1. **Explain why it is important for a strategic manager to understand stakeholder influences on strategy. Critically evaluate a model of your choice that a strategic manager could use to understand stakeholder influences. Use an organization of your choice to illustrate your use of the model in your answer.**

**Answer:**

The definition of strategy has been extensively discussed through different lenses in business academic literature. Although there are many extant theories, such as the profit maximization theory, the resource-based theory, the agency theory, the contingency theory, etc. that can contribute to business strategy, most authors have aligned that strategy is a direction and scope of an organization over the long-term, which achieve the advantages in a changing environment through its configuration of resources and competencies, with an aim of fulfilling its stakeholder’s expectations (Scholes, Johnson, and Whittington, 2002). To put it simply, a good strategy should always have a final objective to satisfy the stakeholders’ interests. The expectation of stakeholders, therefore, is important to address in strategy development as it affects the purposes of the organization. In any organization, there are a great number of stakeholders with different levels of interest, including the shareholders, customers, employees, governments, competitors, suppliers, distributors, pressure groups, influencers, media, just to name a few. However, they do not share the equal power to control the firm, and some may have conflicting interests, therefore, not all stakeholders can exert their influence on the organization’s purposes and strategic choices. Without considering the diverse influence of stakeholders through their interest, source of power, a strategic manager would have developed a strategy that serves nobody and fails to delineate the organization’s purpose.

In accordance with the resource-based theory, an organization’s need for resources would provide the opportunity for others to gain control over it. So, there are two ways the stakeholders can influence a firm’s strategic development: (1) determining whether the firm can get the resources, and (2) determining whether a firm can use resources in the way it wants (Frooman and Murrell, 2005). For instance, a major shareholder can exert the power in the first way by determining whether they would like to inject the capital for an organization to expand into a new industry or not, and to achieve what purposes, e.g profitability versus social impacts; while the management board members can influence the firm in a second way, by deciding how to allocate those funding to fuel new business in order to meet the organization's purposes. The interdependence between the organization and its external/internal stakeholders differ greatly in the level of interest, and controlling power, which either directly or indirectly influence the strategic position of an organization.

To model the stakeholder’s influence on strategy, the stakeholder interest/power matrix is useful to identify the stakeholder’s expectation from two dimensions: stakeholder’s interest and their power to protect these interests. The stakeholders will respond differently to a strategic choice, depend on whether they are at a low or high level of interest in the organization, and at the low or the high power to control over the decision making at the firm level.

Level of Interest

High

Low

Power

High

The Stakeholder Matrix of Interest and Power (Scholes, Johnson, and Whittington, 2002)

This matrix is a good framework to map different stakeholders, which is practical for a strategic manager to evaluate their proposed strategy on how the new strategy and corporate governance could align with the interest and power of different stakeholders. If the new strategy supports the interest of the stakeholder with a low power and low level of interest, it could cause some frustrations and perhaps, be rejected by the key player stakeholder. The highly acceptable strategy will leverage the power and interest of the key player.

Nonetheless, the matrix contains some weaknesses. First, it assumes all stakeholders are homogenous to group them into a segment, which may be not feasible in practice. For e.g, customers are very diverged in their interest and power, thus, difficult to be mapped in one segment. Second, even in one group of homogeneous stakeholders, e.g the major investors, the individuals may not share the same perspective regarding a strategic decision. Third, the stakeholders in different segments can influence the key player stakeholders through personal networks, and advocacy, which can not be explained in this matrix. Finally, the matrix could not fully explain how the stakeholder influence on strategy. In this case, the resource-based theory, as discussed previously, can better extrapolate the way the stakeholder attempts to change a strategy.

To illustrate the power/interest matrix, we will examine the stakeholders of Tesla. Tesla’s strategy puts the sustainability and innovation at first, their portfolios are the electric vehicles (EV Car), and other complementary products such as solar roof, and solar panel. We can extrapolate the current stakeholder mapping for Tesla as following:

* **Key Player:** Elon Musk (the founder, and the largest shareholder), the major shareholders, individual customers, and business customers.
* **Keep Satisfied:** community, government, and media.
* **Keep Informed:** employees, and minor shareholders
* **Minimal effort:** non-EV competitor (or traditional car makers), and supplier.

Align with the stakeholder mapping, Tesla's strategy now shifts to launch more EV Car at a lower price to make the product affordable to more customers (Lambert, 2019). At the corporate level, Tesla attempts to diversify its products with a solar roof and solar panels, which aims to convert the community in the "keep satisfied" group into new customers (Barhat, 2019). Furthermore, although Tesla is a listed company in stock market, the major shareholders of Tesla are the key management of the company, including CEO, CTO, and CFO (Nickolas, 2019), who are the key-driven for innovation and very engaged in strategy development. On the other hand, Tesla manufactures battery and key components by themselves, reducing the bargaining power of their supplier, thus, putting the supplier into the “minimal effort” group. Additionally, since Tesla disrupted the automobile market, the company does not have a direct competitor, that leaves the traditional car maker as General Motor, Toyota, Ford into the “minimal effort” group. Finally, using the matrix, we can find that Tesla’s value, vision, and objectives are deeply influenced by its founder, Elon Musk, who is a serial technology entrepreneur and innovator.

1. **Using an organization of your choice, demonstrate how you would use Porter's Value Chain to analyze the resources and competences of an organization. How useful is a value chain analysis for discovering potential sources of competitive advantage?**

**Answer:**

Porter’s Value Chain Analysis (Porter, 1985) is a powerful strategic framework to diagnose the strategic capabilities of an organization and to examine how an organization creates value, source, and sustain its competitive advantages. In the value chain analysis framework, all activities undertaken by an organization from upstream to downstream of the value chain are examined to underpin how a firm generates its economic profit.

The framework distinguishes the primary activities with the supporting activities to locate the sources of competitive advantages. Primary activities are linked to the creation of product or service from the beginning to the end of the production cycle, including inbound logistics, operations, outbound logistics, marketing & sales, and after-sale services. The supporting activities are to improve the efficiency of primary activities, including firm infrastructure, technology management, human resources management, and procurement. An organization can either choose to compete on cost advantages or differentiation, that aim to improve its margin, taking the industry average as a benchmark. First, if a firm has a cost advantage, it will attempt to reduce the cost for production and operation across the value chain, and to achieve its economy of scale. With this advantage, the firm can sell products at a cheaper price than its competitors while keeping the margin high. As a result, the organization with cost advantage often triggers the price competition in the market to take over market share. On the other hand, if a firm wants to compete with the differentiation advantage, it will focus more on creating value-added in product development, customer services, intangible assets such as branding, and innovation, which aim to increase the customer willingness to pay to get the products or services. In differentiation advantage, the firm sets higher price than the industry's average because they have a unique value proposition, or unique products/services.

My paper examines Tesla through Porter’s Value Chain analysis to discover its potential sources of competitive advantages. Utilize Porter’s model framework, I develop the business value chain for Tesla’s Electric Vehicles as following:

* **Primary Activities:**
* **In research and development (R&D)**, Tesla focuses intensely on innovation and in-house product development. The company spent approx. 11 – 18% of its revenue on R&D from 2013 to 2015, compared to the industry average of 5%. Tesla gradually cut the budget for R&D to 5% on its revenue in 2019, to create value through volume sales and control the cost (Anonymous, GM, and Tesla Research and Development (R&D) Spending Comparison, 2020).
* **Design & Engineering (D&E):** Tesla acquired SolarCity, Grohmann Engineering, and Perbix in 2017 to enhance its capability in battery storage, and vehicle engineering.
* **Manufacturing:** Tesla has 300 suppliers in its supply chain (Anonymous, SEC Filling Tesla Inc., 2014). The company outsourced the less essential part of its cars, such as interiors, seat & security, tires, so on to suppliers. The essential parts of EV Car such as the vehicle engine, powertrain, and battery, Tesla has produced in-house.
* **Distribution:** Tesla completely owned its distribution network, which reduced the price bargaining power of customers.
* **Marketing:** Tesla has a good market understanding of customer insights to design car products with highly desired performance, comparable to the performance of the most outstanding conventional or hybrid car, which eventually changes the customer's mindset about electric vehicles. They started with premium car for technology early adopters, and gradually moving to mainstream to produce with volume sales for technology followers. Tesla also benefits from its association with the founder Elon Musk as being cutting-edge and aspirational. All designs of Model S, Model X, and Model 3 are very targeted at specific segmentation. For instance, Model S and X were designed for early adopters such as business executives, entrepreneurs who wanted a high performance EVs; while Model 3 is for the eco-friendly and tech-savvy young professionals.
* **After-sale Services:** Tesla offers the remote diagnostics and the support of mobile service technicians reduce customer’s need to visit a Service Center. However, if needed, a visit to the service center will be quick and seamless (Anonymous, Advancing Automotive Services, 2020).
* **Supporting Activities:**
* **Firm Infrastructure:** Tesla built the supercharger network for EV car with7,000 charging points worldwide. Since Tesla builds its infrastructure, they become less dependent on government infrastructure or any suppliers to provide it.
* **Human Resource Management:** the company is led by Elon Musk, a technology innovator with Space X, Tesla, Solar City, so on. Tesla hires top candidate from car designer, to manufacturing engineering, to business professionals.
* **Technology Management:** Tesla disrupts the automobile industry with its battery technology, enabling EV cars to perform against the traditional car.

Through applying Porter's Value chain analysis, Tesla's core competencies are adequately identified, which are the technology and innovation, marketing capabilities, distribution network, and the infrastructure of the supercharger network. In the beginning, Tesla entered the car market and compete on differentiation with new technology in electric vehicles to create value; however, it is gradually moving to compete on cost advantages when it can produce EV at a large volume. In the framework, the supporting activities such as infrastructure, technology management, human resource management are improving Tesla’s efficiency of primary activities, especially in R&D, design and engineering, and sales and marketing. For future directions, Tesla attempts to achieve its competitiveness in cost advantages by leverage the efficiency in manufacturing capabilities, expand internationally to drive cost optimization, and achieve economies of scale.

To conclude, Porter’s value chain framework allows us to diagnose the strategic capability in each step across the value chain, and to discover the strengths and weaknesses of the firm's internal resources. Thus, achieving efficiency across the value chain is important for an organization to create its value. However, to link the internal resources to external resources to understand the context of strategic decisions, this framework could not substantiate. Porter’s Five Forces and SWOT analysis are good complement frameworks to Porter’s value chain analysis.

1. **Apply the Cultural Web framework (Johnson, Scholes and Whittington, 2008) to an organization of your choice showing how the analysis can be used to understand facilitators and barriers to strategic change. Critically discuss the usefulness of the Cultural Web framework using appropriate literature to support your answer.**

**Answer:**

Implementing a strategy successfully needs an enabling environment and people at an organization to support it. Organizational culture and work environment can influence greatly the acceptance of new strategy or strategic change. Cultural Web Framework (Scholes, Johnson, and Whittington, 2002) offers the analytical tool to study the links between the development of strategy in organizations, dimensions of corporate culture, and managerial action (Johnson, 1992). Therefore, the cultural web framework is useful to understand the current organizational culture, identify the key barriers to strategic change, and to foster a change toward the desired organizational culture.

In the Cultural Web framework, six elements that constitute the paradigm or the patterns of the behaviors in the work environment, and the organization culture are: rituals, stories, symbols, power structure, organization structure, and control systems. In which, the organization structure and control system are the formal hierarchical structure that can be easier to shape or change, the other elements such as rituals, stories, symbols, and power structure can be varied in practice and create challenges to control.

In this paper, I apply the cultural web framework to explain the organization culture issue at Uber in 2017 and identify the barrier to change management at this firm. Uber’s organizational culture faced a crisis in 2017, when many former employees accused the management and human resources department of toxic culture with sexual harassment, and discrimination (Dudovskiy, 2018). The company crisis eventually led to the involuntary resignation of CEO Travis Kalanick (Conger, 2019).

Below is my analysis of Uber culture using the cultural web framework:

* **Stories:** Back to 2017, Uber reputation was badly damaged by many accusations from the former employees over the sexual harassment, and discrimination towards women. The final investigation from the Equal Employment Opportunity Commission concluded that Uber permitted a culture of sexual harassment and retaliation against the individual who complained about such harassment (Guynn, 2019).
* **Rituals:** Uber highly evaluated the managers who brought new growth for the company. Their misbehaviours were quietly accepted. Employees just needed to perform well, leading them to put personal interest first, rather than the company interest.
* **Symbols:** Kalanick was the real symbol for the whole company, who took the risk and stepped in others to get his success. During Kalanick's time, Uber always received many applauses for its aggressive expansion and take advantage of loopholes to grow.
* **Power Structure:** The CEO had the most power and the most influence in the system.
* **Organization Structure:** Uber decentralized its structure to give more flexibility for regional managers to facilitate growth. Thus, the head of the unit accumulated power in terms of decision making.
* **Control System:** Uber, in its fastest growth period, turned down the employee’s complaints. Human Resources kept quiet and did not tell the truth (Andresen, 2017). They only focused on rewarding the employees for more profits.

From the above assessment, the former CEO of Uber, Kalanick had played an important role in creating and nurturing the toxic culture at Uber Inc. As the most influential individual, he was a model of success for other managers. In public statements, his misconduct, unethical behaviours, e.g using a secret tool called Greyball to trick some law enforcement agencies, were explained to exchange for Uber’s aggressive growth (Isaac, 2017). His sexist comments about women were generally accepted at Uber. Therefore, to change Uber culture towards an ethical business with a inclusive diversity, CEO Kalanick and his like-minded managers, board members were the barriers to the new change. The resignation of Kalanick and his management team were a must to shift the Uber culture back to normal. All six elements in the cultural web network are interconnected, closely related, and influenced by Kalanick's perspective and behaviors. The market success of Uber in a short time, and the history of the organization with Kalanick as a co-founder made Uber hardly changed the culture without replacing the top leaders.

In brief, the cultural web framework is a comprehensive and powerful tool to investigate the organizational culture from a formal structure to informal cultural norms to address the key barriers to a new strategic change. While it is a useful framework to analyze the existing organization culture, the framework may not fully reflect the organization culture, which is tangible and not easy to be observed by outsiders or newcomers. For instance, in Uber case, if the harassment stories were undisclosed, it would be difficult to examine the situation. Furthermore, the influences of the founder in a technology start-up firm are ubiquitous in Silicon Valley, therefore, the justification for their misconducts, and misbehaviours are very persuasive in the good business time. Only when the industry changes, when the organization faces the problems, the informal norms in organizational culture are investigated, which make the interventions, if any, become too late to change the culture without the significant changes in organizational structure. Uber case, with the involuntary resignation of the former CEO, is an exemplar case to study about change management, which compelling illustrates for the powerful framework of cultural web analysis in discovering the resistance to a new strategic change.

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