion that those corporations that are able to learn from their experiences and manage strategically perform at a higher level than corporations which do not. It describes a number of triggering events which act to initiate strategic change in most organizations. A normative model of strategic management is presented as the basic structure underlying the book. Key concepts are defined and explained as part of the discussion of the model. The chapter also introduces the strategic audit as a method of operationalizing strategic decision making.

TOPICS COVERED

- Phases of strategic management.

- Benefits of strategic management.

- Globalization and environmental sustainability as challenges to strategic management.

- Theories of organizational adaptation

- The learning organization.

- Basic model of strategic management.

- Triggering events initiating strategy.

- Mintzberg's modes of strategic decision making.

- Strategic decision making process.

- The strategic audit.

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

1.   Why has strategic management become so important to today's corporations?

Research indicates that organizations that engage in strategic management generally outperform those that do not. The attainment of an appropriate match or fit between an organization's environment and its strategy, structure, and processes has positive effects on the organization's performance. The three most highly-rated benefits of strategic management are a clearer sense of a firm's strategic vision, a sharper focus on what is strategically important, and an improved understanding of a rapidly changing environment. As the world's environment becomes increasingly complex and changing, strategic management is used by today's corporations as one way to make the environment more manageable.

2.   How does strategic management typically evolve in a corporation?

Strategic management in a corporation appears to evolve through four sequential phases according to Gluck, Kaufman and Walleck. Beginning with basic financial planning, it develops into forecast-based planning, and then into externally-oriented planning, and finally into a full-blown strategic management system. The evolution is most likely caused by increasing change and complexity in the corporation's external environment. The phases are thus

likely to be characterized by a change from primarily an inward-looking orientation in the first phase to primarily an outward-looking orientation in the third phase, and to a more integrative orientation in the final strategic management phase with equal emphasis on both the external and internal environments.

3.   What is a learning organization? Is this approach to strategic management better than the more traditional top-down approach in which strategic planning is primarily done by top management?

Simply put, a learning organization is one which is able to learn from its experiences. In reality, it is much more complicated. The text points out that learning organizations are skilled at four main activities: (1) systematic problem solving, (2) experimenting with new approaches, (3) learning from their own experience and past history as well as from the experiences of others, and (4) transferring knowledge quickly and efficiently throughout the organization. This means that people at all levels, not just top management, need to be involved in strategic management - by helping to scan the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures, and evaluation techniques. Research indicates that those organizations that are willing to experiment and able to learn from their experiences are more successful than are those which do not.

Top-down strategic management assumes that only top management is in a position to contribute to strategic planning. This approach can work reasonably well in bureaucratic organization with very little horizontal communication. Top-down strategic planning forces all units to get involved in the planning process and makes sure that all units fit into the overall corporate mission, objectives, strategies, and policies. A limitation of the top-down approach is that all motivation comes from the top and lower units may simply go through the motions in order to please the boss. The likelihood of fresh, new strategic concepts at lower levels of the organization becomes less, the more the stimulus for strategic planning comes from above.

4.   Why are strategic decisions different from other types of decisions?

Strategic decisions deal with the long-run future of the entire organization and have three characteristics which differentiate them from other types of decisions: (1) They are <u>rare</u>. Strategic decisions are unusual and typically have no precedent to follow; (2) They are <u>consequential</u>. Strategic decisions commit substantial resources and demand a great deal of commitment; (3) They are <u>directive</u>. Strategic decisions set precedents for lesser decisions and future actions throughout the organization. See *Top Decisions: Strategic Decision-Making in Organizations* by Hickson, Butler, Cray, Mallory, and Wilson for further discussion.

5.   When is the planning mode of strategic decision making superior to the entrepreneurial and adaptive modes?

The planning mode is generally superior to the entrepreneurial and adaptive modes when the organization is fairly large, when knowledge is spread throughout the organization, and when the organization has at least a moderate amount of time to engage in strategic planning. The book proposes that the planning mode is more rational and thus a better way of making most strategic decisions. It may not, however, always be possible. The entrepreneurial mode can be very useful when time is short, one person or group is able to grasp the essentials of the business and its environment, and that person or group is able to influence the rest of the organization to accept its strategic decision. The adaptive mode is generally not considered to be very effective in most situations, but seems to be the fallback mode when entrepreneurial or planning modes can't operate effectively because of political infighting or lethargy.

<div align="center">ADDITIONAL DISCUSSION QUESTIONS</div>

A1.   What is meant by a hierarchy of strategy?

A hierarchy of strategy is a term used to describe the interrelationships among the three levels of strategy (corporate, business, and functional) typically found in large business corporations. Beginning with the corporate level, each

level of strategy forms the strategic environment of the next level in the corporation. This means that corporate level objectives, strategies, and policies form a key part of the environment of a division or business unit. The objectives, strategies, and policies of the division or unit must therefore be formulated so as to help achieve the plans of the corporate level. The same is true of functional departments which must operate within the objectives, strategies, and policies of a division or unit.

A2.   Does every business firm have business strategies?

Every business firm should have a business strategy for every industry or market segment it serves. A business strategy aims at improving the competitive position of a business firm's products or services in a specific industry or market segment. Firms must therefore have business strategies even if they are not organized on the basis of operating divisions. Nevertheless, it is still possible that some business firms do not have clearly stated business strategies. If they hope to be successful, however, they must have at least some rudimentary (even though unstated) position they take in terms of getting and keeping customers or clients.

A3.   What information is needed for the proper formulation of strategy? Why?

In order to properly formulate strategy, it is essential to have information on the important variables in both the external and internal environments of the corporation. This includes general forces in the societal environment as well as the more easy-to-identify groups such as customers and competitors in the task environment. A corporation needs to have this information in order to identify a need it can fulfill via its corporate mission. It is also important to have information on the corporation's structure, culture, and resources. A corporation needs to have this information in order to assess its capabilities to satisfy a customer's need by making and/or distributing a product or service. Information on both the internal and external environments can also help a corporation to predict likely opportunities and threats. Long-term strategies can be designed with these in mind.

A4.   Reconcile the strategic decision-making process depicted in Fig. 1.5 with the strategic management model depicted in Fig. 1.2.

The strategic management model depicts the key input variables (internal and external environments) and the key output factors (mission, objectives, strategy, and policies). It shows how strategy formulation, implementation, and evaluation and control are related and how a change in any one factor (e.g., corporate objectives) affects other factors (e.g., strategies, policies, programs, budgets, procedures, evaluation and control techniques). This model, however, does not depict how these output factors are generated. In contrast, the strategic decision-making model depicts how the process of strategic management happens in the form of strategic decisions. It is a series of interrelated activities depicted as eight distinct steps. These two models therefore complement one another and are very useful in increasing one's understanding of strategic management.

SUGGESTIONS FOR STRATEGIC PRACTICE EXERCISE

This end of chapter exercise is a good way to motivate students to apply some of the concepts in the chapter, particularly those from the strategic management model. There are a lot of bad mission statements being written. The most blatant are the ones that simply say "Our mission is to build shareholder value."

The text states that a good mission statement should define the fundamental, unique purpose that sets the company apart from other firms of its type and identifies the scope of the company's operations in terms of products offered and markets served. It may also include the firm's philosophy about how it does business and treats its employees. It puts into words not only what the company is now, but what it wants to become - management's strategic vision of the firm's future. Simply put, a good mission statement tells who we are, what we do, and what we'd like to become.

Andrew Campbell proposes ten questions for evaluating a mission statement. Both exercises request the reader to use Campbell's questions as a starting point to develop suitable criteria for evaluating any mission statement.

• *Exercise 1: Evaluate the mission statement of Celestial Seasonings.*

This is a good example of a mission statement. Even if someone had never heard of Celestial Seasonings, the mission statement tells clearly that this is a company which makes specialty teas. Its scope of operations is natural hot and iced teas. Its domain is the U.S. specialty tea market. Its strategic vision is to grow and dominate this market by satisfying the customer more than does the competition. It indicates a strong quality orientation and a focus on continuous improvement. This mission statement does a good job of establishing a solid foundation upon which can be built objectives, strategies, and policies as part of strategy formulation. Depending upon one's answers to Campbell's ten questions, the Celestial Seasonings mission statement could earn a total score of around 12. (1=Y; 2=S; 3=S; 4=Y; 5=S; 6=S; 7=S; 8=N; 9=S; 10=Y for a total of 11.) Ask the class if they agree that all of Campbell's ten questions are equally important. Should some be dropped and others added? Why?

• *Exercise 2: Using the Internet, find the mission statements of three different organizations and tell which is best. Why?*

This is a good exercise to encourage students to begin Internet research. This exercise serves two purposes. It gets everyone up to speed in terms of doing Internet research. It also forces them to re-read chapter one to get a solid understanding of what differentiates a good from a poor mission statement. Encourage them to use Campbell's ten questions to develop criteria. You can give them this assignment on the first day of class and then use the second day to discuss chapter one and the various mission statements people have found. This is a good way to encourage student participation in the class.

CHAPTER TWO

CORPORATE GOVERNANCE

This chapter describes the basic governance mechanisms of the corporation: the board of directors and top management. These are the people who are primarily tasked with the strategic management process if the corporation is to have long-term success in accomplishing its mission. The responsibilities of both are described and explained. It proposes a board of directors' continuum on which boards can be placed in terms of their involvement in strategic management. Agency theory is contrasted with stewardship theory. The chapter explains how the composition of the board can affect both its performance and that of the corporation. It also describes the impact of the Sarbanes-Oxley Act on corporate governance in the U.S. and trends in corporate governance around the world. Top management is discussed in terms of executive leadership, strategic vision, and managing the strategic planning process.

TOPICS COVERED

- Responsibilities of the board of directors and its role in strategic management.

- Board of directors' continuum

- Composition of the board of directors.

- Agency theory versus stewardship theory.

- Codetermination and interlocking directorates.

- Impact of the Sarbanes-Oxley Act on U.S. corporate governance.

- Trends in corporate governance.

- Responsibilities of top management in strategic management.

- Executive leadership and the importance of strategic vision.

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

1.   When does a corporation need a board of directors?

A board of directors is needed to protect the interests of the corporation's owners, its shareholders. By law, when a company incorporates, it must have a board of directors - even if the stock is only held by the founder and his/her spouse. A good case can be made that a small, closely-help corporation has no need of a board. Since the owners are likely to compose both top management and board membership, the board becomes superfluous at best and may even create more problems that it solves by getting in the way of management's quick response to opportunities and threats. The board meets only to satisfy legal requirements. Even when stock is more widely owned in a publicly-held corporation, the board may be composed of nothing but a few insiders who occupy key executive positions and few friendly outsiders who go along with the CEO on all major issues. Nevertheless, the rationale for the board of directors seems to be changing from simply one of safeguarding stockholder investments to a broader role of buffering the corporation from its task environment and forcing management to manage strategically. If nothing else, the board can do the corporation a great service by simply offering top management a different point of view. The board's connections to key stakeholders in the corporation's task environment can also provide invaluable information for strategic decision-making. This is the main reason why advisory boards are often used by companies that are not incorporated and thus have no   shareholders.

2. Who should and should not serve on a board of directors? What about environmentalists or union leaders?

This is a wide-open question with no simple answer. Some may argue that representatives from each stakeholder group in the corporation's task environment should be included so as to keep top management aware of key environmental considerations. Others may argue that only outsiders with no personal stake in the corporation (i.e., not a member of a local bank or a key supplier, etc.) would be best able to bring the amount of objectivity needed to help make strategic decisions. This is the point of view taken in the U.S. by the Sarbanes-Oxley Act. A good argument can be started by suggesting that a representative from labor be a director. This is done in Germany. If this makes some sense, who should it be – a union member that is an employee of the corporation or an employee of another corporation? If the firm is not unionized, what then? Further discussion can be generated by suggesting that the composition of the board reflect the key demographics of the corporation's workforce in terms of race, sex, and age. Environmentalists could provide excellent information to top management, but could be a problem if they argue only for environmental considerations without regard to the corporation's other stakeholders.

This question provides the instructor with the opportunity to get the class involved in a discussion of agency and stewardship theories. *Agency theory* suggests that insiders should be kept to a minimum and that the board be heavily composed of objective outsiders who own large blocks of stock. Because of their stake in corporate decisions, affiliated directors would not be considered for board membership. This would ensure that the board would primarily represent shareholder interests and objectively monitor the "hired hands" serving as top management. This is the point of view taken by the Sarbanes-Oxley Act in the U.S. In contrast, stewardship theory views top management as concerned "stewards" of the corporation – people who may have a greater concern for the corporation as a whole and its survival than do the shareholders, who may only be interested in earnings per share and little else. *Stewardship theory* suggests that the board should be composed of people who can provide important information from the task environment and valuable insight to top management. It would work to consider interests beyond shareholder value.

3. Should a CEO be allowed to serve on another company's board of directors?

The majority of outside directors are active or retired CEOs of other corporations. The chapter states that the average board member of a U.S. Fortune 500 firm serves on three boards and that only 40% of U.S. boards limit the number of directorships a board member many hold in other corporations. CEOs from other firms are highly valued because they can provide excellent advice to the CEO. Having a CEO from another firm serve on a corporation's board of directors results in an interlocking directorate between the two corporations. The text points out that this is a good way to obtain inside information about an uncertain environment and objective expertise about potential strategies and tactics. For these and other reasons, well-interlocked firms are better able to survive in a highly competitive environment. This is a good reason for allowing a firm's CEO to serve on the boards of other companies. The CEO is likely to bring back information and contacts that are be very useful to the corporation.

There is a down side, however, to allowing a CEO to sit on the boards of other firms. For one thing, serving on another company's board requires time and energy being devoted to something other than the job he/she is paid to fulfill. Given the increasing pressure being placed on board members, such service is becoming increasingly onerous. Because of this, the typical CEO now sits on only one board in addition to his/her own – down from two additional boards in the 1990s. Consequently, a board should work closely with its CEO to decide which other board(s) are most useful to the company for the CEO to join.

4. What would be the result if the only insider on a corporation's board were the CEO?

One result would be a board composed primarily of outsiders who would be objective, but also dependent upon the CEO for information about the company and its activities. Thanks to Sarbanes-Oxley and other actions by the New York Stock Exchange, this appears to be a trend in most U.S. Fortune 500 companies. As of 2007, the typical U.S. Fortune 500 board had an average of ten directors, only two of whom being insiders. The number of insiders tends to be higher for boards in other countries. Even when a   CEO might be the sole insider on the board, he/she

still has a great deal of influence because the CEO usually also serves as the Chairman of the Board. Nevertheless, an increasing number of boards are selecting a "lead director" to oversee the evaluation of top management, so this can counter the dual CEO/Chair's power. A positive result of the CEO being the only insider on a board is that the board would be more likely to be objective and serious about its responsibility to oversee the corporation's management. A negative result would be the lessened opportunity to view potential successors in action or to obtain alternate points of view to management decisions.

5.   Should all CEOs be transformation leaders? Would you like to work for a transformational leader?

According to the text, top management must successfully handle two responsibilities that are crucial to the effective strategic management of the corporation: (1) provide executive leadership and a strategic vision and (2) manage the strategic planning process. The text further argues that successful CEOs often provide this executive leadership by taking on many of the characteristics of the transformation leader by communicating a clear strategic vision, demonstrating a strong passion for the company, and communicating clear directions to others. Such transformational leaders, like Bill Gates at Microsoft, Steve Jobs at Apple, and Anita Roddick at The Body Shop, have been able to command respect and energize their employees.   They not only articulated a strategic vision, but they also presented a role for others in the company to identify with and to follow. Their communication of high performance standards coupled with their confidence in their fellow employees often raised performance to a high level.   Nevertheless, such transformation leaders can be very difficult to work for and their overconfidence may even get the firm in trouble.   Their forcefulness may drive other competent people away when they fail to allow for differences of opinion.   Hint to the instructor: Once the class has discussed the pros and cons of transformation leaders, ask them how many would like to work for such an executive? Use Donald Trump as an example. ("You're fired!" You may be surprised by the number of people who would not like to work for such a CEO.

ADDITIONAL DISCUSSION QUESTIONS

A1.   What recommendations would you make to improve the effectiveness of today's boards of directors?

Among the many suggestions often made are the following:

    • Add more outsiders (people not affiliated with the corporation) to the board of directors. Keep the percentage of insiders (typically top management) to less than 50% of board membership.

    • Separate the positions of CEO and Chairman so that top management cannot unduly influence the board's meetings and agenda. This should improve the board's ability to properly evaluate top management. If can't separate Chair from CEO, select a Lead Director from among the outside directors.

    • Use a committee composed of outsiders to nominate potential new directors. This will help to ensure that potential members are not friends of top management who may owe more allegiance to the CEO than to the shareholders.

    • Nominate people to the board who have knowledge valuable to the board and who have expertise of value to top management. These should be people who will have the respect of top management and who can both advise and criticize top management as needed. Make sure that they are diverse in terms of background and experience.

    • Require board members to own substantial amounts of stock in the corporation to ensure that they have a personal as well as professional stake in the welfare of the corporation.

    • Allow shareholders to nominate people for election to director.

A2.   Is there a conflict between Agency Theory and the concept of organizational stakeholders?

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Agency theory is concerned with problems that occur in relationships between principals (owners) and their agents (top management). Because agents are, in effect, "hired hands," their interests are not usually aligned with those of the owner (stockholders) of a corporation. Consequently, agency theory is primarily interested in ways to better align these two sets of interests, such as management owning significant shares of stock or having a strong financial stake in the long-term performance of the corporation via long-term incentive plans. This helps to ensure that management looks beyond selfish short-term benefits of a decision to the more strategic issues that concern stockholders. The *concept of organizational stakeholders*, in contrast, looks at more than just owners and managers. It argues that groups other than stockholders and top management have a significant stake in the actions of the corporation and need to be considered in strategic decisions. What might benefit owners and management might hurt employees, the local community, or the environment. The concept of stakeholders thus proposes that the suggestions of agency theory are incomplete and insufficient to ensure that top management deals fairly not only with stockholders, but also with the needs of all concerned stakeholder groups. As it is currently defined, agency theory is more in agreement with Milton Friedman's narrow view of the responsibilities of a corporation than with the stakeholder view more common to concerns of social responsibility. (See Chapter Three for Friedman's view of corporate responsibility.) This could change if society begins to consider top management not only as direct agents for stockholders, but also as indirect agents for other groups with a stake in the corporation's activities. Agency theory could thus be expanded to include the concerns of other interested groups and thus incorporate the stakeholder approach.

SUGGESTIONS FOR STRATEGIC PRACTICE EXERCISE

The end of chapter exercise asks the student to evaluate the "best" and the "worst" manager for whom the student has worked. The questionnaire is based on the concept of French and Raven's "bases of power." This concept is usually discussed in Introduction to Management as well as in Organizational Behavior textbooks as a part of their discussion of leadership. You may need to briefly explain what each base means as part of your discussion of their scores. Briefly, reward power is based on someone's ability to give another something that is valued for doing what the other person wants. Coercive power is based on someone's ability to give someone something that is disliked if the other person does not do what is desired. Legitimate power is like authority in that it is based on one person's belief that another person has the right to ask him/her to do something. Referent power is like charisma in that it is one person's ability to get others to identify with him/her and to want to be like that person. Expert power is based on a person's knowledge or abilities in an area that is important for job performance and that the person is willing to share with someone else.

List the five bases of power on the board. Ask around five members of the class to provide you with their scores for their "best manager" on each of bases. Write their totals under each of the five bases on the board and then calculate the average for each base. Do the same thing for the same five students for their "worst boss." In most instances, the average "best boss" will score higher than the average "worst boss" on referent, expert, and reward power and lower on coercive and legitimate power. Since the "best manager" tends to have many of the characteristics of the transformational leader, this questionnaire provides some interesting information to use in answering the fifth discussion question: *Would you like to work for a transformational leader?*

ADDITIONAL TEACHING MODULE

CORPORATE GOVERNANCE STYLES

Just as boards of directors vary widely on a continuum of involvement in the strategic management process, so do top management teams. For example, a top management team with a low involvement in strategic management will tend to be functionally oriented and will focus its energies on day-to-day operational problems; this type of team is likely either to be disorganized or to have a dominant CEO who continues to identify with his or her old division. In contrast, a top management team with high involvement will be active in strategic planning. It will try to get division managers involved in planning so that top management will have more time to scan the environment for challenges and opportunities.

Both the board of directors and top management can be placed on a matrix that reflects four basic styles of corporate governance.

Styles of Corporate Governance

	High		
Degree of Involvement		Entrepreneurship Management	Partnership Management
by			
Top Management		Chaos Management	Marionette Management
	Low		

Low   High

Degree of Involvement by Board of Directors

Chaos Management

When both the board of directors and top management have little involvement in the strategic management process, their style is referred to as chaos management. The board waits for top management to bring it proposals. Top management is operationally oriented and continues to carry out strategies, policies, and programs specified by the founding entrepreneur who died years ago. The basic strategic philosophy seems to be, "If it was good enough for old J.B., it's good enough for us." There is no strategic management being done here.

Entrepreneurship Management

A corporation with an uninvolved board of directors but a highly involved top management has entrepreneurship management. The board is willing to be used as a rubber stamp for top management's decisions. The CEO, operating alone or with a team, dominates the corporation and its strategic decisions. An example is Control Data Corporation under the leadership of its founder William C. Norris. For twenty-nine years, Norris dominated both the company's top management and its board of directors. Insisting that the company could profit by addressing "society's unmet needs." Norris directed corporate investments into the rejuvenation of ghettos and support of wind-powered generators and tundra farming, among other projects. Although these investments tended to result in losses, few people were willing to challenge his strategic decisions. Some employees even referred to him as "the Pope." A former Control Data executive noted, "More often than not, he's proven his critics wrong, so now his visions aren't challenged."

Marionette Management

Probably the rarest form of strategic management style, marionette management occurs when the board of directors is deeply involved in strategic decision making, but top management is primarily concerned with operations. Such a style evolves when a board is composed of key stockholders who refuse to delegate strategic decision making to the president. The president is forced into a COO role and can do only what the board allows him/her to do. This style also occurs when a board fires a CEO but is slow to find a replacement. The COO or executive vice-president stays on as "acting" president or CEO until the selection process is complete. In the meantime, strategic management is firmly in the hands of the board of directors.

Marionette Management occurred at Winnebago Industries when the company's Board of Directors, chaired by its

founder, 72-year-old John K. Hanson, took away Ronald Haugen's title as chief executive officer, but left him as company president. No new CEO was named. Hanson, whose family owned 46% of Winnebago's stock, had given up the CEO title in 1983 to President Haugen, a long-time employee. Outside observers noted that although Chairman Hanson did not also hold the title of CEO, he appeared to have taken on the CEO's responsibilities once again.

<u>Partnership Management</u>

Probably the most effective style of strategic management, partnership management is epitomized by a highly involved board and top management. The board and top management team work closely to establish the corporate mission, objectives, strategies, and policies. Board members are active in committee work and utilize strategic audits to provide feedback to top management on its implementations of agreed-upon strategies and policies. This appears to be the style in a number of successful corporations such as Texas Instruments, Target, and General Electric Company.