

CHAPTER 1 INTRODUCING THE CONCEPTS

LEARNING OUTCOMES

Use this Learning Outline as you read and study this chapter:

- 1.1 Explain why strategic management is important.
- 1.2 Explain what strategic management is.
- 1.3 Explain who's involved with strategic management.
- 1.4 Discuss the three important factors impacting strategic management today.

TEXT OUTLINE

Strategic Management in Action Case #1: Virtual Worlds, Real Profits

Zynga, started in 2007, is a leading social game developer with such offerings as Farmville, Cityville, Words with Friends, Mafia Wars, and others. The company has shown profits of \$91 million on sales of \$600 million in 2010. Part of that success has come from selling virtual products for their games. Only a small percentage of game players actually purchase these products.

- Ask students how many play a Zynga game. What attracts them to the games? Has anyone ever purchased one of their virtual products?
- How important is data analysis for a company like Zynga?
- In 2011, Zynga experienced its first decline in sales activity. Have students form teams and discuss what they would do strategically to move the company forward.

Teaching Notes: _____

LEARNING OUTCOME 1.1 EXPLAIN WHY STRATEGIC MANAGEMENT IS IMPORTANT

- A. Appears to make a difference in how well an organization performs.
 1. Effective and efficient decision making
 2. Improved job performance
- B. Strategic planning affects an organization's performance
 1. Firm success or failure is key research area in strategic management research
 2. Small, but positive relationship between strategic planning and performance

For Your Information – Corporate Reputations

- Have students visit the *Wall Street Journal* or other Web site such as *Fortune* magazine [www.fortune.com] to see what types of industry and competitive information is available. Additionally, you may wish to send your students to the Internet to seek out other sources of similar information such as *Fortune* magazine's "Most Admired Companies" [www.fortune.com/fortune/mostadmired].

- If an Internet connection is available in your classroom or if you have the appropriate software setup, you may do part or all of this exercise in class as a demonstration.

C. Provides a systematic approach for coping with the uncertain environments that organizations face.

1. The competitive and global environments that organizations operate in today are constantly changing; they are dynamic.
2. It provides an analytical structure for decision making.

D. Coordinates and focuses the various divisions, departments and work activities within the organization to achieve organization's goals.

Teaching Notes: _____

Learning Review: Learning Outcome 1.1

- *State four reasons why strategic management process is important.*

Personal rewards (pay, promotion, increased responsibilities) are often the expected result of high levels of work performance, i.e., being a successful manager. By systematically following the strategic management process, strategic decision makers examine all the important aspects (external and internal) to determine the most appropriate decisions and actions. The deliberate structure of the strategic management process "forces" organizational employees to examine relevant variables in deciding what to do and how to do it.

- *Describe what studies have shown about the relationship between strategic management and an organization's performance.*

It appears that organizations that use strategic management concepts and techniques have higher levels of performance.

Active Learning Hint

Before defining strategic management, ask the students to define strategy. Ask the students to compare their definitions with another student. Poll a few of the pairs and write the key terms on the board. Expand on the student responses as you present the definition.

LEARNING OUTCOME 1.2 EXPLAIN WHAT STRATEGIC MANAGEMENT IS

A. The Basics of Strategy and Strategic Management

1. Definition of Strategy

Strategy is an organization's goal-directed plans and actions that align its capabilities and resources with the opportunities and threats in its environment.

Strategy involves:

- a) An organization's goals
- b) Goal-directed action (i.e., implementing the strategy)
- c) Evaluating key internal strengths (capabilities and resources) and matching them with external opportunities and threats

Strategic Management in Action: IDEO

- Have students discuss how IDEO's Tech Box has helped develop design innovations for some of corporate America's best-known companies. Examples that the students might describe are: new brainstorming sources, nonlinear thinking, cross-pollination of ideas.
- How will IDEO's unusual strategic approach prepare it to compete in today's globally competitive environment? Students might describe that meeting a client's needs is paramount and a company is always looking for new ideas from different sources.

2. Definition of Strategic Management

Strategic management is a process of analyzing the current situation, developing appropriate strategies, putting those strategies into action and evaluating, and changing those strategies as needed.

a) The basic activities, as illustrated in Figure 1.1 are

- (1) situation analysis,
- (2) strategy formulation,
- (3) strategy implementation, and
- (4) strategy evaluation.

b) Strategic management differs from others types of management. (e.g., marketing management, personnel management). The four aspects of strategic management that set it apart are:

- (1) *Interdisciplinary*—does not focus on a specific area (i.e., human resources, production or marketing).
- (2) *External focus*—involves the interactions of the organization with its external environment (economy, competitors, market demographics).
- (3) *Internal focus*—involves assessing the organization's resources and capabilities—what it does and doesn't do well.
- (4) *Future direction*—forecasting the future business climate for the organization and planning how the organization is to proceed.

Strategic Management in Action: Applebee's

- Assign students (or groups of students) to visit the Applebee's Web site [www.applebees.com]. Then, using the Applebee's strategies as a model, discuss how other, perhaps local or traditional, restaurants could use new strategies to revive their reputation.
- What are Applebee's strategies that it is pursuing? Do you think these strategies could be used successfully at other local or traditional restaurants to compete?

B. The Strategic Management Process

A process implies sequential and interrelated activities that lead to some outcome. In the strategic management process, the interrelated activities result in a set of strategies the organization uses in doing its business (see Figure 1.2).

1. Situation Analysis

Situation analysis involves scanning and evaluating the organizational context, external environment and organizational environment. [Chapters 2–4]

2. Strategy Formulation

Strategy formulation involves developing and then choosing appropriate (what?-missing word) (as guided by the results of the situation analysis). Three main types of strategies are shown in Figure 1.3.

a. Functional strategies (also called **operational strategies**) are the goal-directed plans and actions of the organization's functional areas. [Chapter 5]

b. Competitive strategies (also called business strategies) are the goal-directed plans and actions that are concerned with how an organization competes in a specific business or industry. [Chapter 6]

Strategic Management in Action: The Kroger Company

- Examine Kroger's Web site [www.kroger.com] and make a list of how Kroger is competing in the grocery industry.
- Ask student groups to compare what they found on the web with their experiences buying their own groceries locally. Do local stores use similar strategies as those evidenced on Kroger's Web site?
- How do Kroger's efforts compare to specialty grocers like Whole Foods or Trader Joe's (some students will know these stores depending on your geographic location and their living experiences.)

c. **Corporate strategies** are goal-directed plans and actions concerned with the choices of what business(es) to be in and what to do with those businesses.
[Chapter 7]

3. Strategy Implementation

Strategy implementation is putting the various strategies into action.

4. Strategy Evaluation

Strategy evaluation involves evaluating both the outcomes of the strategies and how they've been implemented.

For Your Information—Making it Last

Why can some companies like DuPont, Procter & Gamble and Coca-Cola remain market leaders for many decades? Some argue that it is their focus on value and profitability and their ability to quickly adapt to change that preserves their success in spite of shifts in the competitive environment. *Built to Last* authors Collins and Porras see the key as having a core ideology that gives the company a purpose beyond just making profits.

5. Strategic Management Process in Action

It's a continual cycle that may not always follow the stated sequence.

C. Looking at Strategic Management's Past

1. Strategy's Military Roots

- a) Historical accounts tell us that a country's military decision makers often would design battlefield strategies to gain an edge on the enemy.
- b) They would try to exploit the enemy's weak spots and attack them where they were most vulnerable, thus giving the aggressor the best chance of succeeding.

For Your Information—Principles of War

- Consider an in-class group activity where students apply the nine principles by relating them to specific business activities. Challenge students to identify and explain an example of each principle. If they struggle with this, you can provide your own list of business actions and have the students use the nine principles to categorize each action. For example, for many years GM was criticized for slow decision-making by a structure that required a seemingly unlimited number of committees to sign off on any new initiative. Ross Perot used the example of "killing a snake" in Texas (i.e., you shoot it) versus how GM would do it by committee (i.e., endless analysis) during his 1992 election campaign. What principle was GM management violating? (Unity of command).
- Consider introducing some material from Sun Tzu's *The Art of War*. Here are some examples that could be used:

If you know the enemy and know yourself, you need not fear the result of a hundred battles.

If you know yourself but not the enemy, for every victory gained you will also suffer a defeat.

If you know neither the enemy nor yourself, you will succumb in every battle.

These are the words of ancient Chinese philosopher Sun Tzu, whose now-classic treatise, *The Art of War*, was written more than 2,500 years ago.

- Some strategy instructors assign *The Art of War* by Sun Tzu as additional reading for the course.

2. ***Academic Origins of Strategic Management***

- a) Economic theory provides an avenue for beginning to explore the role of management decisions and strategic choices.
- b) Additionally, early organizational studies by Frederick Taylor (scientific management), Max Weber (bureaucratic organizations), and Chester Barnard (administrative functions and the organization as an open system) provided important knowledge about efficient and effective organizations and the role that managers played.

3. ***Strategic Planning and Strategic Management Emerge***

- a) During the 1960s, the universalistic principles of management were being replaced by contingency ideas.
 - (1) Theorists searched for explanations of organizational differences in functioning and performance.
 - (2) Three classic books emerged to help distinguish strategic management as a separate academic field and established basic concepts: Alfred Chandler's *Strategy and Structure*; Igor Ansoff's *Corporate Strategy*; Harvard textbook *Business Policy: Text and Cases* by Learned, Christensen, Andrews, and Guth.
- c) During the 1970s and 1980s strategic management became a more distinct academic field with research in organizations, managers and strategies.
 - (1) Process research: "how" strategy is formed
 - (2) Content research: "what" or the content of a strategic decision
- d) Research continues to provide important clues to how organizational employees can be effective in managing strategically.

Strategic Management in Action: The Global Perspective

- Have students think about the costs of raw materials that go into a product. If the cost of the raw goods is increasing, what happens to the price of the product itself?
- What should L'Oreal be cautious of when expanding into African and Asian countries? Will the same strategies that worked in Europe and the U.S. work in these countries?

Teaching Notes: _____

Learning Review: Learning Outcome 1.2

- *Define strategy and strategic management.*

A series of goal-directed decisions and actions that match an organization's skills and resources with the opportunities and threats in its environment. It involves analysis, communication, coordination, and action, whereas planning primarily involves communication and little or no action.

- *Describe the strategic management process.*

It is a series of steps that leads to the development, modification, or change in the organization's strategies. A process simply means that there's a series of interrelated and continuous steps that lead to some concluding aspect. In the strategic management process, the series of steps lead to the development, modification, or change in the organization's strategies.

- *Describe the three types of organizational strategy.*

Functional strategies (also called operational strategies) are the short, goal-directed decisions and actions of the organization's various functional departments.

Competitive strategies are concerned with how the organization is going to compete in a specific business or industry.

Corporate strategies are concerned with the broad and more long-term questions of "what business(es) are we in or do we want to be in, and what do we want to do with these businesses?"

- *Explain the historical evolution of strategic management.*

Historical accounts tell us that a country's military decision makers often would design battlefield strategies to gain an edge on the enemy. They would try to exploit the enemy's weak spots and attack them where they were most vulnerable, thus giving the aggressor the best chance of succeeding and achieving their objectives. This is similar to today's business environment as companies compete for market objectives.

The fields of economics and organization theory provided the earliest academic bases for strategic management. Although mainstream economic theory with its emphasis on rationality, predictability, and similarity doesn't quite jibe with the realities of strategic management, it does provide an avenue for beginning to explore the role of management decisions and the possibility of strategic choices. Early organizational studies by Frederick Taylor (scientific management), Max Weber (bureaucratic organizations), and Chester Barnard (administrative functions and the organization as an open system) provided important knowledge about efficient and effective organizations and the role that managers played.

Strategic management will assist in effective and efficient decision making resulting in improved job performance and ultimately improved organizational performance.

Teaching Notes: _____

LEARNING OUTCOME 1.3: EXPLAIN WHO'S INVOLVED WITH STRATEGIC MANAGEMENT

All organizational levels play a role in developing, implementing and changing strategy. The difference is the scope of the individual's strategic actions.

A. ***The Board of Directors***

In publicly owned business organizations (those whose stocks or shares are sold to the public), the **board of directors** is the elected group that represents a company's stockholders. A board's

legal obligation is to represent the shareholders (stockholders) and protect their interests. Empowered to act on the shareholders' behalf in overseeing the management of the company and plays a significant role in corporate governance. The board's responsibilities typically include, but are not limited to the following items from Table 1.2:

- a) Review and approve strategic goals and plans.
- b) Review and approve the organization's financial standards and policies.
- c) Ensure integrity of the organization's financial controls and reporting systems.
- d) Approve an organizational philosophy.
- e) Monitor organizational performance and regularly review performance results.
- f) Select, evaluate, and compensate top-level managers.
- g) Develop management succession plans.
- h) Review and approve capital allocations and expenditures.
- i) Monitor relations with shareholders and other key stakeholders.

Strategic Management in Action: Heat Shield

After Nardelli's departure, Home Depot's longest-serving Director, Bonnie G. Hill, worked with shareholders to ease their anger over the previous CEO's pay and performance and link the pay of the current CEO more closely to the company's performance.

- Have students discuss what they think about this idea and how a company might benefit from such a practice.

B. The Role of Top Management

1. By definition, top managers are ultimately responsible for every decision and action of every organizational employee and provide effective strategic leadership.

- a. CEO—Chief Executive Officer: the top organizational manager who works with a top management team including:
 - a. COO—Chief Operating Officer
 - b. CFO—Chief Financial Officer
 - c. CIO—Chief Information Officer

2. **Strategic leadership** is an individual's ability to anticipate, envision, maintain flexibility, think strategically, and work with others in the organization to initiate changes that will create a viable and valuable future for the organization.

- a. Effective strategic leadership involves (Figure 1.4):
 - i) Determining organizational purpose or vision
 - ii) Exploiting and maintaining core competencies
 - iii) Developing the organization's human capital
 - iv) Creating and sustaining strong organizational culture
 - v) Emphasizing ethical decisions and practices
 - vi) Establishing appropriately balanced organizational controls

3. **Other Managers and Organizational Employees**

Some of the areas where other employees have responsibilities include:

- a) Strategy implementation—The individuals who put the strategies into action.
- b) Strategy evaluation—Although top management may establish the guidelines for evaluating performance, it's often the managers and organizational employees who do the evaluating and follow-up.

Learning Review: Learning Outcome 1.3

- *Explain the role of the board of directors in strategic management.*
 - The **board of directors** serves as the elected representatives of the company's stockholders. They play a significant role in corporate governance—that is, in governing the decisions and actions of the organization. Table 1.2 lists some typical board responsibilities. The board's legal obligation is to represent the shareholders (stockholders) and protect their interests. Even not-for-profit organizations often have a board of advisers.
- *Discuss how top managers can be effective strategic leaders.*

- By definition, top managers are ultimately responsible for every decision and action of every organizational employee, therefore will need to be strategic leaders. Top managers can also be strategic leaders through their ability to anticipate, envision, maintain flexibility, think strategically and work with others in the organization to initiate changes that will create a viable and valuable future for the organization. Specifically top managers can be strategic leaders by: Determining the organization’s purpose or vision; Exploiting and maintaining the organization’s core competencies; Developing the organization’s human capital; Creating and sustaining a strong organizational culture; Emphasizing ethical organizational decisions and practices; and Establishing appropriately balanced organizational control.
- *Describe the role of other strategic managers and organizational employees in strategy.*
 - Implementation—putting strategies into action.
 - Evaluation—evaluating whether or not the strategies are working.

The Grey Zone

- How much profit is too much profit?
- Is it okay that ExxonMobil earned more than \$45 billion in 2008?
- Does it make a difference that consumers were paying record prices at the gas pump during much of 2008?
- How much can—and should—a company ethically earn?
- As a business student, what do you think? How would you explain this to your friends who are not business students? How about to society or to your community?

Active Learning Hint

Pose the “Grey Zone” questions to students, have them think individually, then discuss in pairs, and then each pair can volunteer its answers to the class.

Teaching Notes: _____

LEARNING OUTCOME 1.4 DISCUSS THE TWO IMPORTANT FACTORS IMPACTING STRATEGIC MANAGEMENT TODAY

A. *The Global Economy and Globalization*

1. *Globalization* has offered significant business opportunities, economic climate challenging even best-managed global companies due to rare global recession forecast including:
 - a) Reduced consumer demand
 - b) Restricted access to capital
 - c) Severe pressure to cut costs
2. Globalization push has been widespread:
 - a) Economic and social benefits
 - b) Opening trade and geographic barriers has challenges
 1. Vulnerability due to openness needed to do business may lead to increased terrorism
 2. Economic Interdependence: each country’s economic stability relies on the economic stability of its trading partners
 - (a) *World Trade Organization (WTO)*, a global organization of 153 countries that deals with rules of trade. It helps

organizations conduct business by enacting trade agreements that are negotiated and ratified by the vast majority of the world's trading nations.

(b) *World Bank Group*, a cooperative of 185 member countries that provides vital financial and technical assistance to developing countries around the world. Goal is to promote long-term economic development and poverty reduction.

(c) *International Monetary Fund (IMF)*, organization of 185 countries that promotes international monetary cooperation. Provides member countries with policy advice, temporary loans and technical assistance to establish and maintain financial stability and strengthen economies.

3. Cultural differences between countries
 - a) Capitalism's emphasis on profits, efficiency and growth
 - b) Concern of "Americanization" (i.e., American cultural values and business philosophy displacing the traditions and values of other countries)
 - c) Successful strategic decision-making will involve cultural and political sensitivity to accommodate diverse views

Strategic Management in Action – The Global Perspective: Nestlé

Have students speculate on:

- *As a global company, what types of strategic challenges might Brabeck face in today's economic climate?*

Consider prompts such as reduced consumer demand, limited capital access and severe pressures to cut costs, technology, centralized purchasing, country currency, country cultural differences, ability to adapt to country and local tastes, efficiency of production, ability to buy in quantity, perceived "foreignness."

B. Corporate Governance

1. The way a corporation is governed or "the determination of the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad participants in organizations."
 - 1) *Sarbanes-Oxley Act of 2002*. A U.S. federal law enacted following corporate scandal involving fraudulent accounting schemes. It protects investors by improving the accuracy and reliability of corporate disclosures.
 - 2) Role of the Board of Directors
 - i. Original purpose was to ensure that there was a group, independent from management that looked out for the owners' interests (i.e., shareholders) not involved in the corporation's day-to-day operations.
 - ii. Mandated by Sarbanes-Oxley
 1. Changes the "quid pro quo" arrangement common in many organizations
 2. 10 Guiding Governance Principles (Table 1.2)
 - 3) Financial Reporting
 - i. Mandated by Sarbanes-Oxley
 - ii. Increased disclosure and transparency of financial information
 - iii. Senior managers are required to certify the accuracy of their company's financial statements
 - iv. Establishment and auditing of internal financial controls

Strategic Management in Action – The Global Perspective: Governance Metrics International

Governance Metrics International rates global companies on their governance structures and procedures on: Board accountability, financial disclosure and internal controls, executive compensation, shareholder rights, ownership base and takeover provisions.

- In groups of two have students go to GMI's Web site and identify some of the companies that are rated highly on these governance ratings. Have the students choose a couple of companies and research how well the companies are performing financially.
- Have the students discuss whether they think there's a link between corporate governance and financial results.

Learning Review: Learning Outcome 1.4

- *Discuss how the global economy and globalization affect strategic management.*

Organizations benefit from globalization as it opens a company to new markets in new countries and spreads the risk of doing business between several countries.

The openness associated with globalization brings challenges of vulnerability and economic interdependence. Businesses are more vulnerable due to the openness needed to do business which could lead to more terrorism. Additionally, each country's economic stability relies on the economic stability of its trading partners.

- *Explain the concept of corporate governance and how it impacts strategic management.*

Corporate governance is the determination of the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad of participants in organizations. Corporate governance directly affects strategic management as it can, and often does, alter the decisions top management makes in running an organization.

QUESTIONS?

THE BOTTOM LINE

Learning Outcome 1.1: Explain why strategic management is important.

- ◆ *Individually:* you will be evaluated on and rewarded for doing your job well, which means understanding how and why strategic decisions are made.
- ◆ *Organizationally:* can make a difference in how well an organization performs; helps deal with continually changing situations; and helps in coordinating various divisions, functions, and work activities.

Learning Outcome 1.2: Explain what strategic management is.

- ◆ *Strategies:* an organization's goal-directed plans and actions that align its capabilities and resources with the opportunities and threats in its environment.
- ◆ *Strategic management:* a process of analyzing the current situation; developing appropriate strategies; putting the strategies into action; and evaluating, modifying, or changing the strategies as needed.
- ◆ *Four characteristics:* interdisciplinary, external focus, internal focus, and future-oriented.
- ◆ *Strategic management process:* *situation analysis* (scanning and evaluating the current organizational context and external and internal environments); *strategy formulation* (developing and then choosing appropriate strategies); *strategy implementation* (putting strategies into action); and *strategy evaluation* (evaluating the implementation and outcomes of strategies).
- ◆ *Types of organizational strategies:* *functional* or *operational* (goal-directed plans and actions of the organization's functional areas); *competitive* or *business* (goal-directed plans and actions concerned with the choices of what businesses to be in and what to do with those businesses).
- ◆ *Reality:* process may not always follow the stated sequence, but activities are still completed.
- ◆ *Background:* military strategies (exploiting enemy's weak spots and attacking them where most vulnerable); academic origins (economics and organizational theory).

- ◆ *Emergence of strategic planning and strategic management:* 1960s, when researchers began looking for explanations or organizational differences in performance and functioning; 1970s and 1980s, with focus on process (how strategies were formed) and content (relationship between strategic choices and performance).

Learning Outcome 1.3: Explain who's involved with strategic management.

- ◆ *Assumption:* everyone in organization plays an important role.
- ◆ *Three main groups:* *board of directors* (elected group that represents a company's shareholders), whose involvement ranges from approving strategy to initiating strategy; *top management*, whose role involves *strategic leadership* (the ability to anticipate, envision, maintain flexibility, think strategically, and work with others in the organization to initiate changes that will create a viable and valuable future for the organization); and *other managers and organizational employees*, whose primary tasks include strategy implementation and strategy evaluation.
- ◆ *Six key dimensions of strategic leadership:* determining organization's purpose or vision; exploiting and maintaining the organization's core competencies; developing the organization's human capital; creating and sustaining a strong organizational culture; emphasizing ethical organizational decisions and practices; and establishing appropriately balanced controls.

Learning Outcome 1.4: Discuss the three important factors impacting strategic management today.

- ◆ *Global economy and globalization:* provides both economic and social benefits; challenges come from current state of global economy; from openness, which has made countries more vulnerable to political and cultural differences; and from economic interdependence of trading nations.
- ◆ *Challenges of openness and economic interdependence have been countered by:* the *World Trade Organization* (a global organization of 153 countries that deals with monitoring and facilitating the rules of trade among nations); the *World Bank Group* (a cooperative of 185 member countries that provides financial and technical assistance to developing countries); and the *International Monetary Fund* (an organization of 185 member countries that promotes international monetary cooperation and provides financial advice, temporary loans, and technical assistance).
- ◆ *Challenges of cultural and political differences:* requires sensitivity to those differences.
- ◆ *Corporate governance* (the way a corporation is governed or the "determination of the broad uses to which organizational resources will be deployed and resolution of conflicts among the myriad participants on organizations"): reforms brought about by the *Sarbanes-Oxley Act* (a U.S. federal law designed to protect investors by improving the accuracy and reliability of corporate disclosures); reform mandated in two areas – role of boards of directors and financial reporting.

Suggestions for using YOU as Strategic Decision Maker: Building Your Skills exercises

1. This exercise could be assigned to student teams for an out-of-class exercise to write a brief 2-3 page double-spaced paper. Use Figure 1.4 to structure the paper. [**Learning Outcome 1.3: Explain who's involved with strategic management; AACSB: Use of information technology, Reflective thinking skills**]
2. This should be a fairly straightforward question for students to answer. However, you may wish to reemphasize the importance of the strategic management as a continuous cycle of formulation→implementation→evaluation. (Refer back to Figure 1.1.) [**Learning Outcome 1.2:**

Explain what strategic management is; Course Level Objective: Define strategic management and identify its basic concepts; AACSB: Reflective thinking skills]

3. This is an excellent out-of-class exercise for student teams that introduces students to key business periodicals available for corporate intelligence gathering on important business issues. **[Learning Outcome 1.3: Explain who's involved with strategic management; Course Level Objective: Describe modern corporate governance practices; AACSB: Use of information technology, Reflective thinking skills]**
4. This could be a small group exercise. This exercise could also be used to have students think individually, then discuss in pairs, and then each pair can volunteer its answers to the class. **[AACSB: Reflective thinking skills]**
5. This could also be used as an in-class exercise. Each group could evaluate one of the businesses listed. Have the groups think about fixed costs and variable costs, how the business may fluctuate with the economic cycle, and other internal and external variables which will be introduced formally later. This exercise would work well to have one person from each group report the group's findings to the class. **[Learning Outcome 1.1: Explain what strategic management is; Course Level Objective: Define strategic management and identify its basic concepts, Describe tools and models for assessing a firm's internal environment; AACSB: Analytic skills]**

Strategic Management in Action Cases

Case #1 Virtual Worlds, Real Profits

1. Zynga's goal is to utilize data analysis to form its strategies. By analyzing what virtual products game users "purchase" with imaginary money, they can develop other virtual products that users will acquire with actual money. By constantly analyzing user preferences, Zynga can develop targeted strategies for its business. **[Learning Outcome 1.1: Explain why strategic management is important; Course Level Objective: Discuss strategies that companies use to acquire and maintain competitive advantage; AACSB: Reflective Thinking Skills]**
2. Students should be able to cite Zynga's data analysis efforts as the initial step in turning users into purchasers. In addition, selling the products at a nominal price (\$3 to \$4) makes it easier to outlay real cash. **[Learning Outcome 1.1: Explain why strategic management is important; Course Level Objective: Discuss strategies that companies use to acquire and maintain competitive advantage]**
3. Continuing to mine data is an important part of Zynga's strategy formulation. Being a first mover in the market with games that are engaging and incorporate social interaction will continue to be Zynga's forte. The challenges the company faces include other firms copying them, users lose interest in their products, and they fail to adequately analyze the data. **[Learning Outcome 1.1: Explain why strategic management is important; Course Level Objective: Discuss strategies that companies use to acquire and maintain competitive advantage; AACSB: Analytic Skills]**
4. Students should be able to use the strategic management process illustrated in Figure 1.2 to show how Zynga would go through each step in implementing a strategy (or strategies) that will permit the firm to make real profits. **[Learning Outcome 1.2: Explain what strategic management is; Course Level Objective: Discuss strategies that companies use to acquire and maintain competitive advantage, Discuss best practices for strategy implementation; AACSB: Reflective Thinking Skills]**

Case #2 Making Magic Happen

1. The Disney Difference is Disney's high quality creative content, backed by a clear strategy for maximizing that content's value across platforms and markets. The Disney Difference will guide the goal-directed plans and actions that are concerned with: a) choices of what business(es) to be in and what to do with those businesses (corporate strategy); b) how an organization performs in a specific business or industry (competitive or business strategies); and c) direction of the Disney's functional areas (functional or operational strategies). **[Learning Outcome 1.1: Explain why strategic management is important, Learning Outcome 1.4: Discuss the three important factors impacting strategic management today; Course Level Objective: Discuss strategies that companies use to acquire and maintain competitive advantage, Discuss the functions of vision statements, mission statements, and long-term corporate objectives, Identify business-level and functional strategies]**

2. Disney might face the following challenges doing business in Russia: near-term economic turmoil; decline in consumer spending; losing its innovation and contemporary reputation; and appealing to youth demographics. **[Learning Outcome 1.4: Discuss the three important factors impacting strategic management today; Course Level Objective: Explain how strategies are implemented in international business; AACSB: Dynamics of a global economy]**

Have students brainstorm ideas on how Iger and his top management team best prepare for the above-mentioned challenges.

3. Iger viewing himself as the "steward" of the entire Disney brand means that as Disney's CEO he is taking seriously his responsibility of ultimately being responsible for every decision and action of every organizational employee. Iger, as Disney's steward, is acting as a strategic leader. Iger is demonstrating the ability to anticipate, envision, maintain flexibility, think strategically and work with others in Disney to initiate changes that will create a viable and valuable future for Disney. **[Learning Outcome 1.3: Explain who's involved with strategic management; Course Level Objective: Describe modern corporate governance practices]**
4. Iger and his top management team might use the strategic management process to evaluate the strategy first, then analyze the situation before formulating and implementing a new strategy. Strategic management in action involves adjustments to organizational strategies currently in effect. **[Learning Outcome 1.4: Discuss the three important factors impacting strategic management today; Course Level Objective: Define strategic management and identify its basic concepts; AACSB: Reflective thinking skills]**
5. Students should be able to not only explain succession planning, but provide sound advice and suggestions for the board of directors in transitioning new leadership at Disney. **[Learning Outcome 1.3: Explain who's involved with strategic management; Course Level Objective: Describe modern corporate governance practices; AACSB: Use of information technology, Analytic skills]**

Case #3 MTV's New Reality

1. Keeping in mind the four parts of the strategy process: situation analysis, strategy formulation, strategy implementation and strategy evaluation, MTV's analysis showed that the company was looking for ways to continue its success. MTV formulated digital and global strategies. MTV implemented strategies by creating virtual worlds for many of its shows and expanding in key global markets with more MTV brands using a range of technologies. **[Learning Outcome 1.2: Explain what strategic management is; Course Level Objective: Define strategic management and identify its basic concepts]**
2. Performance measures that MTV's strategic decision makers might use to evaluate their digital and global strategies' results include improvements in MTV's market share, market growth, demographic data and workforce using the new strategies. **[Learning Outcome 1.4: Discuss the three important factors impacting strategic management today; Course Level Objective: Explain how strategies are implemented in international business; AACSB: Dynamics of the global economy, Reflective thinking skills]**
3. Have students examine MTV's job opportunities at (www.mtv.com/site-wide/mtvinfo/faq). Have the students describe MTV Network's and four of MTV's businesses' strategic approaches. **[Learning Outcome 1.2: Explain what strategic management is; Course Level Objective: Define corporate strategy and identify its key elements, Describe how organizational performance is measured, Explain how strategies are implemented in international business; AACSB: Dynamics of the global economy, Reflective thinking skills]**
4. Judy McGrath, MTV's CEO and chairman, did a good job determining organizational purpose and vision for MTV. She exploited and maintained MTV's core competencies in the global and digital media environments and has created and sustained a strong organizational culture. **[Learning Outcome 1.2: Explain what strategic management is; AACSB: Reflective thinking skills]**

Case #4 Fighting Grime (Clorox Company)

This is a fun case in that it involves branded products that students will recognize yet probably do not associate with Clorox. A good way to introduce the case could be to bring in product samples or show the brand names of their many products and ask students what they have in common?

The case is short and vivid and can be assigned ahead or simply read in class. It is an easy case to grasp quickly yet provides some very clear examples of strategic behavior that could be used as examples when confronting topics such as corporate strategy, renewal and acquisitions in later chapters. You might consider assigning each question to a student team or several teams depending on class size and then having each team report out a portion of its findings to the class (have them list them on the board as they go through them or into a PowerPoint slide as they explain their findings.)

1. Clorox has made a number of corporate-level (What businesses will we be in?) strategic decisions that have changed the company dramatically in size and type of products offered. Clorox exited businesses that were not doing well (insecticides, bottled water, restaurant equipment) and built up its core brands with new products (bleach gel pen). Clorox used acquisition strategy to buy First Brands Corp. giving it a number of nationally known brands including the Glad line of plastic food and trash bags. **[Learning Outcome 1.1: Explain why strategic management is important, Learning Outcome 1.2: Explain what strategic management is; Course Level Objective: Define strategic management and identify its basic concepts]**

2. At what step in the strategy process does it excel? There are good arguments to be made for implementation in that Clorox has made some good acquisition and divestiture decisions. Analysis may be weak in that they have made some mistakes along the way and had to divest them. Students may argue though that the line extensions like the bleach gel pen show strong ability to expand and revitalize core product lines (analysis and implementation)...after all, until you have met someone from Clorox, bleach is just bleach...but afterwards you see the many ways bleach can be sold. Evaluation could also be seen as strong in that Clorox sees problems and opportunities and is willing to take actions based on its data...the performance of the unit and its fit with other units and the overall strategy...this implies skill in evaluation leading to further analysis beginning the strategy process all over again. **[Learning Outcome 1.2: Explain what strategic management is; Course Level Objective: Define strategic management and identify its basic concepts]**
3. Students will probably cite that Knauss was strong in identifying a vision for Clorox that extended beyond just bleach. He assembled a new management team to change the culture of the organization from the top to be able to move Clorox into new, more competitive businesses and he was able to do this while maintaining and building the core businesses and values of the organization (high quality consumer products with low costs). **[Learning Outcome 1.1: Explain why strategic management is important, Learning Outcome 1.2: Explain what strategic management is; Course Level Objective: Define strategic management and identify its basic concepts; AACSB: Reflective thinking skills]**
4. One good way to get them out onto the web is to consider how Clorox is changing in size and in strategies. Have a team go to the Web site and find this information and report it out to the class. **[Learning Outcome 1.4: Explain why strategic management is important; Course Level Objective: Describe tools and models for assessing a firm's internal environment; AACSB: Analytic skills, Use of information technology]**