Strategic Management Competitiveness And Globalisation 6th Edition Manson Solutions Manua

Chapter 1
Strategic management and strategic competitiveness

Knowledge Objectives

1. Define strategic competitiveness, strategy, competitive advantage, above-average returns and the strategic management process.
2. Describe the competitive landscape and explain how globalisation and technological changes shape it.
3. Use the industrial organisation (I/O) model to explain how firms can earn above-average returns.
4. Use the resource-based model to explain how firms can earn above average-returns.
5. Describe vision and mission and discuss their value.
6. Define stakeholders and describe their ability to influence organisations.
7. Describe the work of strategic leaders.
8. Explain the strategic management process.

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Lecture Notes

Chapter Introduction: You may want to begin this lecture with a general comment that Chapter 1 provides an overview of the strategic management process. This chapter introduces a number of key terms and models that students will study in more detail in Chapters 2 through 13. Stress the importance of students paying careful attention to the concepts introduced in this chapter so that they are well-grounded in strategic management concepts before proceeding further.

OPENING CASE

McDonald's and brand recognition

Brand recognition is one of the most important "touch points" in the strategic management process; the competitive advantages that have been generated by a firm through a series of management decisions often manifests in how consumers perceive that firm's brand (in relation to competitor brands). The opening Case highlights that while McDonald's brand is recognised by almost 90% of consumers surveyed, recent sales figures and market share modelling demonstrates that its brand has become somewhat confusing to fast food consumers. Many fast food consumers are now unclear whether McDonald's is a 'cheap fast food option', or a 'premium fast food offering'; whether it is a healthy fast food option, or an unhealthy fast food option. The confusion seems to stem from McDonald's attempt to maintain relevance to the changes in the fast food markets, while trying to maintain the link to its past successes; the challenge for McDonald's is to maintain its connection to its successful past while traversing increasingly dynamic change in the fast food market.

To initiate discussion, ask how the case lays the groundwork for the importance of strategy as defined in the chapter – the coordinated set of commitments and actions designed to achieve competitive advantage. Ask students how McDonald's should have responded to the many changes that it was experiencing in its external environment. The case also provides a nice lead-in to discuss anticipated environmental changes and how McDonald's might position itself for future success in the increasingly dynamic fast food market. Finally, the case provides the opportunity to discuss strategic leadership. How can effective leadership protect McDonald's from the ongoing changes in its external environment?

1	Define strategic competitiveness, strategy, competitive advantage, above-average returns and the strategic management process.

Strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy. By implementing a value-creating strategy that current and potential competitors are not *simultaneously* implementing and that competitors are *unable* to duplicate, or find too costly to imitate, a firm achieves a ***competitive advantage***.

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Strategy can be defined as an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.

So long as a firm can sustain (or maintain) a competitive advantage, investors will earn above-average returns. ***Above-average returns*** represent returns that exceed returns that investors expect to earn from other investments with similar levels of ***risk*** (investor uncertainty about the economic gains or losses that will result from a particular investment). In other words, above average-returns exceed investors' *expected* levels of return for given risk levels.

> ***Teaching Note*:** Point out that in the long run, firms must earn at least average returns and provide investors with average returns if they are to survive. If a firm earns below-average returns and provides investors with below-average returns, investors will withdraw their funds and place them in investments that earn at least average returns. At this point it may be useful to highlight the role institutional investors play in regulating above-average performances.

In smaller new venture firms, performance is sometimes measured in terms of the amount and speed of growth rather than more traditional profitability measures – new ventures require time to earn acceptable returns.

A framework that can assist firms in their quest for strategic competitiveness is the ***strategic management process***, the full set of commitments, decisions and actions required for a firm to systematically achieve strategic competitiveness and earn above-average returns. This process is illustrated in *Figure 1.1*.

FIGURE 1.1

The strategic management process

Figure 1.1 illustrates the dynamic, interrelated nature of the elements of the strategic management process and provides an outline of where the different elements of the process are covered in this text.

Feedback linkages among the three primary elements indicate the dynamic nature of the strategic management process: strategic inputs, strategic actions and strategic outcomes.

- **Strategic inputs**, in the form of information gained by scrutinising the internal environment and scanning the external environment, are used to develop the firm's vision and mission.
- **Strategic actions** are guided by the firm's vision and mission, and are represented by strategies that are formulated or developed and subsequently implemented or put into action.
- Desired **strategic outcomes** – strategic competitiveness and above-average returns – result when a firm is able to successfully formulate and implement

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value-creating strategies that others are unable to duplicate.

- **Feedback** links the elements of the strategic management process together and helps firms continuously adjust or revise strategic inputs and strategic actions in order to achieve desired strategic outcomes.

In addition to describing the impact of globalisation and technological change on the current business environment, this chapter also discusses two approaches to the strategic management process. The first, the *industrial organisation model*, suggests that the external environment should be considered as the primary determinant of a firm's strategic actions. The second is the *resource-based model*, which perceives the firm's resources and capabilities (the internal environment) as critical links to strategic competitiveness. Following the discussion in this chapter, as well as in Chapters 2 and 3, students should see that these models must be integrated to achieve strategic competitiveness.

> ***Teaching Note*:** The transient nature of strategic competitiveness is pointed out even more clearly when one realises that only 61 of the 500 largest US industrial corporations in 1955 remained competitive in the 2015. This does not even take into account the great number of US businesses that fail every year (the latest statistics showed that 55,250 businesses filed for bankruptcy in 2014).

2	Describe the competitive landscape and explain how globalisation and technological changes shape it.

THE COMPETITIVE LANDSCAPE

The ***competitive landscape*** can be described as one in which the fundamental nature of competition is changing in a number of the world's industries. Further, the boundaries of industries are becoming blurred and more difficult to define.

Consider recent changes that have taken place in the telecommunication and TV industries – e.g. not only cable companies and satellite networks compete for entertainment revenue from television, but telecommunication companies also are stepping into the entertainment business through significant improvements in fibre-optic lines. Partnerships further blur industry boundaries (e.g. MSNBC is co-owned by NBC, itself owned by General Electric and Microsoft). Many firms are looking into the delivery of video on demand (VOD). Apple iPod has the current lead in offering VOD content, but Netflix is vying hard to compete in this arena since VOD could be the kiss of death to its current online DVD rental service. Blockbuster and Amazon are also seeking a piece of this competitive pie. Consideration here could be given to the telecommunications industry in Australia where Telstra through its Big Pond movies has entered into VOD as have Sony and Samsung.

The twenty-first century competitive landscape thus implies that traditional sources of competitive advantage – economies of scale and large advertising budgets – may not be as important in the future as they were in the past. The rapid and unpredictable

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technological change that characterises this new competitive landscape implies that managers must adopt new ways of thinking. The new competitive mind-set must value flexibility, speed, innovation, integration and the challenges that evolve from constantly changing conditions.

A term often used to describe the new realities of competition is ***hyper-competition***, a condition that results from the dynamics of strategic moves and countermoves among innovative, global firms: a condition of rapidly escalating competition that is based on price-quality positioning, efforts to create new know-how and achieve first-mover advantage, and battles to protect or to invade established product or geographic markets (discussed in more detail in Chapter 5).

The global economy

A ***global economy*** is one in which goods, services, people, skills and ideas move freely across geographic borders.

The emergence of this global economy results in a number of challenges and opportunities. For instance, Europe is now the world's largest single market (despite the difficulties of adapting to multiple national cultures and the lack of a single currency). The European Union has a gross domestic product (GDP) that is over 35% greater than that of the US, with 700 million potential customers.

Today, China and India are seen as an extremely competitive markets in which local market-seeking MNCs (multinational corporations) fiercely compete against other MNCs and local low-cost producers. China has long been viewed as a low-cost producer of goods, but here's an interesting twist. China is now an exporter of local management talent. Procter & Gamble actually exports Chinese management talent; it has been dispatching more Chinese abroad than it has been importing expatriates to China. GE estimates that by 2024, China will be the world's greatest consumer of electricity and will also be the world's largest consumer and consumer-finance market. GE is making strategic decisions today, such as significant investing in China and India, that will enhance its competitive posture in both countries in the future.

> ***Teaching Note***: The relative competitiveness of nations can be found in the World Economic Forum's *Global Competitiveness Report*, which can be accessed for free on the internet. It is useful to assemble these data into an overhead or PowerPoint slide and show it in class. Students find it interesting to see where their country stands relative to the others listed. Allow enough time for them to see these numbers and sort out what it all means.

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STRATEGIC FOCUS
Starbucks is a new economy multinational but has had failures in key markets
The case demonstrates how Starbucks has attempted to grow its business internationally using a multinational strategy – that is, it engages in major strategic actions to enter new international and product markets with a focus on selling coffee in a cafe-style environment. The multinational strategy requires that a firm's core product offering be consistent across national boundaries, yet at the same time be mindful of local cultural preferences in their product and service delivery. Starbucks success in the United States was predicated on its ability to offer café-style coffee experiences that meet the expectations of the US consumer – however it's transfer of this café-style coffee experience to other countries has not been nearly a successful as expected. The case demonstrates how a range of different variables has impacted Starbucks ability to achieve the same level of success in Australia and Europe as it had done in its domestic US context.

***Teaching Note*:** This case provides an excellent opportunity for students to discuss the variables that impacted Starbucks success outside of the United States; the variability in the cafe cultures, the expected quality standards in different markets, and the role of store location can each be seen to a played a negative role in Starbucks performance in Australia and Europe specifically. This case poses the question: what additional information should Starbucks's senior management taken into account in their decision to implement a multinational structure for their organisation?

The march of globalisation
Globalisation is the increasing economic interdependence among countries as reflected in the flow of goods and services, financial capital and knowledge across country borders. This is illustrated by the following:

- Financial capital might be obtained in one national market and used to buy raw materials in another one.
- Manufacturing equipment bought from another market produces products sold in yet another market.
- Globalisation enhances the available range of opportunities for firms.

Global competition has increased performance standards in many dimensions, including quality, cost, productivity, product introduction time and operational efficiency. Moreover, these standards are not static; they are exacting, requiring continuous improvement from a firm and its employees. Thus, companies must improve their capabilities and individual workers need to sharpen their skills. In the twenty-first century competitive landscape, only firms that meet and perhaps exceed global standards are likely to earn strategic competitiveness.

> ***Teaching Note*:** As a result of the new competitive landscape, firms of all sizes must re-think how they can achieve strategic competitiveness by positioning themselves to ask questions from a more global perspective to enable them to (at

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least) meet or exceed global standards:

- Where should value-adding activities be performed?
- Where are the most cost-effective markets for new capital?
- Can products designed in one market be successfully adapted for sale in others?
- How can we develop cooperative relationships or joint ventures with other firms that will enable us to capitalise on international growth opportunities?

Although globalisation seems an attractive strategy for competing in the current competitive landscape, there are risks as well. These include such factors as:

- The 'liability of foreignness' (i.e. the risk of competing internationally).
- Over-diversification beyond the firm's ability to successfully manage operations in multiple foreign markets.

A point to emphasise: entry into international markets requires proper use of the strategic management process.

Though global markets are attractive strategic options for some companies, they are not the only source of strategic competitiveness. In fact, for most companies, even for those capable of competing successfully in global markets, it is critical to remain committed to and strategically competitive in the domestic market. And domestic markets can be testing grounds for possibly entering an international market at some point in the future.

***Teaching Note*:** Indicate that the risks that often accompany internationalisation and strategies for minimising their impact on firms are discussed in more detail in Chapter 8.

***Teaching Note*:** As a result of globalisation and the spread of technology, competition will become more intense. Some principles to consider include the following:

- Customers will continue to expect high levels of product quality at competitive prices.
- Global competition will continue to pressure companies to shorten product development-introduction time frames.
- Strategically competitive companies successfully leverage insights learned both in domestic and global markets, modifying them as necessary.
- Before a company can hope to achieve any measure of success in global markets, it must be strategically competitive in its domestic market.

Technology and technological changes

Three technological trends and conditions are significantly altering the nature of competition:

- Increasing rate of technological change and diffusion.
- The information age.
- Increasing knowledge intensity.

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Technologic diffusion and disruptive technologies
Both the rate of change and the introduction of new technologies have increased greatly over the last 20 years.

A term that is used to describe rapid and consistent replacement of current technologies by new, information-intensive technologies is ***perpetual innovation***. This implies that innovation – discussed in more detail in Chapter 13 – must be continuous and carry a high priority for all organisations.

The shorter product life cycles that result from rapid diffusion of innovation often means that products may be replicated within very short time periods, placing a competitive premium on a firm's ability to rapidly introduce new products into the marketplace. In fact, speed-to-market may become the sole source of competitive advantage. In the computer industry during the early 1980s, hard disk drives would typically remain current for four to six years, after which a new and better product became available. By the late 1980s, the expected life had fallen to two to three years. By the 1990s, it was just six to nine months.

The rapid diffusion of innovation may have made patents a source of competitive advantage only in the pharmaceutical and chemical industries. Many firms do not file patent applications to safeguard (for at least a time) the technical knowledge that would be disclosed explicitly in a patent application.

Disruptive technologies (in line with the Schumpeterian notion of 'creative destruction') can destroy the value of existing technologies by replacing them with new ones. Current examples include the success of iPods, PDAs and WiFi.

The information age
Changes in information technology have made rapid access to information available to firms all over the world, regardless of size. Consider the rapid growth in the following technologies: personal computers (PCs), cellular phones, computers, personal digital assistants (PDAs), artificial intelligence, virtual reality and massive databases. These examples show how information is used differently as a result of new technologies. The ability to access and use information has become an important source of competitive advantage in almost every industry.

- There have been dramatic changes in information technology in recent years.
- The number of PCs was expected to grow to 250 million by 2020.
- The internet provides an information-carrying infrastructure available to individuals and firms worldwide.

The ability to access a high level of relatively inexpensive information has created strategic opportunities for many information-intensive businesses. For example, retailers now can use the internet to provide shopping to customers virtually anywhere.

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STRATEGIC FOCUS
The core of Apple: Technology and innovation
Apple has been on a hot streak for over a decade. It is an exceptionally innovative company and its products have revolutionised multiple industries. Its brand is incredibly strong on a global scale and customers continue to purchase its products even though cheaper substitutes in the market abound. iPod, iTunes, iPhone and iPad have powered the company to the point that it had the second largest market capitalisation of all firms in the world in 2011.

Teaching Note: Apple illustrates the power of well-conceived and managed innovation. Over the past decade it has produced a number of breakthrough products that are in high demand. Ask students to compare some of Apple's products with those of competitors. What do they know about the products and how important is the strength of the Apple brand in shaping perceptions? With the passing of legendary founder and CEO Steve Jobs, ask students if they think that Apple will be able to continue current momentum into the future.

Increasing knowledge intensity
It is becoming increasingly apparent that knowledge – information, intelligence and expertise – is a critical organisational resource, and increasingly, a source of competitive advantage. As a result:

- Many companies are working to convert the accumulated knowledge of employees into a corporate asset.
- Shareholder value is increasingly influenced by the value of a firm's intangible assets, such as knowledge.

Note: Intangible assets are discussed more fully in Chapter 3.

Teaching Note: This means that to achieve competitive advantage in the information-intensive competitive landscape, firms must move beyond accessing information to exploiting information by:

- Capturing intelligence.
- Transforming intelligence into usable knowledge.
- Embedding it as organisational learning.
- Diffusing it rapidly throughout the organisation.

The implication of this discussion is that to achieve strategic competitiveness and earn above-average returns, firms must develop the ability to adapt rapidly to change or achieve strategic flexibility.

Strategic flexibility represents the set of capabilities – in all areas of their operations – that firms use to respond to the various demands and opportunities that are found in dynamic, uncertain environments. This implies that firms must develop certain capabilities, including the capacity to learn continuously, that will provide the firm with new skill sets. However, those working within firms to develop strategic flexibility should understand that the task is not an easy one, largely because of

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inertia that can build up over time. A firm's focus and past core competencies may actually slow change and strategic flexibility.

> ***Teaching Note*:** Firms capable of rapidly and broadly applying what they learn achieve strategic flexibility and the resulting capacity to change in ways that will increase the probability of succeeding in uncertain, hypercompetitive environments. Some firms must change dramatically to remain competitive or return to competitiveness. How often are firms able to make this shift? Overall, does it take more effort to make small, periodic changes, or to wait and make more dramatic changes when these become necessary?

Two models describing key strategic inputs to a firm's strategic actions are discussed next: the Industrial Organisation (or externally focused) model and the Resource-Based (or internally focused) model.

3	Use the industrial organisation (I/O) model to explain how firms can earn above-average returns.

THE I/O MODEL OF ABOVE AVERAGE RETURNS

> ***Teaching Note*:** The recommended teaching strategy for this section is to first discuss the assumptions underlying the I/O model. Then use *Figure 1.2* to introduce linkages in the I/O model and provide the background for an expanded discussion of the model in Chapter 2.

The I/O or Industrial Organisation model adopts an *external* perspective to explain that forces outside of the organisation represent the dominant influences on a firm's strategic actions. In other words, this model presumes that the characteristics of and conditions present in the external environment determine the appropriateness of strategies that are formulated and implemented in order for a firm to earn above-average returns. In short, the I/O model specifies that the choice of industries in which to compete has more influence on firm performance than the decisions made by managers inside their firm.

The I/O model is based on the following four assumptions:

1. The external environment – *the general, industry and competitive environments impose pressures and constraints on firms and determine strategies that will result in superior returns*. In other words, the external environment pressures the firm to adopt strategies to meet that pressure while simultaneously constraining or limiting the scope of strategies that might be appropriate and eventually successful.

2. Most firms competing in an industry or in an industry segment control similar sets of strategically relevant resources and thus pursue similar strategies. This assumption presumes that, given a similar availability of resources, most firms competing in a specific industry (or industry segment) have similar capabilities and thus follow strategies that are similar. In other words, there are few significant differences among

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firms in an industry.

3. Resources used to implement strategies are highly mobile across firms. Significant differences in strategically relevant resources among firms in an industry tend to disappear because of resource mobility. Thus, any resource differences soon disappear as they are observed and acquired or learned by other firms in the industry.

4. Organisational decision-makers are assumed to be rational and committed to acting only in the best interests of the firm. The implication of this assumption is that organisational decision-makers will consistently exhibit profit-maximising behaviours.

According to the I/O model, which was a dominant paradigm from the 1960s through the 1980s, firms must pay careful attention to the structured characteristics of the industry in which they choose to compete, searching for one that is the most attractive to the firm, given the firm's strategically relevant resources. Then, the firm must be able to successfully implement strategies required by the industry's characteristics to be able to increase their level of competitiveness. The *five forces model* is an analytical tool used to address and describe these industry characteristics.

FIGURE 1.2
The I/O model of above-average returns
Based on its four underlying assumptions, the I/O model prescribes a five-step process for firms to achieve above-average returns:

1. Study the external environment – general, industry and competitive – to determine the characteristics of the external environment that will both determine and constrain the firm's strategic alternatives.

2. Select an industry (or industries) with a high potential for returns based on the structural characteristics of the industry. A model for assessing these characteristics, the *Five Forces Model of Competition*, is discussed in Chapter 2.

3. Based on the characteristics of the industry in which the firm chooses to compete, strategies that are linked with above-average returns should be selected. A model or framework that can be used to assess the requirements and risks of these strategies (the *generic strategies* called *cost leadership & differentiation)* are discussed in detail in Chapter 4.

4. Acquire or develop the critical resources – skills and assets – needed to successfully implement the strategy that has been selected. A process for scrutinising the internal environment to identify the presence or absence of critical skills is discussed in Chapter 3. Skill-enhancement strategies, including training and development, are discussed in Chapter 11.

5. The I/O model indicates that above-average returns will accrue to firms that

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successfully implement relevant strategic actions that enable the firm to leverage its strengths (skills and resources) to meet the demands or pressures and constraints of the industry in which it has elected to compete. The implementation process is described in Chapters 10 through 13.

The I/O model has been supported by research indicating:

- 20% of firm profitability can be explained by industry characteristics.
- 36% of firm profitability can be attributed to firm characteristics and the actions taken by the firm.
- Overall, this indicates a reciprocal relationship – or even an interrelationship – between industry characteristics (attractiveness) and firm strategies that result in firm performance.

4 Use the resource-based model to explain how firms can earn above average-returns.

THE RESOURCE-BASED MODEL OF ABOVE-AVERAGE RETURNS

Teaching Note: The recommended teaching strategy for this section is similar to that suggested for the I/O model. First explain the assumptions of the resource-based model. Then use *Figure 1.3* to introduce linkages in the resource-based model and provide the background for an expanded discussion of the model in Chapter 3.

The resource-based model adopts an *internal* perspective to explain how a firm's unique bundle or collection of internal resources and capabilities represent the foundation on which value-creating strategies should be built.

Resources are inputs into a firm's production process, such as capital equipment, individual employee's skills, patents, brand names, finance and talented managers. These resources can be tangible or intangible.

Capabilities are the capacity for a set of resources to perform – integrated or in combination – a task or activity.

Teaching Note: Thus, according to the resource-based model, a firm's resources and capabilities – found in its internal environment – are more critical to determining the appropriateness of strategic actions than are the conditions and characteristics of the external environment. So, strategies should be selected that enable the firm to best exploit its core competencies, relative to opportunities in the external environment. One example of this is the experience of Amazon that used its capabilities to market and distribute books using the internet successfully to capture a 20-month first-mover advantage in this new marketplace. However, Amazon's capabilities may be imitable. In fact,

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many experts note the potential of Dymocks to use its extensive resources to be a formidable competitor.

Core competencies are resources and capabilities that serve as a source of competitive advantage for a firm. Often related to functional skills (e.g. marketing at Philip Morris), core competencies – when developed, nurtured and applied throughout a firm – may result in strategic competitiveness.

FIGURE 1.3
The resource-based model of above-average returns
The resource-based model of above-average returns is grounded in the uniqueness of a firm's internal resources and capabilities. The five-step model describes the linkages between resource identification and strategy selection that will lead to above-average returns.

1. Firms should identify their internal **resources** and assess their strengths and weaknesses. The strengths and weaknesses of firm resources should be assessed relative to competitors.

2. Firms should identify the set of resources that provide the firm with **capabilities** that are unique to the firm, relative to its competitors. The firm should identify those capabilities that enable the firm to perform a task or activity better than its competitors.

3. Firms should determine the potential for their unique sets of resources and capabilities to outperform rivals in terms of returns. Determine how a firm's resources and capabilities can be used to gain competitive advantage.

4. Locate and compete in an attractive industry. Determine the industry that provides the best fit between the characteristics of the industry and the firm's resources and capabilities.

5. To attain a sustainable competitive advantage and earn above-average returns, firms should formulate and implement strategies that enable them to exploit their resources and capabilities to take advantage of opportunities in the external environment better than their competitors.

Resources and capabilities can lead to a competitive advantage when they are valuable, rare, costly to imitate and non-substitutable.
- Resources are *valuable* when they support taking advantage of opportunities or neutralising external threats.
- Resources are *rare* when possessed by few, if any, competitors.
- Resources are *costly to imitate* when other firms cannot obtain them inexpensively (relative to other firms).
- Resources are *non-substitutable* when they have no structural equivalents.

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5 Describe vision and mission and discuss their value.

VISION AND MISSION

***Teaching Note*:** Refer students to *Figure 1.1* that indicates the link or relationship between identifying a firm's internal resources and capabilities and the conditions and characteristics of the external environment with the development of the firm's vision and mission.

Vision

Vision is a picture of what the firm wants to be, and in broad terms, what it wants to ultimately achieve. Vision is 'big picture' thinking with passion that helps people *feel* what they are supposed to be doing.

Vision statements:

- Reflect a firm's values and aspirations
- Are intended to capture the heart and mind of each employee (and hopefully, many of its other stakeholders)
- Tend to be enduring, whereas its mission can change in light of changing environmental conditions
- Tend to be relatively short and concise, easily remembered.

Examples of vision statements:

- *Our vision is to be the world's best quick service restaurant. (McDonald's)*
- *Our mission is to be recognised by our customers as the leader in applications engineering. We always focus on the activities customers desire; we are highly motivated and strive to advance our technical knowledge in the areas of material, part design, and fabrication technology. (LNP, a GE Plastics Company)*
- *We must be a great company with great people. (LG Electronics)*

The CEO is responsible for working with others to form the firm's vision. However, experience shows that the most effective vision statement results when the CEO involves a host of people to develop it.

A vision statement should be clearly tied to the conditions in the firm's external and internal environments and it must be achievable. Moreover, the decisions and actions of those involved with developing the vision must be consistent with that vision.

Mission

A firm's ***mission*** is an externally focused application of its vision that states the firm's unique purpose and the scope of its operations in product and market terms.

As with the vision, the final responsibility for forming the firm's mission rests with the CEO, though the CEO and other top-level managers tend to involve a larger number of people in forming the mission. This is because middle- and first-level managers and other employees have more direct contact with customers and their markets.

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A firm's vision and mission must provide the guidance that enables the firm to achieve the desired strategic outcomes – strategic competitiveness and above-average returns – illustrated in *Figure 1.1* that enable the firm to satisfy the demands of those parties having an interest in the firm's success: organisational stakeholders.

Earning above-average returns often is not mentioned in mission statements. The reasons for this are that all firms want to earn above-average returns and that desired financial outcomes result from properly serving certain customers while trying to achieve the firm’s intended future. In fact, research has shown that having an effectively formed vision and mission has a positive effect on performance (growth in sales, profits, employment and net worth).

6 Define stakeholders and describe their ability to influence organisations.

STAKEHOLDERS
Stakeholders are the individuals and groups who can affect and are affected by the strategic outcomes achieved and who have enforceable claims on a firm's performance.

Classification of stakeholders
The stakeholder concept reflects that individuals and groups have a ‘stake’ in the strategic outcomes of the firm because they can be either positively or negatively affected by those outcomes and because achieving the strategic outcomes may be dependent on the support or active participation of certain stakeholder groups.

> ***Figure Note***: Students can use *Figure 1.4* to visualise the four stakeholder groups.

FIGURE 1.4
The four stakeholder groups
Figure 1.4 provides a definition of a stakeholder and illustrates the four general classifications and members of each stakeholder group:

- Capital market stakeholders
- Product market stakeholders
- Organisational stakeholders
- The natural environment

Note: Students can use *Figure 1.4* while you discuss the challenges of meeting conflicting stakeholder expectations.

Capital market stakeholders
Product market stakeholders
Organisational stakeholders
The natural environment

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