Chapter 2: Strategic Leadership: Managing the Strategy Process

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Chapter Case 2:
Marissa Mayer: Turnaround at Yahoo?
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- Marissa Mayer’s job as CEO: turn it around
  - Yahoo was once the go-to Internet leader.
    - Web portal: e-mail, finance, sports, social media, and video
    - Stock went from $120 per share to as low as $5.
  - Mayer is the 5th CEO in 3 years

- Marissa Mayer: before Yahoo.
  - Grew up in Wisconsin, went to Stanford
  - Began career in Silicon Valley
    - Google’s 20th hire and first female engineer
    - Helped develop Gmail, images, news, maps
  - Deeply involved in Google’s success
Chapter Case 2: Marissa Mayer: Turnaround at Yahoo?

• Mayer’s first acts at Yahoo: (a) **Culture**
  – Re-tooled the vision/mission statements
  – Withdrew the option to work remotely
  – Installed weekly town-hall meetings

• Mayer’s first acts at Yahoo: (b) **Cash**
  – Sold Yahoo’s stake in Alibaba, a Chinese company
  – Spent $2 billion acquiring tech ventures
    • Filled in product line gaps
    • Brought in new engineering talent

• Result: share price has tripled
Chapter Case 2:
Marissa Mayer: Turnaround at Yahoo?

• In June, 2017, US internet firm Yahoo was acquired by American telecom giant Verizon Communications for $4.5billion.

• Is this a good (financial valuation) deal for Verizon? Why? Or Why not?

  – How much is Verizon’s opportunity for greater profiling and tracking of Internet users worth?
Vision, Mission, & Values
Product-Oriented Vision Statements

• Defines a business in terms of a good or service provided
• Example: “We are in the typewriter business”
  – Less flexible
  – Is not needs-based
  – Can lead to a myopic view
• Railroads:
  – Saw themselves in the railroad business
  – Cars and jets: redefined long-distance transportation
  – Rail companies slow to respond
Defining the Business: The Starting Point of Strategy

• Example: Fall of the Railroads
  “They let others take customers away from them because they assumed themselves to be in the railroad business rather than in the transportation business. The reason they defined their industry wrong was because they were railroad oriented instead of transport oriented; they were product oriented instead of customer oriented.”

Theodore Levitt “Marketing Myopia”
Customer-Oriented Vision Statements

- Defines a business in terms of providing solutions to customer needs

- Examples from Google and Nike:

  "Google's mission is to organize the world's information and make it universally accessible and useful"

  - Google

  Nike: "To bring inspiration and innovation to every athlete in the world."

  - Nike
Strategic Leadership
Merck: Reconfirming Its Core Values

- **Merck**
  - Vision: “to preserve and improve human life”
  
- **Values:**
  - George Merck

“We try to remember that medicine is for the patient. We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered it the larger they have been.”
Merck: Reconfirming Its Core Values

- Under the leadership of Roy Vagelos, Merck’s donations helped eradicate river blindness.

- Merck’s executives formed a novel private-public partnership, the Mectizan Donation Program (MDP), to distribute the drug in remote areas of Africa, where health services are often not available.

- After 25 years, more than 1 billion treatments, and some 120,000 communities served, the disease had effectively been eradicated. Merck’s current CEO, Kenneth Frazier, announced himself “humbled” by the result of the company’s value-driven actions.
Merck: Reconfirming Its Core Values

• Merck followed a socially responsible path by donating more than one billion drug treatments to remedy river blindness in remote African communities. Yet Merck must also meet shareholder responsibilities and make profits on drugs. How should a responsible firm make these tradeoffs? What steps can strategic leaders take to guide organizations to these challenging issues?
# The Effect of Strategic Leaders Varies

<table>
<thead>
<tr>
<th>Leaders who have revitalized the business:</th>
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<tr>
<td>• Tim Cook (Apple)</td>
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<td>• Cheryl Sandberg (Facebook)</td>
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<td>• Marissa Mayer (Yahoo)</td>
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<td>• Mary Barra (GM)</td>
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<th>Leaders who destroyed shareholder value:</th>
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<tr>
<td>• Charles Prince (Citigroup)</td>
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<td>• Richard Wagoner (GM)</td>
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<td>• Robert Nardelli (Home Depot)</td>
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<td>• Ron Johnson (JC Penney)</td>
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Exhibit 2.3: How CEOs Spend Their Days

Level-5 Leadership Pyramid

A conceptual framework of leadership progression

(Adapted to compare corporations and entrepreneurs)

• What “grade” would you give PepsiCo CEO Indra Nooyi for her job performance as a strategic leader? What are her strengths and weaknesses? Where would you place Nooyi on the Level-5 pyramid of strategic leadership (see exhibit 2.4), and why?
The Strategic Management Process
Fundamental Question of the Choice of Goals: Planning for what Purpose(s)?

- **Profitability** (net profits)
  - EVA, MVA, NPF, Tobin’s Q
- **Efficiency** (low costs)
- **Market Share**
- **Growth** (e.g., increase in total assets, sales, etc)
- **Shareholder Wealth** (dividends plus stock price appreciation)
- **Utilization of Resources** (e.g., ROE, ROI)
- **Reputation**
- **Contribution to Stakeholders** (e.g., employees, society)
- **Survival** (avoid bankruptcy)
Three Approaches to Strategize for Competitive Advantage

• Strategic planning
  – A formal, top-down planning approach

• Scenario planning
  – A formal, top-down planning approach

• Strategy as planned emergence
  – Begins with a strategic plan, less formal
Strategy as Strategic Planning

- Top-down rational planning
  - Define mission, vision, and goal (strategic intent)
  - Internal analysis of strengths & weaknesses
  - External analysis of opportunities & threats
  - Create strategic fit through SWOT
  - Formulate appropriate strategy
  - Implement chosen strategy
  - Monitor performance and modify if necessary
Corporate, Business, and Functional Strategy

Exhibit 2.5
Strategic Formulation and Implementation across Levels:
Corporate, Business, and Functional Strategy
AFI Framework for Top-Down Strategic Planning

**Analysis**
- Vision, Mission, and Values
- External Analysis
- Internal Analysis

**Formulation**
- Corporate Strategy
- Business Strategy
- Functional Strategy

**Implementation**
- Structure, Culture, & Control
- Corporate Governance & Business Ethics

Exhibit 2.6
Shortcomings of the Top-Down Approach

- May not adapt well to change
- Formulation separate from implementation
- Information flows top-down (one-way)
- The leadership team’s future vision can be wrong
- Example of a Top-Down Approach: Apple
  - Steve Jobs predicted customers needs and was one of the few successful technology companies using a top-down planning process.
Scenario Planning

- Uses a top-down approach
- Asks “what if” questions
  - Top management envisions different scenarios.
  - Then they derive strategic responses.
- Consider optimistic and pessimistic futures
- Examples:
  - New laws restrict carbon emissions
  - Demographic shifts
  - Changing economic conditions
  - Technological advances
Strategy as Scenario Planning

- Scenario planning
  - Envision different "what-if" plans
  - Generates a dominant strategic plan
    - Must implement the most probable option
  - Pioneering firm for scenario planning:

![Diagram showing scenario planning with Shell logo and multiple scenarios]
AFI Framework for Scenario Planning

Exhibit 2.7
Strategy as Planned Emergence

• Top Down and Bottom Up
  – Bottom-up strategic initiatives emerge
  – Evaluated and coordinated by management

• Relies on data, plus:
  – Personal experience
  – Deep domain expertise
  – Front line employee insights
Online Retailing

• **Some companies flourish:**
  – Amazon and eBay

• **Others forced to adjust:**
  – Best Buy, Home Depot, JCPenney

• **Others are out of business:**
  – Circuit City and Radio Shack
Strategy Making: Design or Process?

Strategy as Design

Planning and rational choice

INTENDED STRATEGY

REALIZED STRATEGY

Strategy as Process

Many decision makers responding to multitude of external and internal forces

EMERGENT STRATEGY

Mintzberg’s Critique of Formal Strategic Planning:

• The fallacy of prediction – the future is unknown
• The fallacy of detachment -- impossible to divorce formulation from implementation
• The fallacy of formalization -- inhibits flexibility, spontaneity, intuition and learning.
Mintzberg’s Planning Framework

- **Intended Strategy**
  - *Top-down Strategic Plan*

- **Unrealized Strategy**
  - *Unpredictable Events*

- **Bottom-up Emergent Strategy**
  - *Autonomous Actions*
  - *Serendipity*
  - *Resource Allocation Process*
  - *Real Options*

- **Realized Strategy**
Strategic Initiatives and Serendipity

- Japan Railways

- Constructing a bullet train through the mountains north of Tokyo, which required many tunnels

- Persistent flooding

- Complex engineering plans to drain the water

- Maintenance worker suggested that the fresh water off the mountains should not be drained, but rather should be bottled

- 1,000 vending machines on 1,000 railroad platforms in and around Tokyo, and home delivery of water, juices, and coffee followed.

- The employee’s proposal had turned this “bottom-up” strategy into a multi-million dollar business.
Starbucks’ Frappuccino

- **Dina Campion** – Starbucks’ store manager in California
  - Received requests for iced beverage
  - Tried the beverage, and liked it
- Requested Starbucks HQ offer the drink
  - Request denied; She did it anyway
- Sales skyrocketed
  - Was eventually adopted by Starbucks’ Executives
- This is now the Starbucks Frappuccino
  - At one point, was 20% of Starbucks’ revenues
Starbuck’s Frappuccino

• Does the adoption of Frappuccino by Starbucks persuade you of the importance of autonomous actions in firms that are undertaken by lower-level employees? Or alternatively, do you view this example as a rare occurrence in formal organizations?
Managers as decision makers
Assumptions of the Rational Model

- An optimal decision is possible
- All relevant information is available
- All relevant information is understandable
- All alternatives are known
- All possible outcomes are known

Rational decision making
Managers as decision makers

Satisficing

- Time constraints
- Limited ability to understand all factors
- Inadequate base of information
- Limited memory of decision-makers
- Poor perception of factors to be considered in decision process

“Satisficing” decision making

“I introduced the term Satisficing.”

Herbert A. Simon (1916-2001)
Improving Strategic Decision-Making

Illusion of Control

Prior Hypothesis Bias

Reasoning by Analogy

Escalating Commitment

Representativeness
Symptoms of Groupthink and How to Prevent It

- **Symptoms**
  - Illusion of invulnerability
  - Belief in the inherent morality of the group
  - Stereotyped views of members of opposing groups
  - Application of pressure to members who express doubts about the group’s shared allusions or question the validity of arguments proposed
  - Practice of self-censorship

  *Appointment of mindguards*

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*Walter Lippman*  
*When all think alike, then no one is thinking*
Using Conflict-Inducing Decision-Making Techniques in Case Analysis

Devil’s Advocacy

Dialectical Inquiry

Groupthink

Use conflict-inducing decision-making techniques to help prevent groupthink and lead to better decisions.
Two Conflict-Inducing Decision-Making Processes

Alternative #1

Alternative #1 Critiqued by Devil’s Advocate

Revised Alternative

Alternative #1 (Thesis)

Structural Debate

Alternative #2 (Antithesis)

Alternative #3 (Synthesis)

Dialectical opposites