Fundamentals of Strategic Management

CHAPTER 1

Source: Creative icon styles/Shutterstock.com.

Chapter Outline

What do Brookstone, Sears, iHeart Media, Toys "R" Us, Payless, and Mattress Firm have in common? Each of these recognized companies has filed for bankruptcy since 2017. But firms fail for different reasons. For example, Sears and Toys "R" Us succumbed to abrupt industry changes brought about by Amazon and other online rivals. Sometimes, bad luck can play a role.

Nonetheless, there are some fundamental strategic differences between most successful and unsuccessful firms. Successful firms typically plan, prepare, and execute more effectively than their rivals. Likewise, those with competent leaders capable of thinking strategically usually fare the best during difficult times. Strategy matters.

This book is about strategic management—developing a systematic, strategic perspective for managing an organization. The model presented herein employs the language of profit-seeking firms, such as *industries*, *corporate restructuring*, *production costs*, and *product differentiation*. The strategic principles presented in this book are not limited to manufacturers and service firms but can be applied to nonprofit organizations and government as well. Understanding and applying them can help make any organization more successful.

Strategic management is more critical than ever. Today's business world is global, Internet-driven, and obsessed with speed, and the challenges it creates for top managers are often complex, ambiguous, and unstructured. Add to this the constant allegations of top-management wrongdoings, increasing executive compensation, and global economic shocks like COVID-19, and it is easy to see why leaders are under great pressure to respond to strategic problems quickly, decisively, and responsibly. Indeed, the need for effective strategic management has never been more pronounced.

This chapter introduces the notion of strategic management, highlights its importance, and presents a five-step process for strategically analyzing an organization. The remaining chapters expand on each step in the process, with an emphasis on their application to ongoing enterprises.

What Is Strategic Management?

Mission The reason for an organization's existence. The mission statement is a broadly defined but enduring statement of purpose that identifies the scope of an organization's operations and its offerings to affected groups (i.e., stakeholders, as defined later in the book).

Mission statements vary widely. Compare and contrast many of the mission statements of *Fortune 500* firms at http://www.missionstatements.com/fortune_500_mission_statements.html.

Strategy Top management's plans to attain outcomes consistent with the organization's mission and goals.

Strategic management The continuous process of determining the mission and goals of an organization within the context of its external environment and its internal strengths and weaknesses, formulating and implementing strategies, and exerting strategic control to ensure that the organization's strategies are successful in attaining its goals.

Each organization exists for a purpose. Its **mission** is a broadly defined but enduring statement of purpose that identifies the scope of an organization's operations and its offerings to affected groups and entities. Most established organizations have developed a formal mission statement. Tesla's mission is "to accelerate the world's transition to sustainable energy." JetBlue seeks "to inspire humanity, both in the air and on the ground." Missions are discussed in more detail in Chapter 5.

Strategy refers to top management's plans to develop and sustain **competitive advantage**—a situation whereby a firm's successful strategies cannot be easily duplicated by its competitors[1]—so that the organization's mission is fulfilled.[2] This definition starts with the notion that an organization has a plan, its managers understand how to achieve competitive advantage, and its members know the mission—why the company exists. Sometimes these assumptions do not hold; many strategic problems emanate from ill-conceived strategies. Sometimes managers disagree about an organization's competitive advantage, its mission, or whether or not a strategic plan is even necessary.[3] Comments such as "We're too busy to focus on developing a strategy" or "I'm not exactly sure what my company is really trying to accomplish" are all too common in many organizations.

Strategic management is a broader term than *strategy* and is a process that includes top management's analysis of the organization's environment prior to formulating a strategy, as well as the plan for implementation and control of the strategy. Put another way, the difference between a strategy and the strategic management process is that the latter includes considering what must be done before a strategy is formulated through assessing whether the success of an implemented strategy was successful. The strategic management process can be summarized in five steps, each of which is discussed in greater detail in subsequent chapters of the book (see Figure 1-1)[4]:

1. **External Analysis:** Analyze the opportunities and threats or constraints that exist in the organization's external environment, including industry trends and forces in the external environment.
2. **Internal Analysis:** Analyze the organization's strengths and weaknesses in its internal environment. Consider the context of managerial ethics and corporate social responsibility.
3. **Strategy Formulation:** Formulate strategies that build and sustain competitive advantage by matching the organization's strengths and weaknesses with the environment's opportunities and threats.
4. **Strategy Execution:** Implement the strategies.
5. **Strategic Control:** Measure success and make corrections when the strategies are not producing the desired outcomes.

The sequential order of the steps is logical. A thorough understanding of the organization and its environment is essential if the appropriate strategy is to be developed, put into action, and controlled. Arguably, step 2 could occur before step 1. The external environment is analyzed before the internal environment (see Figure 1-1), however,

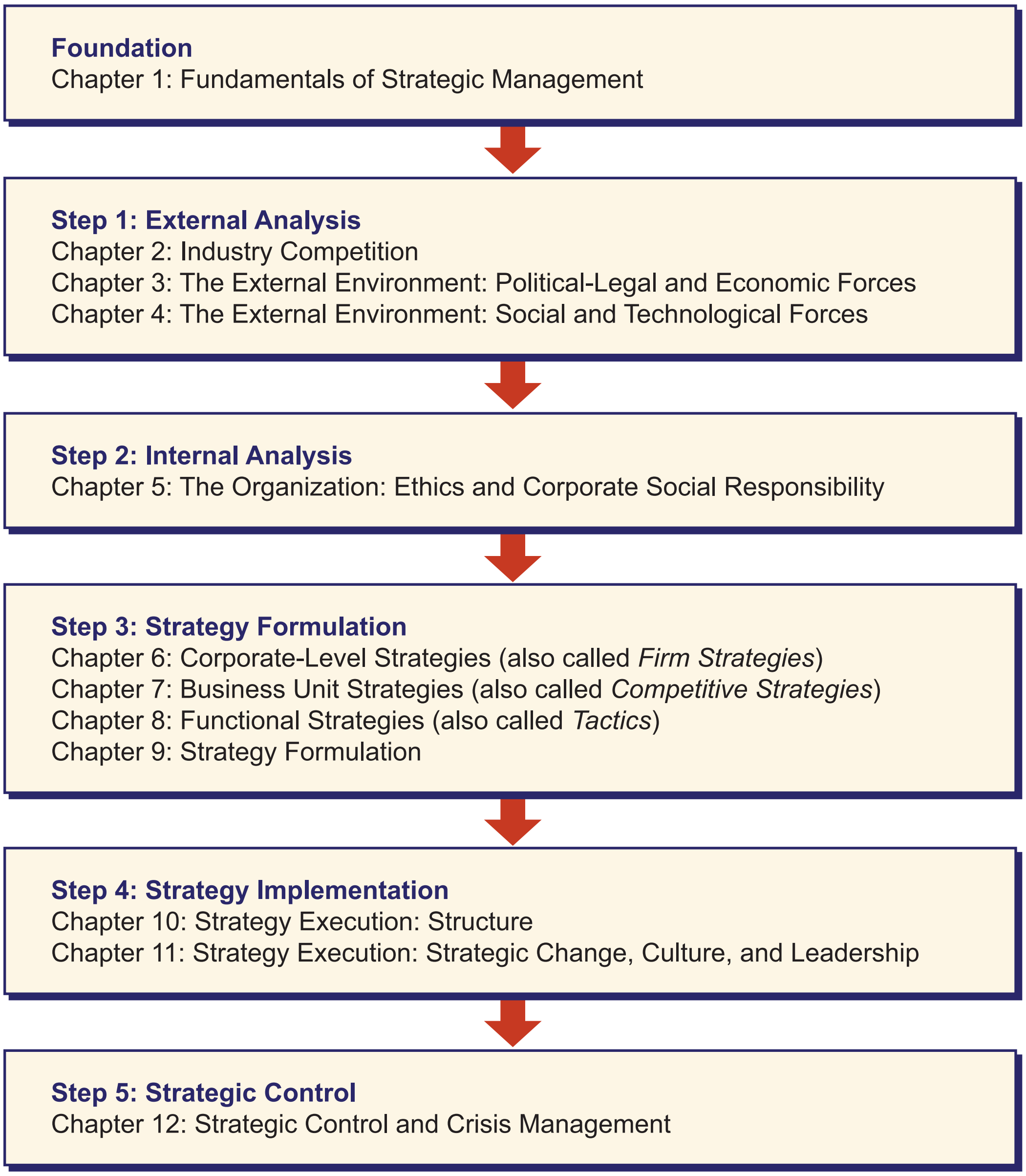

FIGURE 1-1
Organization of the Book

because internal goals, resources, and competencies are viewed *relative* to rivals and are understood within the context of the industry and the factors that drive it. For example, Hyatt's "World of Hyatt" loyalty program is only a company strength to the extent that it is better than the loyalty programs offered by Marriott, Hilton, and other competitors. In this respect, a firm is understood within the context of its environment.

The notion of strategic management is linked to two key economic concepts. The first is what economists and investors call the **efficient market hypothesis**, the idea that all individuals or firms in a market earn the same returns in the long run. For investors, this means that everyone has access to the same information, so it is impossible to *consistently* "buy low and sell high." For firms, this means that unique benefits or high profits result from either randomness or strategic resources that can be copied by other rivals. Although there is some evidence supporting the efficient market hypothesis—and a thorough review of the extant research is beyond the scope of this book—completely accepting it negates the value of strategic planning. Because the hypothesis is not entirely accurate, we know that firms whose managers plan effectively can enjoy higher-than-average profits over time.

The second economic concept linked to strategic management is that of **subjective value,** the idea that a resource's value is determined by the individual or organization

Efficient market hypothesis The idea that all individuals or firms in a market earn the same returns in the long run.

Subjective value The idea that a resource's value is determined by the individual or organization possessing it, not an objective measure that would be the same for all firms.

possessing it, not an objective measure that would be the same for all firms. For example, having a highly trained workforce with strong technical skills is of greater value to an organization that emphasizes technology in production than to one whose approach is labor-intensive. The notion of subjective value explains why one firm is willing to pay a premium (i.e., more than the value based on the current stock price) to acquire another firm; its managers believe the firm is more valuable as part of the acquiring firm. The efficient market hypothesis explains why companies with similar resources tend to perform at similar levels, but the notion of subjective value explains why substantial performance variation can exist among comparable firms.

A distinction between outside and inside perspectives on strategy is also relevant. *Outsiders* analyzing a firm should apply a systematic approach that progresses through these steps in order. Doing so contributes to a complete understanding of the firm, its industry, and its strategic challenges.

Inside organizations, strategies are being formulated, implemented, and controlled simultaneously, while external and internal factors are continually reassessed. In addition, changes in one stage of the strategic management process will inevitably affect other stages as well. Firms typically modify their strategies during implementation as conditions change. Hence, because these steps are so tightly intertwined, *insiders* tend to treat all the steps as a single integrated, ongoing process.[5]

Consider the strategic management process at a fast-food restaurant chain. At any given time, top managers are likely assessing changes in consumer taste preferences and food preparation, analyzing the activities of competitors, working to overcome firm weaknesses, controlling remnants of a strategy implemented several years ago, implementing a strategy crafted months earlier, and formulating strategic plans for the future. Although each of these activities is associated with a distinct stage in the strategic management process, they occur simultaneously.

Business model The economic mechanism by which a business hopes to sell its goods or services and generate a profit.

An effective strategy is built on the organization's **business model**, the mechanism whereby the organization seeks to earn a profit by selling its goods or services. While all firms seek to produce a product or service and sell it at a price higher than its production and overhead costs, a business model is more detailed. For example, a magazine publisher might adopt a "subscription model," an "advertising model," or perhaps some combination of the two. Profits would be generated primarily from readers under the subscription model but from advertisers under the advertising model. Identifying a firm's business model can become more complicated when intricate details are considered. Progressive firms often devise innovative business models that extract revenue—and ultimately, profits—from sources not identified by competitors.

Consider the *razor and blades* business model developed by Gillette. A company gives away or deeply discounts a product—the razor—while planning to profit from future sales of required replacement or complementary products—the blades. Customers willing to sign a two-year service contract might receive a deeply discounted cell phone. Computer printers are often sold below production cost, but customers must periodically replace the ink cartridges, high margin items. This model is not foolproof, however. In a competitive marketplace, customers may be able to purchase the required complementary products at lower prices from rivals not under pressure to recoup initial losses. Online companies like Harry's and Dollar Shave Club have challenged the razor and blades business model with a different, cheaper way to purchase shaving supplies. Aftermarket printer cartridges are often available from sellers on eBay at a fraction of the prices charged by manufacturers.

Successful business models can change over time, and many of the changes are Internet-driven. For example, since the early 2000s, many authors have strayed from the traditional business model whereby book publishers offer contracts and pay royalties of 10–15 percent. Leveraging advances in publishing software, social media, and a robust online retail book market, they have opted for a "self-publishing" model. Enterprising authors who publish their work also shoulder the initial risk but can net as much as a 70 percent return on e-book sales from companies like Amazon. More than one million books are self-published in the United States each year.

Consider the auto industry. Tesla sells its electric vehicles to consumers in the United States directly through the Internet. Tesla is pursuing this approach out of both necessity—the small carmaker lacks a nationwide dealer network—and a desire to improve efficiency. Industry groups have attempted to block the move, arguing that carmakers should not be allowed to "bypass" franchised auto retailers. In some states, laws restricting direct sales have been in place for years to protect the territorial rights of local franchises. Tesla has no franchisees, and its leadership has argued that such laws violate the company's right to sell products in the way it deems appropriate.[6]

South Africa's SMD (http://www.smd.co.za) has an unusual business model, selling vehicles on behalf of insurance companies directly to the public. These vehicles are often damaged—some substantially—and require repair. Its customers may be willing to do some of the work themselves or tolerate a few dents. Hence, SMD is making vehicle ownership affordable to the underserved lower-income category of South Africans.

Innovative business models can be found in retail, even in the Amazon era. David Schlessinger and Tom Vellios founded Five Below, Inc. in 2002. The retail chain grew from fewer than 200 stores following its initial public offering (IPO) in 2012 to almost 800 in 2018, during a time in which traditional retailers have struggled amid pressure from online rivals. Five Below's business model differs from that of a typical dollar store and features a vast array of products priced at $5 or less, many of which are less expensive than on Amazon. Its stores are relatively small—about 8,000 square feet—with shelving no higher than 5 feet. As Bradly Thomas, Key-Banc managing director of equity research, puts it, "No retailer is truly Amazon-proof, but [Five Below is] in a better position than most. You will save money if you shop at Five Below rather than on Amazon. Most retailers can't say that."[7]

The emergence of new Internet-based business models has created some significant challenges, however. The business model for many lesser-known brands has shifted toward live-streaming of performances on YouNow and other apps. Much of the revenue is generated not through purchases but through virtual tips left by online fans.[8]

Many websites do not receive revenue directly from patrons but instead from advertisers based on traffic generated through the site. "Paying for clicks" has its merits because advertisers are only required to compensate sites when prospective customers respond to an ad. However, tens of thousands of dubious websites have emerged in the last few

Amazon: Leveraging the Internet

Source: Sundry Photography/shutterstock.com.

years, each supported by "botnets," armies of hijacked computers working in unknown locations across the globe. The botnets create phony web traffic to advertisers, enabling the proprietors of these illegitimate sites to collect payments. The most sophisticated botnets appear to be real online consumers, pausing to view advertisements, clicking from site to site, watching videos, and even putting items in shopping carts. Hence, advertisers are paying for faux web traffic. Given the technological complexity and global nature of the problem, it is difficult to prosecute the perpetrators.[9] Hence, firms can benefit from innovative business models, but executing them can be more complicated than one might expect.

Business models can also include the concept of social entrepreneurship because profit is only one measure of company performance. Many entrepreneurs define success in part by examining the effects that their products and services have on individuals or specific groups, such as the poor—the "bottom of the pyramid." TOMS donates a pair of shoes to the poor for each one purchased, a pair of glasses for each pair of TOMS eyewear purchased, and a week of clean water for each bag of coffee purchased. From a social perspective, this business model can be judged on both its profitability and its effects on the alleviation of poverty. From a marketing standpoint, this business model targets consumers who wish to purchase from firms that embody a social orientation. Consumers who want to "make a difference in the world" might be more inclined to buy TOMS shoes.

Although a successful strategy is built on the firm's business model, crafting one can be a challenge. Factors typically associated with successful strategies include the following:

1. The organization's competitive environment is well understood.
2. Strengths and weaknesses are thoroughly and realistically assessed.
3. The strategy is consistent with the mission and goals of the organization.
4. Plans for putting a strategy into action are designed with specificity before it is implemented.
5. Possible future changes in a proposed strategy are evaluated before it is adopted.

Careful consideration of these factors reinforces the interrelatedness of the steps in the strategic management process. Each factor is most closely associated with one of the five steps, yet they fit together like pieces of a puzzle. The details related to the success factors—and others—will be discussed in greater detail in subsequent chapters.

While some of these success factors are associated with the competitive environment in profit-seeking firms, strategic management is not limited to for-profit organizations. Top managers of any organization, regardless of profit or non-profit status, must understand the organization's environment and its capabilities and develop strategies to assist the enterprise in attaining its goals. Former Drexel University President Constantine Papadakis, for example, was widely considered to be leading strategic thinker among university top executives. The innovative Greek immigrant promoted Drexel through aggressive marketing while campaigning for an all-digital library without books. In many respects, he managed the university in the same way that other executives manage profit-seeking enterprises. His annual salary was close to $1,000,000 in the years preceding his death in 2009, making him one of the highest-paid university presidents at the time.[10]

Intended and Realized Strategies

A critical challenge facing organizations is the reality that strategies are not always implemented as originally planned. Sometimes strategic decisions seem to evolve incrementally. In this respect, strategy formulation can be seen as an iterative process where decision-makers take actions, make sense of those actions afterward, and then decide how to proceed.

Intended strategy The original strategy top management plans and intends to implement.

Henry Mintzberg introduced two terms to help clarify the shift that often occurs between strategy formulation and implementation. An **intended strategy** (i.e., what management planned initially) may be realized just as it was designed, in a modified form, or even in an entirely different way. Occasionally, the strategy that management intends is realized, but the intended strategy and the **realized strategy**—what management implements—usually differ.[11] Hence, the original strategy may be realized with desirable or undesirable results, or it may be modified as changes in the firm or the environment become known.

Realized strategy The strategy top management implements, which may differ significantly from the one originally intended.

The gap between the intended and realized strategies usually results from unforeseen environmental or organizational events, better information that was not available when the strategy was formulated, or an improvement in top management's ability to assess its environment. Although it is important for managers to formulate responsible strategies based on a realistic and thorough assessment of the firm and its environment, things invariably change along the way. Hence, it is common for such a gap to exist, creating the need for constant strategic action if a firm is to stay on course. Instead of resisting modest strategic changes when new information is discovered, managers should search for further information and be willing to make such changes when necessary. This activity is part of strategic control, the final step in the strategic management process.

> Henry Mintzberg has contributed a lot to our current understanding of strategic thinking. His views often challenge conventional wisdom. Consider his 5 Ps for strategy at http://www.mindtools.com/pages/article/mintzberg-5ps.htm.

Scientific and Artistic Perspectives on Strategic Management

There are two different perspectives on the approach that top executives should take to strategic management. Most strategy scholars have endorsed a *scientific perspective*, whereby strategic managers systematically assess the firm's external environment and evaluate the pros and cons of myriad alternatives before formulating a strategy. The business environment is seen as mostly objective, analyzable, and predictable. As such, strategic managers should follow an orderly process of environmental, competitive, and internal analysis and build the organization's strategy accordingly.

According to the scientific perspective, strategic managers should be trained, highly skilled analytical thinkers capable of digesting data from a multitude of sources and translating it into a coherent strategy for the firm. "Strategy scientists" tend to minimize the role of imagination and creativity in the strategy process. Many are not receptive to alternatives that do not emerge from a comprehensive, analytical approach.

Others have a different view. According to the *artistic perspective* on strategy, the lack of environmental predictability, and the fast pace of change render elaborate strategy planning as suspect at best. Instead, strategists should incorporate large doses of creativity and intuition to design a comprehensive strategy for the firm.[12] Henry Mintzberg's notion of a craftsman—encompassing individual skill, dedication, and perfection through mastery of detail—embodies the artistic model. The strategy artist senses the state of the organization, interprets its subtleties, and seeks to mold its strategy like a potter molds clay. The artist visualizes the outcomes associated with various alternatives and ultimately charts a course based on holistic thinking, intuition, and imagination.[13] "Strategy artists" may even view strategic planning exercises as time poorly spent and may not be as likely as those in the science school to make an effort necessary to maximize the value of systematic planning.[14]

This book emphasizes the science view. Creativity and innovation are essential and encouraged but are most likely to translate into organizational success when they occur as part of a comprehensive, systematic approach to strategic management. Nonetheless, the type of formal strategic planning proposed in this text is not without its critics. Some contend that such models are too complicated, or that they apply only to businesses in highly certain environments.[15] Mintzberg and others have argued that a traditional strategic planning approach is too stodgy and stifles the creativity and imagination that is central to formulating an effective strategy.[16]

These criticisms of traditional, "legacy" strategic planning have merit. While the strategic management process is a sequential process, firms function in a fast-paced environment. **Strategic thinking**—applying the process and principles utilized in strategic planning sessions to ongoing strategic challenges—is also important. Effective strategic leaders are masters at both formal strategic planning and strategic thinking.

Strategic thinking The application of the process and principles utilized in strategic planning sessions to ongoing strategic challenges.

Influence on Strategic Management

Strategic managers must understand the technical dimensions of their organizations as well as the functional areas of business, such as marketing, production, finance, and human resources. Because strategic management is an interdisciplinary field, they must also be familiar with contributions from related areas such as economics, psychology, and sociology. This required breadth of knowledge contributes to the complexity of the field. Answers to strategic problems are often unclear and depend on one's perspective, but not every alternative is equally viable. A closer look at the strategic management discipline sheds light on this dilemma.

The roots of the strategic management field can be traced to the 1950s when the discipline was initially called "business policy." Today, strategic management is an eclectic field, drawing upon a variety of theoretical frameworks. Three prominent perspectives are summarized in Table 1-1 and discussed below. There are many other influences as well, but these three illustrate how competing viewpoints have coalesced into an overarching discipline.

Industrial organization (IO) A view based in microeconomic theory which states that firm profitability is most closely associated with industry structure.

Industrial organization (IO), a branch of microeconomics, emphasizes the *influence of the industry environment* upon the firm. The central tenet of industrial organization theory is the notion that a firm must adapt to influences in its industry to survive and prosper; thus, its financial performance is driven primarily by the success of its industry. Industries with favorable structures offer the best opportunities for firm profitability.[17] Following this perspective, it is more important for a firm to choose the correct industry within which to compete than to determine *how* to compete within a given industry. Recent research has supported the notion that industry factors tend to play a dominant role in the performance of most firms, except for those that are the notable industry leaders or losers.[18]

IO assumes that an organization's performance and ultimate survival depend on its ability to *adapt* to industry forces over which it has little or no control. According to IO, strategic managers should seek to understand the nature of the industry and formulate strategies that feed off the industry's characteristics.[19] Because IO focuses on industry forces, strategies, resources, and competencies are assumed to be similar among competitors within a given industry. If one firm deviates from the industry norm and implements a new, successful strategy, other firms will rapidly follow suit by purchasing the resources, competencies, or management talent that have made the leading firm so profitable. Hence, although the IO perspective emphasizes the industry's influence on individual firms, some companies can influence the strategies of their rivals, and even modify the structure of the industry.[20]

Resource-based theory The perspective that views performance primarily as a function of a firm's ability to utilize its resources.

Distinctive competence Unique resources, skills, and capabilities that enable a firm to distinguish itself from its competitors and create competitive advantage.

Perhaps the opposite of the IO perspective, **resource-based theory** views performance primarily as a function of a firm's ability to utilize its resources.[21] Although environmental opportunities and threats are important, a firm's unique resources allow it to develop a **distinctive competence**, enabling the firm to distinguish itself from its rivals and create competitive advantage. "Resources" include all of a firm's tangible and intangible assets,

TABLE 1-1 Theoretical Perspectives on Firm Performance

Theoretical Perspective	Primary Influence on Firm Performance	How Perspective Is Applied to the Case Analysis
Industrial organization (IO) theory	Structure of the industry	Industry analysis portion of the external environment
Resource-based theory	Firm's unique combination of strategic resources	Analysis of internal strengths and weaknesses
Contingency theory	Fit between the firm and its external environment	SWOT (strengths, weaknesses, opportunities, and threats) analysis and SW/OT matrix

such as capital, equipment, employees, knowledge, and information.[22] An organization's resources are directly linked to its capabilities, which can create value and ultimately lead to profitability for the firm.[23] Resource-based theory focuses primarily on individual firms rather than on the competitive environment.

If resources are to be used for **sustained competitive advantage**—a firm's ability to enjoy strategic benefits over an extended time—those resources must be valuable, rare, not subject to perfect imitation, and without strategically relevant substitutes.[24] Valuable resources are those that contribute significantly to the firm's effectiveness and efficiency. Only a few competitors possess rare resources, and imperfectly imitable resources cannot be fully duplicated by rivals. Resources that have no strategically relevant substitutes enable the firm to operate in a manner that cannot be effectively imitated by others, and thereby sustain high performance.

Sustained competitive advantage A firm's ability to enjoy strategic benefits over an extended time.

According to the third perspective, **contingency theory**, the most profitable firms develop *beneficial fits* with their environments. In other words, a strategy is most likely to be successful when it is consistent with the organization's mission, its competitive environment, and its resources. Contingency theory represents a *middle ground* that views organizational performance as the joint outcome of environmental forces and the firm's strategic actions. Firms can become proactive by choosing to operate in environments where opportunities and threats match the firms' strengths and weaknesses.[25] If the industry environment deteriorates, a firm should consider departing and reallocating resources to other, more favorable markets.

Contingency theory A view which states that the most profitable firms are likely to be the ones that develop the best fit with their environment.

Which perspective is most accurate? Each has intuitive appeal. Several prominent studies have attempted to unravel this quandary. Overall, organization-specific effects account for about half of a firm's performance variation relative to its rivals, with the remainder split between industry effects and other factors. Hence, while the numbers vary across industries, individual firm performance is best understood from multiple perspectives. Luck can even play a role.[26]

Differences aside, each perspective has merit and has been incorporated into the strategic management process laid out in this text. The industrial organization view is prominent in the industry analysis phase, most directly in Michael Porter's "five forces" model. Resource-based theory is applied directly to the internal analysis phase and the effort to identify an organization's resources that could lead to sustained competitive advantage. Contingency theory is prominent in the strategic alternative generation phase, where alternatives are developed to improve the organization's fit with its environment. Hence, multiple perspectives are critical to a holistic understanding of strategic management.[27]

Corporate Governance and Boards of Directors

Small businesses are often governed by one or several individuals well known to everyone in the organization. Ownership is often *private* and may rest with a single person, a family, or a few business partners. Because more resources are needed, many mid-size and large organizations are *public*, with shares of stock available for purchase on exchanges such as the New York Stock Exchange. Shareholders in public organizations—the owners of the firm—are represented by an elected board of directors legally authorized to monitor firm activities, as well as the selection, evaluation, and compensation of top managers. Strategic decision-making in these firms is more complicated because the ownership is widely dispersed and often changes frequently.

Corporate governance refers to the board of directors, institutional investors (e.g., pension and retirement funds, mutual funds, banks, insurance companies, among other money managers), and large shareholders known as **blockholders** who monitor firm strategies to ensure effective management. Boards of directors and institutional investors—representatives of pension and retirement funds, mutual funds, and financial institutions—are generally the most influential in the governance systems. Because institutional investors own more than half of all shares of publicly traded firms, they tend to wield substantial influence. Blockholders tend to hold less than 20 percent of the shares, so their impact is proportionally less than that of institutional investors.[28]

Corporate governance The board of directors, institutional investors, and blockholders who monitor firm strategies to ensure managerial responsiveness.

Blockholders Large shareholders who monitor firm strategies to ensure effective management.

Boards of directors often include both inside (i.e., firm executives) and outside directors. Insiders bring company-specific knowledge to the board, whereas outsiders bring independence and an external perspective. Over the past several decades, the composition of the typical board has shifted from one controlled by insiders to one controlled by outsiders. This increase in outside influence often allows board members to oversee managerial decisions more effectively.[29] Moreover, when outsiders are added to insider-dominated boards, dismissal of the chief executive officer (CEO) is more likely when corporate performance declines and outsiders are more likely to pressure for corporate restructuring.[30]

Many companies became concerned about both potential conflicts of interest and the amount of time a board member who sits on multiple boards can spend with the affairs of each company. As a result, many companies have begun to limit the number of board memberships their board members may hold. Approximately two-thirds of corporate board members at the largest 1,500 US companies do not hold seats on other boards. The average director's direct compensation ranged from $90,775 at firms with revenues between $50 and $500 million to $228,058 at the 200 largest firms in the S&P 500 based on revenue.[31]

Sarbanes-Oxley Act Legislation passed in 2002 that created more detailed reporting requirements for boards and executives in public US companies and accounting firms.

The **Sarbanes-Oxley Act** passed in 2002 requires firms to include more independent directors on their boards and make disclosures on internal controls, ethics codes, and the composition of their audit committees on annual reports. The Act requires that both the CEO and the chief financial officer (CFO) certify every report that contains company financial statements. It restricts membership of the firm's audit committee—the formal group charged with reporting oversight—to outsiders (i.e., board members who are not managers). Sarbanes-Oxley also prohibits firms from extending personal loans to board members or executives.

> Sarbanes-Oxley has been both hailed and criticized. Its costs and benefits are explained in *Forbes* at http://www.forbes.com/sites/hbsworkingknowledge/2014/03/10/the-costs-and-benefits-of-sarbanes-oxley/.

Even with new disclosure regulations, however, it can be challenging to determine precisely what top executives earn at public companies. Some analysts have noted positive changes among boards as a result of this legislation in terms of both independence and expertise, while others contend that government regulations like Sarbanes-Oxley have merely added more costly paperwork.[32] A record number of public firms went private in the mid-2000s primarily due to investor and management frustration with the legislation. Evidence also suggests that many CEOs have become more reluctant to sit on boards of publicly held companies. Increased board member liability and policy changes that often restrict the number of outside boards on which a CEO may serve have also contributed to this change.[33]

Boards of directors are responsible for monitoring activities in the organization, evaluating top management's strategic proposals, and establishing a broad strategic direction for the firm. As such, boards select and terminate the CEO, establish his or her compensation package, advise top management on strategic issues, and monitor managerial and company performance as representatives of the shareholders. Critics charge that board members do not always fulfill their legal roles.[34] One reason is that CEOS typically nominate individuals they believe will be supportive as board members. The generous compensation they often receive can create a conflict of interest as well.[35]

CEO duality A situation in which the CEO also serves as the chair of the board.

When insiders control a board, a "rubber stamp" mentality can develop, whereby directors do not aggressively challenge executive decisions as they should. This is particularly true when the CEO also serves as chair of the board, a phenomenon known as **CEO duality**.[36] Insider board members may be less willing to exert control when the CEO is also the chair of the board because he or she often controls present rewards and future career prospects within the firm. In the absence of CEO duality, however, insiders may be more likely to contribute to board control, often in subtle and indirect ways so as not to document any opposition to the CEO. As Espen Eckbo, director of a corporate-governance research center at Dartmouth College, put it, "The board hires, fires and sets the compensation for the CEO. It is probably the most important thing they do. For the CEO to be the chairman of the board is a bit odd." CEO duality has become less common in recent years, however. The percentage of S&P 500 companies with a separate CEO and chairman increased from about 30 percent in 2005 to over 50 percent in 2019.[37]

Strategy at Work 1-1

The Growing Responsiveness of Corporate Boards[38]

There is an adage on Wall Street: "If you don't like the stock, sell it." Over the past decade, however, many dismayed investors have decided to challenge the board instead. Many corporate boards have historically functioned as rubber stamps for top executives. Nonetheless, the directors of many prominent corporations have become increasingly responsible to shareholder interests, thanks in part to the increased influence of institutional shareholders. These large investment firms control substantial numbers of shares in widely held firms and have the clout necessary to pressure board members for change when needed.

Consider the case of Nell Minow, Vice Chair at Value Edge Advisors. Minow was formerly a Principal of Lens, a $100 million investment firm that took positions in firms believed to be underperforming and then increased their value as an activist investor. Specifically, Minow scoured the market for companies with strong products, solid fundamentals, and relatively low share prices. She would then accumulate a substantial number of shares in the company, advise the CEO of her ownership position, and request a meeting with the CEO and the board to discuss changes that she believed could improve firm performance. Activist owners like Minow have sent a message to both top executives and boards that investors need not be idle while the firms they own perform poorly.

Activist shareholders can significantly influence a firm's operations. Target, for example, suffered the effects of the recession and experienced sluggish sales in the late 2000s and early 2010s. Investor activist William Ackman challenged Target to address the recession more aggressively. Ackman's Pershing Square Capital Management **hedge fund**—an investment fund open to only a small number of investors but permitted by regulators to undertake riskier and more speculative investments—is Target's sixth-largest shareholder and has actively supported dissident nominees for board slots. In response to Ackman, Target expanded its fresh foods and other "recession-proof" offerings in many of its stores.[39]

Hedge fund An investment fund open to only a small number of investors but permitted by regulators to undertake riskier and more speculative investments.

Pressure on directors to acknowledge shareholder concerns has continued well into the 2010s, often from institutional investors, owners of large chunks of most publicly traded companies via retirement or mutual funds. Given the size of their investments, they wield considerable power and are more willing to use it than ever before (see Strategy at Work 1-1). Some challenge companies they believe are underperforming, while others seek to institute social change by influencing product and human resource policies in firms like Walmart and McDonald's.

Criticism notwithstanding, some board members have played useful stewardship roles. Many directors vigorously promote the best interests of the firm's shareholders and other stakeholders. Board members are often invaluable sources of environmental and competitive information.[40] By conscientiously carrying out their duties, directors can ensure that management remains focused on company performance.[41]

Governance can be strengthened in various ways. Some analysts have suggested that outside directors should be the only ones to evaluate the performance of top managers against established mission and goals, that all outside board members should meet alone at least once annually, and that boards of directors should establish appropriate qualifications for board membership and communicate these qualifications to shareholders. For institutional shareholders, they recommend that institutions and other shareholders act as owners and not just investors,[42] that they not interfere with day-to-day managerial decisions, that they evaluate the performance of the board of directors regularly,[43] and that they should recognize that the prosperity of the firm benefits all shareholders.

Strategic Decisions

How does one think and act strategically, and who makes the strategic decisions? The answers to these questions vary across firms and may also be influenced by ownership and other issues related to corporate governance. It is also essential to distinguish between strategic decisions and routine management decisions. In general, strategic decisions are marked by four key distinctions.

1. Strategic decisions have a wide impact on the organization. They involve input from and affect multiple functional areas. As a result, they require a multi-perspective, integrated approach. Decisions that address only part of the organization are usually not considered to be strategic decisions.
2. Strategic decisions are long-term and future-oriented but are built on knowledge about the past and present. Scholars and managers do not always agree on what constitutes the "long term," but most agree that it can range anywhere from several years in duration to more than a decade.
3. Strategic decisions seek to capitalize on favorable situations outside the organization. In general, this means taking advantage of opportunities that exist for the firm, but it also includes taking measures to minimize the effects of external threats as well.
4. Strategic decisions are non-repetitive and may not remotely resemble the past. Because organizations and their environments are constantly changing, such decisions often lack precedence and require a fresh look at all options. When made, however, their influence cascades throughout the organization as department managers seek to make functional decisions in ways that reflect the broader direction of the firm.
5. Strategic decisions involve choices. Although making "win–win" strategic decisions may be possible, most require some degree of trade-off between alternatives, at least in the short run. For example, raising salaries to retain a skilled workforce can increase wages, and adding product features or enhancing quality can increase the cost of production. However, such trade-offs may diminish in the long run, as a more skilled, higher-paid workforce may be more productive than a typical workforce, and sales of a higher quality product may increase, thereby raising sales and potentially profits. Decision-makers must understand these complex relationships across the business spectrum. Hence, strategic decisions should be based on a systematic, comprehensive analysis of internal attributes and factors external to the organization.

The ongoing Walmart–Amazon battle illustrates the strategic choice imperative. As the world's largest traditional retailer, Walmart is invested heavily in brick-and-mortar stores. Online behemoth Amazon has no stores but has invested in over 140 fulfillment centers stocked with inventory. Walmart *chose* a traditional retail model, whereas Amazon *chose* an online model. While both companies have been successful, they struggle to compete *directly* with each other because each has different strengths. Lacking the sophisticated online distribution center, Walmart promotes shipment of merchandise to local stores for customer pick-up. Walmart attempts to utilizes its inventory system to fulfill online orders but doing this has been a challenge. Amazon has avoided the brick-and-mortar option altogether.[44]

Top-management team A team of top-level executives—headed by the CEO—all of whom play instrumental roles in the strategic management process.

Because of these distinctions, strategic decision-making is typically reserved for the chief executive and members of the **top-management team**. The CEO is the individual ultimately responsible (and generally *held responsible*) for the organization's strategic management, but he or she rarely acts alone. Except in the smallest companies, he or she relies on a *team* of top-level executives—including members of the board of directors, vice presidents, and even various line and staff managers in some instances—all of whom play instrumental strategic roles. The quality of strategic decisions improves dramatically when more than one capable executive participates in the process.[45]

The size of the team on which the top executive relies for strategic input and support can vary across firms. Companies organized around functions such as marketing and production generally involve the heads of the functional departments in strategic decisions.

Top-Management Team

The CEO leads the top-management team, but others in the organization play important roles.
Source: OPOLJA/Shutterstock.com.

The degree of involvement of top and middle managers in the strategic management process also depends on the personal philosophy of the CEO.[46] Some chief executives are known for making quick decisions, whereas others have a reputation for involving top managers and others in the process.

Large organizations often employ outside consultants to assist in strategic planning. This can help guide managers through the process, but members of the firm should drive the strategy because they (should) know more than outsiders about their firms and industries. Consultants can complement the insight of top managers but can never replace it.

Input to strategic decisions, however, need not be limited to members of the top-management team. On the contrary, obtaining information from others throughout the organization, either directly or indirectly, can be quite beneficial. Most strategic decisions result from the streams of inputs, decisions, and actions of many people. The top-management team might create the context for strategic decisions by establishing rules and procedures, and by influencing the informal means through which the organization accomplishes activities. Strategic decisions do not necessarily start with top-management action, however, but instead can "bubble up" from a series of lower-level decisions throughout the firm. For example, an employee in a company's research and development department may learn about a new product or production process idea at a trade show. The employee may relate the idea to a manager, who, in turn, may modify and pass it up the line. Eventually, a different version of the idea may be discussed with the organization's marketing and production managers, and later presented to top management. Ultimately, the CEO will decide whether to incorporate the idea into the ongoing strategic planning process. This example illustrates the indirect involvement of individuals throughout the organization in the prison strategic management process. Top management is ultimately responsible for the final decision, but its decision is based on a culmination of the ideas, creativity, information, and analyses of others.[47]

Although participation can be healthy, most firms place significant limits on the amount of input and control that their managers have in strategic decisions. There are a few exceptions, however. At Ternary Software, for example, all 13 of its employees must agree before a strategic decision can be implemented. Such democracy is easier to

Global Business

International considerations are an integral part of business today.

Source: Ferbies/Shutterstock.com.

implement in larger organizations, but even large companies like Google have taken steps to create an egalitarian culture for decision-making.[48]

Decisions made in informal settings are often confirmed in corporate boardrooms. A formal, systematic decision-making process is often applied as a means of affirming what top executives already see as the appropriate course of action. A danger associated with this type of approach is that it tends to jump straight to a proposed solution without considering how a decision should be made. Although there are no guarantees, top-management teams that circumvent a logical decision-making approach are more susceptible to mistakes. For example, when a systematic cost-benefit analysis is not employed, leaders may confuse actual costs of a decision with sunk costs—those already expended—a common error that distorts decision-making and can lead to an escalation of commitment to a failed strategy.[49]

The Global Imperative

Most business organizations buy, sell, or trade across borders, whether they have a physical presence in other countries or sell a significant amount of imported merchandise. Although firms typically concentrate on serving local or domestic markets before expanding internationally, many must interact with entities in other nations as a means of survival. For example, virtually all of Japan's industries would grind to a halt if imports of raw materials from other nations ceased because the nation is small and isolated, and its natural resources are quite limited. In larger countries like the United States, manufacturers typically utilize components from abroad in their production processes while most retailers sell products that were produced abroad. Hence, strategic management is a global undertaking, a reality underscored by the widespread impacts of tariffs associated with the China–US trade dispute in the late 2010s. Examples related to concepts, industries, and firms throughout the world are included in each chapter.

Comparative advantage The idea that certain products may be produced more cheaply or at a higher quality in specific countries due to advantages in labor costs or technology.

The high degree of global interconnectedness common in many enterprises today emanates from the economic concept of **comparative advantage**, the idea that certain products may be produced more cheaply or at a higher quality in specific countries due to advantages in labor costs or technology. For this reason, many manufacturers in the

Case Analysis 1-1

Step 1: Introduction of the Organization

The first step in analyzing a firm is to develop familiarity with the organization. Analyzing an ongoing enterprise begins with a general introduction and understanding of the firm. When was the organization founded, why, and by whom? Is its history unusual in any way? Is it privately or publicly held? What is the company's mission? Has the mission changed since its inception?

It is also essential to identify the current business model. Doing so is simple for some companies (Ford, for example, hopes to sell cars and offer consumer financing at a profit) but complicated for others where revenue streams and competitive advantage are more difficult to identify.

United States and other developed nations have shifted their production to Asia and other parts of the world. Firms do not always engage in production only in areas where they are most efficient for several reasons, however. The cost of transporting raw materials or goods from one nation to another can exceed the potential cost savings. Political turmoil or trade restrictions can also create a barrier.

Even if one nation enjoys an absolute advantage over another in most areas, the weaker nation must participate in some forms of business to maintain economic viability and employ its citizens. Firms in these nations tend to produce in areas where the absolute advantage is lowest. Put another way, even when firms in less developed nations lack a comparative advantage, they tend to produce in areas where their inefficiencies are less pronounced while their counterparts in developed nations concentrate in more vital industries. All nations benefit economically from such an arrangement.

A nation's comparative advantage can erode over time. Chinese manufacturers enjoyed some of the lowest global labor rates for unskilled or semi-skilled production in the 2000s. Worker skills and production quality have increased in the rapidly developing nation, making Chinese labor more expensive in the 2010s, well ahead of nations like India, Pakistan, Indonesia, Cambodia, and Vietnam.[50]

Comparative advantage is a national concept. The fact that a given nation possesses certain forms of comparative advantage can influence the strategic actions of companies within that nation, but it is only one consideration. Global involvement may also provide advantages to a firm not directly related to costs. For political reasons, a firm often needs to establish operations in other countries, especially if a substantial proportion of sales is derived abroad. Doing so can also provide managers with a critical understanding of local markets. For example, Ford operates plants in Western Europe, where manufacturing has helped its engineers design windshield wipers for cars engaged in high-speed driving on the German autobahns.[51]

Summary

Top managers face more complex strategic challenges today than ever before. Strategic management involves analysis of an organization's external and internal environments, formulation and implementation of its strategic plan, and strategic control. These steps in the process are interrelated and typically done simultaneously in many firms.

A firm's intended strategy often requires modification before it has been fully implemented due to changes in environmental and or organizational conditions. Because these changes are often difficult to predict, substantial changes in the environment may transform an organization's realized strategy into one that is quite different from its intended strategy.

The strategic management field has been influenced by such perspectives as industrial organization theory, resource-based theory, and contingency theory. Although they are based on widely varied assumptions about what leads to high performance, each of these views has merit and contributes to an overall understanding of the field.

Strategy formulation is a global undertaking and is the direct responsibility of the CEO, but he or she relies on a team of other individuals as well, including the board of directors, vice presidents, and other managers. In its final form, a strategic decision emerges from the streams of inputs, decisions, and actions of the entire top-management team.

Key Terms

Blockholders, p. 9
Business model, p. 4
CEO duality, p. 10
Comparative advantage, p. 14
Contingency theory, p. 9
Corporate governance, p. 9
Distinctive competence, p. 8
Efficient market hypothesis, p. 3
Hedge fund, p. 11
Industrial organization (IO), p. 8
Intended strategy, p. 6
Mission, p. 2
Realized strategy, p. 7
Resource-based theory, p. 8
Sarbanes-Oxley Act, p. 10
Strategic management, p. 2
Strategic thinking, p. 7
Strategy, p. 2
Subjective value, p. 3
Sustained competitive advantage, p. 9
Top-management team, p. 12

Review Questions & Exercises

1. Is it necessary that the five steps in the strategic management process occur sequentially? Why or why not?

2. What is the difference between an intended strategy and a realized strategy? Why is this distinction important?

3. How have outside perspectives influenced the development of the strategic management field?

4. Does the CEO *alone* make strategic decisions for an organization? Explain.

Practice Quiz

True or False

1. A strategy seeks to develop and sustain competitive advantage.

2. Strategic management refers to formulating successful strategies for an organization.

3. Each step in the strategic management process is independent so that changes in one step will not substantially affect other steps.

4. The intended strategy and the realized strategy can never be the same.

5. Whereas industrial organization theory emphasizes the influence of industry factors of firm performance, resource-based theory emphasizes the role of firm factors.

6. Strategic decisions are made solely by and are ultimately the responsibility of the chief executive alone.

Multiple Choice

7. Strategies are formulated in the strategic management stage that occurs immediately after
A. the assessment of internal strengths and weaknesses.
B. implementation of the strategy.
C. control of the strategy.
D. none of the above

8. The strategy originally planned by top management is called the
A. grand strategy.
B. realized strategy.
C. emergent strategy.
D. none of the above

9. The notion that successful firms tend to be the ones that adapt to influences in their industries is based on
A. industrial organization theory.
B. resource-based theory.
C. contingency theory.
D. none of the above

10. The notion of distinctive competence is consistent with
A. industrial organization theory.
B. resource-based theory.
C. contingency theory.
D. none of the above

11. To contribute to sustained competitive advantage, firm resources should be
  A. valuable and rare.
  B. not subject to perfect imitation.
  C. without strategically relevant resources.
  D. all of the above

12. Which of the following is not a characteristic of strategic decisions?
  A. They are long-term in nature.
  B. They involve choices.
  C. They involve trade-offs.
  D. All of the above are characteristics of strategic decisions.

Case 1: Costco

The first Price Club Warehouse was opened in San Diego in 1975 by Sol Price, Robert Price (Sol's son), Rick Libenson, and Giles Bateman. The firm initially sold merchandise in volume at deep discounts only to small businesses but later expanded the concept to include government, utility, and hospital employees. By 1980, the company had four stores in Arizona and California and went public.

During the 1980s, the company expanded to the eastern United States and Canada. In 1988, Price Club acquired grocery distributor A.M. Lewis and launched Price Club Furnishings. In the early 1990s, however, competition from Sam's Club and Pace intensified. In 1992 and 1993, Price Club's joint venture with retailer Controladora Comercial Mexicana led to the opening of two Price Clubs in Mexico City.

Later in 1993, Price Club merged with Costco Wholesale. During the 1990s, the firm expanded its international interests, launching outlets in Great Britain, Japan, and South Korea. Price Club changed its corporate name to Costco Companies in 1997 and again to Costco Wholesale in 1999. Costco developed rapidly under Chief Executive Officer (CEO) Jim Sinegal's leadership. Sinegal was succeeded by Chief Operating Officer (COO) Craig Jelinek in 2012.

Today, Costco is the largest wholesale club operator in the United States, operating 672 membership warehouses—each amassing about $150 million in sales—and serving about 65 million members. Most of its outlets are in the United States and Canada, but additional stores can be found in Mexico, Japan, Australia, South Korea, Taiwan, Puerto Rico, and the United Kingdom. Membership costs about $50 per year and is available to businesses and individuals.

Costco's business model emphasizes rock-bottom prices on a limited selection of mostly name-brand products in a wide range of merchandise categories. A typical outlet carries about 4,000 products, ranging from alcoholic beverages and appliances to fresh food, pharmaceuticals, and tires. Costco also offers its members insurance, financial, and travel services. Its subsidiary, Costco Wholesale Industries, operates a manufacturing business in food packaging, meat processing, and jewelry to support the retail efforts.

Much of Costco's success can be attributed to its ability to minimize costs by negotiating fiercely with suppliers. The company never requires its members to pay more than 14 percent above the firm's cost for goods.

Case Challenges

1. How does Costco differ from other warehouse clubs, such as Sam's Club?
2. Does Costco compete with nonmembership retailers, such as Walmart and Target? Why or why not?
3. Can Costco compete successfully on a large scale outside of the United States and Canada? Why or why not?

Suggested Sources

A. Campos, "Why Costco Is Beating Wal-Mart," *USA Today*, 2 December 2013, http://www.usatoday.com/story/money/markets/2013/12/02/why-costco-is-beating-wal-mart/3691555/.

CNBC, "The Costco Craze: Inside the Warehouse Giant," 9 April 2012, http://www.cnbc.com/the-costco-craze-inside-the-warehouse-giant/.

"Costco Doesn't Make Any Money Selling You Groceries—Here's How It Actually Rakes in Billions of Dollars Each Year," *Money*, 7 October 2019, https://finance.yahoo.com/news/costco-doesn-t-much-money-203147459.html

N. Meyersohn, "Five Things to Know About Costco's $4.99 Rotisserie Chickens," *CNN Business*, 14 October 2019, https://www.cnn.com/2019/10/13/business/costco-rotisserie-chicken-facts/index.html

B. Stone, "Costco CEO Craig Jelinek Leads the Cheapest, Happiest Company in the World," *Bloomberg Business*, 6 June 2013, http://www.bloomberg.com/bw/articles/2013-06-06/costco-ceo-craig-jelinek-leads-the-cheapest-happiest-company-in-the-world.

Simulation 101: Overview

Many strategic management courses include participation in Capstone or another competitive business simulation. Each simulation is different, but they share commonalities.

Although participation in a simulation can be an individual assignment, students are usually divided into teams to make marketing, production, finance, and other decisions for a virtual company. Student companies often compete in a single industry, although multiple industries or computer-run companies might be added to balance the number of firms. A typical game might include eight rounds, each representing a quarter or a year in the life of the company. Students are provided with results on their companies and industry after each round so that they can make decisions for the next round accordingly.

There are a few apparent limitations of strategy simulations. They include only a representative set of decisions that a business would make, and these must cover a fixed period of time and hence cannot be changed until the subsequent round. Simulations make assumptions about interest rates, changes in demand from one round to the next, and other factors that affect company performance. Moreover, they cannot consider the softer side of various decisions. For example, an increase in an advertising budget will affect the demand for products, without regard to the content of a particular ad. Some students may seek help on the simulation from other students who took the same course in a previous term, blogs posted by students at other colleges, or online videos posted by individuals who claim to know how to "master" the game. Sage advice is always helpful, but *it is not possible to "game the system" and master a sophisticated simulation with a few tricks*. If you take shortcuts, you will likely learn this the hard way.

Although it is essential to recognize these limitations, a simulation can reinforce critical strategic management concepts. It allows students to operate virtual companies over an extended time without the risk of losing real money. Well-designed simulations also do an excellent job of reinforcing the interrelationships among functional areas of business. Overlooking these links can be a formula for disaster. For example, it is essential to offer attractive products, but this does not guarantee success. Buyers will not know your products exist without marketing campaigns. They might not purchase them if prices are too high, and your company might not cover its expenses if prices are too low. Your company must produce enough products to meet demand, but producing too much can raise inventory costs. You must also obtain enough capital through borrowing, issuing stock, or some other means, or the simulation will punish your firm by providing an emergency loan at an exorbitant interest rate or restricting its activities. Hence, an otherwise effective strategy can quickly go awry if you ignore one of the functional areas. A chain is only as strong as its weakest link, and this is undoubtedly true in this instance.

Each chapter in this book contains a Simulation 101 section that connects content in the chapter with some of the issues you will encounter in a typical strategy simulation. You must understand exactly how the game works at the outset. Invest the necessary time to understand the specifics associated with all the competitive decisions you will make, the support provided to assist you in making them, and the metrics for evaluating the performance of your virtual company. Profitability and market share are important, but most simulations provide a balanced scorecard that also evaluates your team's management concerning other factors, such as inventory management, cash flow, and human resources. Identifying a strategy for your company before you start is also a must. *Figuring out the details as you go is a recipe for disaster because recovering from losses in the first few rounds can be challenging*.

The results of each round are not guaranteed; having a reasonable strategy and making "good decisions" could still result in a financial loss or decline in market share. This is a reality of the business world, and it can raise anxiety during the simulation experience. Nonetheless, competing in a simulation can be a lot of fun and a great learning experience if you do your homework.

Notes

1. I. M. Cockburn, R. M. Henderson, and S. Stern, "Untangling the Origins of Competitive Advantage," *Strategic Management Journal* 21 (2000): 1123–1145.
2. P. Wright, M. Kroll, and J. A. Parnell, *Strategic Management: Concepts* (Upper Saddle River, NJ: Prentice-Hall, 1998).
3. D. C. Hambrick and J. W. Fredrickson, "Are You Sure You Have a Strategy?" *Academy of Management Executive* 15 (2001): 48–59.
4. Based on P. Wright, M. Kroll, and J. A. Parnell, *Strategic Management: Concepts* (Upper Saddle River, NJ: Prentice-Hall, 1998).
5. A. E. Singer, "Strategy as Moral Philosophy," *Strategic Management Journal* 15 (1994): 191–213.
6. M. Ramsey and V. Bauerlein, "Tesla Clashes with Car Dealers," *Wall Street Journal*, 18 June 2013, pp. B1, B2.
7. S. Kapner, "Discounter Bucks Retail Trend," *Wall Street Journal*, 5 November 2018, p. B3.
8. H. Karp, "Future of Music: Playing for $30,000 in Tips," *Wall Street Journal*, 27 March 2017, pp. B1, B2.
9. C. S. Stewart and S. Vranica, "Phony Web Traffic Tricks Digital Ads," *Wall Street Journal*, 1 October 2013, pp B1, B7.
10. B. Wysocki, Jr., "How Dr. Papadakis Runs a University Like a Company," *Wall Street Journal*, 23 February 2005, p. A1; P. Fain, "High Pay Makes Headlines," *Chronicle of Higher Education Online Edition*, 24 November 2006.
11. H. Mintzberg, "Opening Up the Definition of Strategy," in J. B. Quinn, H. Mintzberg, and R. M. James, eds., *The Strategy Process* (Englewood Cliffs, NJ: Prentice Hall, 1988), pp. 14–15.
12. C. M. Ford and D. M. Gioia, Factors Influencing Creativity in the Domain of Managerial Decision Making," *Journal of Management* 26 (2001): 705–732.
13. H. Mintzberg, "Crafting Strategy," *Harvard Business Review* 65, no. 4 (1987): 66–75.
14. G. Hamel, "Strategy as Revolution," *Harvard Business Review* 74, no. 4 (1996): 69–82; B. Huffman, "What Makes a Strategy Brilliant?" *Business Horizons* 44, no. 4 (2001): 13–20.

15. H. Courtney, J. Kirkland, and P. Viguerie, "Strategy Under Uncertainty," *Harvard Business Review* 75, no. 6: 67–79.
16. B. Hoffman, "What Makes a Strategy Brilliant?" *Business Horizons* (July–August 2001): 13–20; H. Mintzberg, "Crafting Strategy," *Harvard Business Review* 65, no. 4 (1987): 66–75; H. Mintzberg, "Engaging Leaders," *Leadership Excellence* 28, no. 3: 3–4; E. Morrison, S. Hutcheson, E. Nilsen, J. Fadden, and N. Franklin, *Strategic Doing* (Hoboken, NJ: Wiley, 2019).
17. M. E. Porter, "The Contributions of Industrial Organization to Strategic Management," *Academy of Management Review* 6 (1981): 609–620.
18. G. Hawawini, V. Subramanian, and P. Verdin, "Is Performance Driven by Industry- or Firm-Specific Factors? A New Look at the Evidence," *Strategic Management Journal* 24 (2003): 1–16.
19. J. S. Bain, *Industrial Organization* (New York: Wiley, 1968); F. M. Scherer and D. Ross, *Industrial Market Structure and Economic Performance* (Boston: Houghton-Mifflin, 1990).
20. A. Seth and H. Thomas, "Theories of the Firm: Implications for Strategy Research," *Journal of Management Studies* 31 (1994): 165–191; J. B. Barney, "Strategic Factor Markets: Expectations, Luck, and Business Strategy," *Management Science* 42 (1986): 1231–1241.
21. Some scholars do not view the resource-based perspective as an academic theory. For details on this exchange, see R. L. Priem and J. E. Butler, "Is the Resource-Based 'View' a Useful Perspective for Strategic Management Research," *Academy of Management Review* 26 (2001): 22–40; J. B. Barney, "Is the Resource-Based 'View' a Useful Perspective for Strategic Management Research? Yes," *Academy of Management Review* 26 (2001): 41–56.
22. J. B. Barney, "Looking Inside for Competitive Advantage," *Academy of Management Executive* 19 (1995): 49–61.
23. W. W. C. Chung, M. F. S. Chan, and T. S. Leung, "A Framework of Performance Modeling for Dynamic Strategy," *International Journal of Business Performance Management* 8 (2006): 62–76; N. Foss and I. Ishikawa, "Towards a Dynamic Resource-Based View: Insights from Austrian Capital and Entrepreneurship Theory," *Organization Studies* 28 (2007): 749–772.
24. S. L. Berman, J. Down, and C. W. L. Hill, "Tacit Knowledge as a Source of Competitive Advantage in the National Basketball Association," *Academy of Management Journal* 45 (2002): 13–32.
25. E. J. Zajac, M. S. Kraatz, R. K. F. Bresser, "Modeling the Dynamics of Strategic Fit: A Normative Approach to Strategic Change," *Strategic Management Journal* 21 (2000): 429–453.
26. G. S. Hansen and B. Wernerfelt, "Determinants of Firm Performance: The Relative Importance of Economic and Organizational Factors," *Strategic Management Journal* 10 (1989): 399–411; G. Hawawini, V. Subramanian, and P. Verdin, "Is Performance Driven by Industry or Firm-Specific Factors? A New Look at the Evidence," *Strategic Management Journal* 24 (2003): 1–16; J. A. Parnell, E. B. Dent, T. Hughes, and N. O'Regan, "Managing Performance in a Volatile Environment: Contrasting Perspectives on Luck and Causality," *British Journal of Management* 23 (2012): S104–S118.
27. C. A. Lengnick-Hall and J. A. Wolff, "Similarities and Contradictions in the Core Logic of Three Strategy Research Streams," *Strategic Management Journal* 20 (1999): 1109–1132; O. E. Williamson, "Strategy Research: Governance and Competence Perspectives," *Strategic Management Journal* 20 (1999): 1087–1108.
28. S. Chen and K. W. Ho, "Blockholder Ownership and Market Liquidity," *Journal of Financial & Quantitative Analysis* 35 (2000): 621–633; J. J. McConnell and H. Servaes, "Additional Evidence on Equity Ownership and Corporate Value," *Journal of Financial Economics* 27 (1990): 595–612.
29. W. J. Salmon, "Crisis Prevention: How to Gear Up Your Board," *Harvard Business Review* 71 (1993): 68–75.
30. P. A. Gibbs, "Determinants of Corporate Restructuring: The Relative Importance of Corporate Governance, Takeover Threat, and Free Cash Flow," *Strategic Management Journal* 14 (1993): 51–68.
31. National Association of Corporate Directors, "NACD Director Compensation Report 2010–2011," 15 April 2011, http://www.directorship.com/compensation-rises-with-the-market/ (accessed October 14, 2011).
32. N. Dunne, "Adding a Little Muscle In the Boardroom," *Financial Times*, 10 October 2003, p. I.
33. A. Raghavan, "More CEOs Say 'No Thanks' to Board Seats," *Wall Street Journal*, 28 January 2005, pp. B1, B4.
34. J. H. Morgan, "The Board of Directors Is No Longer Just a 'Rubber Stamp,'" *TMA Journal* 19, no. 5 (1999): 14–18.
35. B. R. Baliga and R. C. Moyer, "CEO Duality and Firm Performance," *Strategic Management Journal* 17 (1996): 41–53; P. Stiles, "The Impact of Board on Strategy: An Empirical Examination," *Journal of Management Studies* 38 (2001): 627–650.
36. S. Finkelstein and R. D'Aveni, "CEO Duality as a Double-Edged Sword," *Academy of Management Journal* 37 (1994): 1079–1108.
37. T. Gryta and T. Francis, "More Big Companies Divide Their Chairman, CEO Roles," *Wall Street Journal*, 4 November 2019, p. B3.
38. N. Dunne, "Adding a Little Muscle In the Boardroom," *Financial Times*, 10 October 2003, p. I; W. Royal, "Impeach the Board," *Industry Week*, 16 November 1998, pp. 47–50; C. Torres, "Firms' Restructuring Often Hurt Foreign Buyers," *Wall Street Journal Interactive Edition*, 13 May 1996; M. L. Weidenbaum, "The Evolving Corporate Board," *Society* (March–April 1995): 9–16.
39. A. Zimmerman, "Target Cooks Up Rebound Recipe in Grocery Aisles," *Wall Street Journal*, 12 May 2009, pp. B1, B2.
40. J. Goldstein, K. Gautum, and W. Boeker, "The Effects of Board Size and Diversity on Strategic Change," *Strategic Management Journal* 15 (1994): 241–250.
41. M. S. Mizruchi, "Who Controls Whom? An Examination of the Relation Between Management and Board of Directors in Large American Corporations," *Academy of Management Review* 8 (1983): 426–435.

42. C. Wohlstetter, "Pension Fund Socialism: Can Bureaucrats Run the Blue Chips?" *Harvard Business Review* 71 (1993): 78.
43. J. A. Conger, D. Finegold, and E. E. Lawler III, "Appraising Boardroom Performance," *Harvard Business Review* 76, no. 1 (1998): 136–148.
44. S. Banjo, S. Kapner, and P. Ziobro, "Can Wal-Mart Clerks Keep Up With Amazon?" *Wall Street Journal*, 19 December 2014, pp. B1, B6.
45. T. K. Das and B. Teng, "Cognitive Biases and Strategic Decision Processes: An Integrative Perspective," *Journal of Management Studies* 36 (1999): 757–778; M. A. Carpenter, "The Implications of Strategy and Social Context for the Relationship Between Top Team Management Heterogeneity and Firm Performance," *Strategic Management Journal* 23 (2002): 275–284.
46. A. J. Hillman and M. A. Hitt, "Corporate Political Strategy Formulation: A Model of Approach, Participation, and Strategy Decisions," *Academy of Management Review* 24 (1999): 825–842.
47. P. Wright, M. Kroll, and J. A. Parnell, *Strategic Management: Concepts* (Upper Saddle River, NJ: Prentice-Hall, 1998).
48. J. Badal, "Can a Company Be Run as a Democracy?" *Wall Street Journal*, 23 April 2007, pp. B1, B6.
49. Barry M. Staw, "Knee-deep in the Big Muddy: A Study of Escalating Commitment to a Chosen Course of Action." *Organizational Behavior and Human Performance*, Vol. 16, No. 1, pp. 27–44.
50. C. Devonshire-Ellis, "China Now Has Third Highest Labor Costs in Emerging Asia," *China Briefing*, 19 January 2011, http://www.china-briefing.com/news/2011/01/19/china-near-top-of-the-list-for-wage-overheads-in-emerging-asia.html (accessed October 13, 2011).
51. T. Eiben, "U.S. Exporters on a Global Roll," *Fortune*, 29 June 1992, p. 94.