# CHAPTER 2: Strategy + CSR: A Stakeholder Perspective

## QUESTIONS FOR DISCUSSION AND REVIEW

1. Define each of these terms: vision, mission, strategy, and tactics. What is the relationship among them in relation to a firm's strategy planning process?

   *Vision* is concerned with the firm's aspirations, what it hopes to be and become. Ideally, it is an ennobling and articulated statement of its ends. *Mission* is the purpose of the firm; what it intends to do to attain its vision. *Strategy* is how the organization is going to go about its mission and attain its vision and *tactics* are the means by which the firm implements its strategy. Vision, mission, strategy, and tactics are interconnected, integral parts of the firm's strategic planning process since the vision gives rise to the mission, which helps determine the strategy and tactics the firm pursues on a daily basis.

2. Outline the Resources perspective. Identify a firm and its core competency—show how it meets the three tests proposed by Prahalad and Hamel that identify it as a source of sustainable competitive advantage for a firm.

   A resource perspective builds its strategy from its competencies and related, internal resources. Honda, for example is called "The Honda Motor Company"—its core competence is motors, which it "packages" as cars, motorcycles, outboard motor engines and the like. Its competency in designing and building motors is not readily duplicable by others and is sustainable as a result. As a relatively unique skill, it gives the firm a competitive advantage in selling motor-related products.

   Another example is Southwest Airlines which has a valuable resource in its corporate culture and a unique capability in its ticketing and boarding technologies (in particular, its airplane turnaround times). But, it is the combination of culture and technology that delivers the firm's sustained competitive advantage and profitability.

3. Outline the Industry perspective. Chose an example industry and conduct an analysis of its competitive structure using Porter's Five Forces model.

   The industry perspective focuses on the firm's operating environment (in particular, its

industry structure) as the most important determinant of competitive advantage. There are five competitive forces in Porter's model (adapted in Figure 2.1): suppliers, buyers, new entrants, substitutes, and industry rivalry. These five forces compete for a fixed pool of resources and it is this competition that determines the ability of any individual firm to profit in the industry. Essentially, the industry perspective is concerned with the firm's relative fit within its industry. Dell sits in the PC manufacturing industry and derives its strength from its close integration with its customers, being the first major producer of PCs to custom-make units for customers. Its profitability, however, is harmed by two, strong suppliers—Intel and Microsoft. Entry to the industry is relatively easy, since the components needed to make PCs can be bought off the shelf from these suppliers, but because their power is concentrated, they can control prices. In addition, without an effective distribution system new entrants are not much of a threat. Substitutes are less of a concern in the PC market, although Apple's innovation has increasingly made Apple computers a more competitive substitute for PCs and Hewlett Packard's recovery in recent years has encroached upon Dell's market share.

4. Using a real-life example, list a firm's stakeholders and use one of the models presented in the chapter to prioritize their importance. What criteria do you think should be used to prioritize competing stakeholder interests?

A private University, for example is a complex web of stakeholders. Each can have a significant impact on the organization. Among the organizations stakeholders, employees—especially the faculty, since they are what makes a university a university—are critical in delivering the research, teaching, and other services that are typically provided by a University. Economic stakeholders are the customers (students). Others, such are creditors, distributors, suppliers, and even competitors, are less likely to have as major an impact as students and student perceptions. Similarly, societal stakeholders matter. Universities often derive significant monies from governments in the form of research grants, for example, and are supported by nonprofits and NGOs, such as foundations. The local community's regulations (from zoning to other ordinances) also impact the University.

The main stakeholder model presented in the book suggests prioritizing stakeholder needs in this order—organizational, economic, and societal. Stakeholder interests can be prioritized in multiple ways, but the primary concern for an organization should be the impact (or potential impact) each group can have on the organization's viability. Ultimately, although for-profit firms can help with caring capitalism, they are much better suited to market capitalism. Ideally, it is the role of effective governmental and nonprofit sectors to focus on those areas that the market ignores or cannot solve.

In seeking to prioritize its stakeholders, a firm needs to keep two key points in mind: First, no organization can afford to ignore consistently the interests of an important stakeholder, even if that group is less important in the firm's relative hierarchy of stakeholders or relatively removed from the firm's day-to-day operations.

Second, it is vital to remember that the relative importance of stakeholders will inevitably differ from firm-to-firm, from issue-to-issue, and from time-to-time. And, depending on these factors, the change in relative ordering can be dramatic. As such, addressing the fluctuating needs of stakeholders and meeting them wherever possible is essential for firms to survive in today's dynamic business environment. In order to do this, it is important that executives have a framework that will enable them to prioritize stakeholder interests for a given issue and account for those expectations in formulating a strategic response.

The three-dimensional model in Figure 2.4 allows firms to prioritize stakeholder concerns and determine when to act. The three dimensions of this model are *Strategic Relevance*, *Operational Impact*, and *Stakeholder Motivation*. Strategic relevance measures how important the issue is to the firm—in other words, how proximal it is to the firm's core competency or source of competitive advantage. Operational impact measures the extent to which a particular stakeholder group can affect firm operations—in other words, the stakeholder's ability to damage reputation, diminish earnings, or de-motivate employees.

Finally, stakeholder motivation measures how important the particular issue is to the stakeholder—in other words, how likely the stakeholder group is to act.

5. Define strategic CSR in your own words. What are the signs you would look for to indicate that a firm has implemented a strategic CSR perspective?

The definition from the text: The incorporation of a holistic *CSR perspective* within a firm's strategic planning and *core operations* so that the firm is managed in the interests of a broad set of *stakeholders* to achieve maximum economic and social value over the *medium- to long term*.

Perhaps the key indicator that the firm has implemented a CSR perspective would be the culture of the firm. That said, a stakeholder analysis and evaluation of each group's relative priorities would be a strong indicator that the firm has a strategic CSR perspective.

6. What are the four key components of the definition of strategic CSR? Which of these four do you think will generate the greatest resistance or difficulty for firms?

There are four components that are essential to defining *strategic CSR*: First, that firms incorporate a CSR perspective within their strategic planning process; second, that any actions they take are directly related to core operations; third, that they incorporate a stakeholder perspective; and, fourth, that they shift from a short term perspective to managing the firm's resources and relations with key stakeholders over the medium- to long term.

Shifting to the medium and long-term will be difficult since most rewards structures inside organizations are based on short-term results.

7. Are shareholders in a firm *investors* or *speculators*? Why?

Here the answer would depend on the shareholder's intent and time-frame.

TEACHING NOTE: Students can be asked to discuss if short-termism is more of a problem today than in the past. Discussion can be centered around whether the dot.com boom changed investor's mentality to one seeking profits in the short-term, rather than a

"buy and hold" long-term philosophy.