Chapter **1**

What Is Strategy?

Course Preparation

CONNECT INTEGRATION
Interactive Exercises, LearnSmart, Quizzes, and Exams: Introductory Remarks

CONNECT INTEGRATION
Course Preparation

Opening Discussion Topics and Exercises

ChapterCase: Does Twitter Have a Strategy?

1.1 What Strategy Is: Gaining and Sustaining Competitive Advantage (LO 1-1,
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CONNECT INTEGRATION
Case Analysis: Gaining Competitive Advantage at Nvidia

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Interactive Labeling: Identifying Social Responsibilities

1.3 The AFI Strategy Framework

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Strategy Term Project

CONNECT INTEGRATIONRunning Case: HP

*my*Strategy

This guide begins with a description of the Instructor Manual materials and ideas on preparing yourself and your students for a successful course.

PowerPoint Slides 1–3: Chapter 1 begins to set the stage for the rest of the course. Here we introduce the concepts of strategy and competitive advantage. The opening Chapter**Case** on Twitter offers a fruitful field for exploring the challenges of gaining and sustaining a competitive advantage. We elaborate on these concepts by defining the elements of a good strategy and introducing the role of business-level strategy in positioning a firm for competitive advantage in its industry. A Strategy Highlight illustrates this point describing Threadless’ crowd-sourcing strategy to design cool t-shirts. We then introduce industry-level concepts with a discussion of firm versus industry effects on firm performance.

The next section introduces the concepts of firm ethical values, social responsibility, and stakeholder analysis. We discuss how internal and external stakeholders can contribute to (or take away from) a firm’s ability to gain and sustain a competitive advantage. A Strategy Highlight illustrates this issue by describing the potential consequences to BP for failure to develop a strong safety culture.

Finally, we describe the strategic management model around which the book is organized, the Analyze, Formulate, and Implement (AFI) framework. Chapters 1 through 5 comprise the “Analysis” portion of the framework.

Each chapter in the text finishes with a section on implications, key take-aways, a module in the Strategy Term Project, an exercise for students in applying strategic concepts to their careers and self-development, and various end of chapter discussion questions, exercises, and ethical issues.

Learning Objectives

**LO 1-1** Explain the role of strategy in a firm’s quest for competitive advantage.

**LO 1-2** Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.

**LO 1-3** Differentiate the role of firm effects and industry effects in determining firm performance.

**LO 1-4** Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.

**LO 1-5** Conduct a stakeholder analysis.

Course Preparation

**Instructor Manual Content**

This manual follows the order of the textbook outline for each chapter and is divided into a section for each learning objective. Each section identifies the relevant PowerPoint slides. Within each learning objective section you will find an assortment of examples, exercises, Connect Integration assignments, updates on the latest research, Strategy Smart Video discussions, and/or end of chapter discussion questions and exercises for you to choose among to enhance your students learning and engagement. Some of the activities or examples are flagged as being particularly easy for newer faculty to integrate into their courses, while others are identified as being most effectively used by faculty who have more experience leading and directing class discussions and case analyses. Where the activities are related to program-level learning objectives established by AACSB 2015 Standard 9, the learning objective has been identified for you.

#  **INTEGRATION**

# Interactive Exercises, LearnSmart, Quizzes, and Exams: Introductory Remarks

Consider assigning one or two interactives per chapter. Interactives are based on chapter learning objectives, so the instructor can choose based on his/her focus for the course. Assignments can be due *before* class as preparatory materials (this is especially good for an interactive classroom style), or *after* class as a check on understanding of the concepts.

To find the interactives in Connect, go to “Add Assignment” and then select “Question Bank.” Interactives are organized by chapter and may include follow-on questions to be paired. Instructors may want to give students unlimited or multiple attempts on the first few assignments so the students have a chance to learn and navigate the system before selecting the option for one attempt only. (As the course progresses instructors may want to tighten up the time and number of attempts). Generally, interactives will be homework or practice for the students.

Chapter quizzes and a full chapter test bank are available for quizzes and/or exams online. The value of each question should probably be relatively low, since multiple questions are usually assigned for each chapter. A good rule of thumb would be to make “Quiz Questions” worth 1 or 2 points each and “Interactives” worth 5 to 10 points each since these require more time and thought. The feedback given to students is time-flexible. Selecting feedback to be displayed after the assignment due date helps keep students from giving the correct answers to other students while the interactive is still available. For this reason, quizzes and exams are suggested to have no feedback available until after the due date for the entire class assignment.

LearnSmart is an **adaptive study tool** designed for students. It can also show you where students are struggling to understand specific concepts. The student’s LearnSmart score in the Connect reports is based on their mastery of the material at the time the assignment is due. Mastery is an evaluation of the number of learning objectives they completed via their performance in answering questions.

To find LearnSmart in Connect, go to “Add Assignment” and then select “LearnSmart.” Instructors might want to assign less than an entire chapter segment of LearnSmart in Connect. The expected average time changes based on which sections are selected and deselected for the chapter. The system also allows instructors to adjust the expected completion time by dragging the toggle lever left or right to increase or decrease the depth of coverage of the activity. The entire LearnSmart module is available to your student at all times; however, assigning 30 minutes or so will prompt students to try it. You are required to select a due date for LearnSmart. However, this will not prevent the student from LearnSmart access. It is designed to show instructors that the student has completed the LearnSmart assignment.

Students may, and are encouraged to, continue to use LearnSmart throughout the semester. After the assignment due date, they can continue to access LearnSmart. Continued use of LearnSmart will *not* affect their LearnSmart assignment results in the Connect reports, but it has shown to improve test scores by as much as a full letter grade.

Opening Discussion Topics and Exercises

#  **INTEGRATION**

# Course Preparation

**Helpful Suggestions Regarding Assignment Policies:** Connect gives instructors a wide array of flexibility in making assignments and creating grading policies. Instructors may choose to:

* assign as many assignments as appropriate given the level and time commitment expected for the class,
* determine point values for each question/interactive that works within the total course percentages,
* make available multiple attempts per assignment with options of accepting the *highest* score or *averaging* all the attempts together (several attempts are particularly good for homework assignments),
* deduct points for *late* assignment submissions (percentage deduction per hour/day/week/etc.) or create hard deadlines thus accepting *no* late submissions,
* show feedback on interactives/questions immediately upon submission **or** at the time the assignment is due for the whole class, create new assignments or questions from scratch, or edited versions from a variety of provided resources.

What enables some firms to gain and then sustain their competitive advantage over time? Why do once-great firms fail? How can a firm’s managers influence performance? Strategic management is the integrative management field that combines analysis, formulation, and implementation in the quest for competitive advantage. Many students will relate to strategy through sports analogies. You may want to start the course by discussing the contrast between a powerful sports dynasty and its weaker competitors. In the U.S., compare the Yankees to the Cubs. Why does U-Conn appear in the NCAA Men’s and Women’s Basketball Final Four so frequently? In other countries, you might compare Man U or Real Madrid to your local football club or discuss the ability of Mercedes to overwhelm the traditional strength of Ferrari in Formula 1. How have these teams built and implemented strategies? What successes have they seen? What resources do they have that their weaker rivals lack?

Newer Faculty: Another option could be a brief discussion of the game of chess. In chess, the best position is relative to the placement of your opponent’s pieces. You also need to think about where your opponent may be moving the pieces in the future. In the firm, strategy will entail allocating resources in a manner that positions your firm well compared to competitors both today and in the future. If you prefer bridge to chess, take a look at this article “[Bridge—not chess—is the ultimate war game](http://www.wsj.com/articles/bridgenot-chessis-the-ultimate-war-game-1431899680)” M Ledeen 5/18/15 *The Wall Street Journal*.

Experienced Faculty: PowerPoint Slides 4–7: Strategy Smart Exercise: Break out into small groups of 3–4. Make sure someone in the group has a laptop. Create a league if you like. Craft a collaborative strategy for throwing a paper airplane the greatest distance. Competitive Advantage: Throw the plane through the window. Sustained Competitive Advantage: Repeatedly throw the plane through the window. Take into account external and internal factors for maximum performance. Watch the video: <http://flightsimx.archive.amnesia.com.au/index.html>.

Newer Faculty: If you plan to have a number of team assignments in your course, you may want to do an ice breaker activity that allows students to get to know each other. One such exercise is “Hidden Diversity.” Students are asked to stand up, then the instructor quickly goes through a list of invisible sources of diversity, such as number of siblings, marital/dating status, number of languages spoken, work schedule, favorite place to do homework, generation in U.S., major, etc. After you name each category, send students to different corners of the room by group. For example, only child, front left; one sibling, front right; two siblings,back left; three siblings,center; etc. This exercise gets students moving around and can uncover important commonalities for team formation, such as work schedule. It also accentuates the point that there are many more types of diversity than the racial, height, and other differences that we can see. AACSB 2015 Standard 9 Diverse and multicultural work environments (able to work effectively in diverse environments)

Chapter**Case** 1: Does Twitter Have a Strategy?

PowerPoint Slides 9–11 and 36–37

Discussion Topics

Newer Faculty: Students will be familiar with Twitter and its battle for relevance with Facebook, Instagram, and other social media sites. You might want to open by taking a poll on which social media sites students in the class interact with most often. Explore that further by asking how many students have switched their predominant social media site in recent years. Move the discussion from personal behaviors to strategic impact by asking students how their behavior impacts the attractiveness of a social media site for advertisers. This opens the floor for a discussion of sources of competitive advantage.

# Video update “[After Twitter’s Stock Falls to All-Time Lows, What’s Next?”](http://on.wsj.com/1gINu53) *The Wall Street Journal* 8/4/2015. Print update “[Twitter to Cut up to 8% of Workforce](http://www.wsj.com/articles/twitter-to-cut-up-to-8-of-workforce-1444740193)” (Y Koh 10/14/15 *The* *Wall Street Journal*).The video describes the problems Jack Dorsey faced when he took over the CEO job. The print article describes some strategic leadership actions he has taken to correct the problems.

Experienced Faculty: If you want to extend the discussion with another illustration, consider [Dell](http://www.dell.com/), once the undisputed leader in personal computers, now outpaced by Lenovo and HP. The Dell example is more complex than Apple. Apple is competing against Samsung with similar strategies. Dell is being squeezed on the bottom end by cost leadership strategies by Asian firms and on the top by greater innovation and broader service options by HP. You could use this example as an introduction and then return to it in the section on competitive advantage. See [“Dell Profit Falls 72%; Sales Flat”](http://online.wsj.com/article/SB10001424127887323639704579015100729912392.html?mod=djem_jiewr_MG_domainid) *The Wall Street Journal*, August 15, 2013. What were the keys to Dell’s success in the past? In what ways did the competitive environment change? Why did Dell lose ground to its rivals?

**Consider This** Discussion Questions

**Why is Twitter struggling? What role do industry and firm effects play here?**

This is a good opportunity to introduce the concept of measuring firm performance, which will be discussed in more detail in Chapter 5. In particular, students need to be reminded that profitability is a critical element of most measures. Once the students are focused on the importance of generating ad revenue in this industry, rather than the satisfaction of revenue-less users, firm versus industry effects will be more obvious. All of the social media sites (the industry) are struggling with the negative effect of growth in mobile usage of their sites. Small mobile screens offer less opportunity for banner ads and have much lower associated ad revenue than usage on PCs. Yet, Facebook has been much more successful than Twitter both in growing their user base and in generating ad revenue.

**What grade would you give Dick Costolo, Twitter’s CEO from 2010 to 2015? Support your decision with specifics. Also, list some of his leadership strengths and weaknesses. What recommendations would you have for the new Twitter CEO to be a more effective strategic leader?**

Students can be encouraged to compare the firms recent performance with the projections expected at the time of the IPO. This discussion question also offers scope for reviewing leadership traits and behaviors from earlier management courses. In addition, a discussion of the different challenges in leading a small startup focused on attracting users with a larger, public company focused on delivering profit growth. The discussion can be augmented by reviewing the reasons that Mark Zuckerberg added Sheryl Sandeberg to the Facebook executive team. You can also expand the discussion to the leadership skills of other members of the executive team, such as Kevin Weil, Sr VP of Product Development who is the fifth product head in five years (see “Twitter shuffles product team amid CEO search” *The Wall Street Journal* 9/2/15).

**Why is a *good strategy* so important, especially at high-tech startups like Twitter? Why is crafting a *good strategy* at Twitter so difficult? What are some of the pitfalls that a CEO of a company such as Twitter needs to watch out for when crafting and implementing a strategy?**

Tech industry firms have the same challenges as other firms in crafting and implementing strategies, except that they have to do so in a rapidly changing environment for customer preferences, technological capabilities, necessary employee skillsets, and competitive actions. Without the need for facilities to manufacture physical products, growth can potentially be quite rapid.

**Apply the three-step process for developing a *good strategy* outlined above (diagnose the competitive challenge, derive a guiding policy, and implement a set of coherent actions) to Twitter’s situation today. Which recommendations would you have for Twitter to outperform its competitors in the future?**

It is early in the course for students to be effective in strategy formulation, but some key principles can be emphasized using basic information in Chapter 1. A good beginning point is to discuss the importance of defining the industry, so that you know which firms you are trying to outcompete. Similarly, you can guide the students to identify whether Twitter has the potential to take the same direction as Facebook, but be lower cost, or whether their smaller user base requires them to invent new ways to compete. It is also important to emphasize for the students that an excellent strategy that is poorly implemented is not going to deliver the anticipated results. The rapid growth rate and the entrepreneurial skillsets of the leadership team both create challenges for implementation skills.

# Research Update

“New venture strategic adaptation: The interplay of belief structures and industry context,” Andreea N. Kiss and Pamela S. Barr,*Strategic Management Journal*, [Volume 36, Issue 8,](http://onlinelibrary.wiley.com.ezproxy1.lib.asu.edu/doi/10.1002/smj.2013.34.issue-10/issuetoc) pages 1245–1263, August 2015

Experienced Faculty: This research, based on the information processing perspective, offers a model of high tech, new venture, strategic adaptation encompassing both the industry growth rate and choices firms make based on the complexity, centrality, and causal logistics of the leadership’s belief systems. It can be used as a basis for a discussion of how Twitter’s leadership’s belief systems regarding their user base might contribute to the firm’s slowness relative to Facebook in making strategic decisions to capture value in their very dynamic industry.

1.1 What Strategy Is: Gaining and Sustaining Competitive Advantage LO 1-1

PowerPoint Slides 11–14

Discussion Topics

Newer Faculty: Strategy is a set of goal-directed actions a firm intends to take in its quest to gain and sustain competitive advantage relative to competitors. A good strategy consists of three elements: A diagnosis of the competitive challenge, a guiding policy to address the competitive challenge, and a set of coherent actions to implement the firm’s guiding policy. The strategic management process, therefore, is a never-ending cycle of analysis, formulation, implementation, and feedback. Strategy is neither grandiose statements, a failure to face a competitive challenge, nor operational effectiveness. Different plans and activities may be called a “strategy,” but like operational effectiveness, they are not part of our definition for this textbook. Pricing strategies, Six Sigma, and other programs are more likely to be tools for improvement and not lead to a competitive advantage. You might enjoy opening this discussion with a humorous video. One possibility is [NASCAR coach reveals winning strategy: Drive Fast](https://www.youtube.com/watch?v=7O37IObEyMM&feature=player_embedded).

Newer Faculty: The underlying assumptions about competitive positions and resources are very important in creating forward-looking strategies. Whether you choose to talk about this subject using Walmart, the auto industry, or PDAs, we hope you will bring it up in class. If you choose to highlight the Apple Newton example, here is a link to a three-minute video by Jeff Hawkins who was founder and CEO of Palm at the time they released the PalmPilot (<http://stanford.io/TJImn>). Discuss how a strategy differs from a business model. How is it similar? A strategy is the ideas that managers attempt to put into practice. A business model is how the managers translate the strategy into working practices. The business model should be grounded in the strategy of the firm. A business model, however, is more “putting strategy into action.” Thus, a single strategy could exploit several different business models for the firm. Students often come into the class confused about what is a strategy and what is not. Many areas now use the term “strategy,” and students have likely heard it in many other courses (IT strategy, Strategic HR, Marketing Strategy, and so on). It is worth spending a few minutes on this discussion, particularly on the “effectiveness” items. The classic read on this subject is Michael Porter’s (1996), “What is strategy?” *Harvard Business Review*, November–December: 61–78.

Extended Discussion

Experienced Faculty: Explain [Apple](http://livepage.apple.com/)’s success over the last decade. Think about which industries it has disrupted and how. Also take a look at Apple’s main competitors. Begin with a discussion of how Apple revolutionized the way we listen to music. Younger students may have little knowledge of the music world before iTunes. Tease out a list of resources and capabilities, including Steve Jobs, high R&D budget, emphasis on simplicity, design, brand image, and customer loyalty. Then extend the discussion to smartphones and tablets. Which of Apple’s earlier resources and capabilities were key to the success of these products in creating or revolutionizing an industry? Which new resources and capabilities did Apple need to develop? Blackberry once had 50% of the U.S. market for cell phones that accessed email; in 2013 it had 3% and has continued to fall. (See “Blackberry Seeks a Sale by November” *The Wall Street Journal* 9/4/13.) Why did they lose ground? What advantages did Apple’s competitors gain that joined the Open Handset Alliance to create the Android eco-system? (See “Google’s Android Seizes Smartphone Market” *The Wall Street Journal* 8/8/13.)

Is [Apple](http://livepage.apple.com/)’s success attributable to industry effect or firm effects, or a combination of both? Explain. A rising tide lifts all boats and some of Apple’s success can be attributed to changes in the external environment, including the growth in the availability of broadband, digital media, and apps. Yet Apple was able to gain and sustain large market shares, due in large part to a track record of consistently out-innovating their rivals.

Apply the three-step process for developing a good strategy (diagnose the competitive challenge, derive a guiding policy, and implement a set of coherent actions) to Apple’s situation today. Which recommendations would you have for Apple to outperform its competitors in the future? Use this question to transition from the past to the present and future. Is [Apple](http://livepage.apple.com/) facing increased pressure because the market for phones and tablets is becoming structurally less profitable or because they are losing competitive position versus Samsung and others? Depending on where the discussion goes in this analysis phase, develop alternative strategies to (a) react to industry changes or (b) out-innovate [Samsung.](http://www.samsung.com/) Solutions for (a) might include supply chain management or design strategies to reduce cost structure. Solutions for (b) might include increased R&D, adding new features, or reimagining the category. Some implementation strategies might include bringing in new executives to reinvigorate the innovation climate or redesigning the organization structure to be more product-based, rather than functional. AACSB 2015 Standard 9 Thinking creatively and making sound decisions and exercising good judgment under uncertainty

Do you think it is so hard to not only gain, but also to sustain a competitive advantage? At this early point in the course, it is unreasonable to expect the students to have opinions on this matter that are well-grounded in theory, but it is a good opportunity to get them thinking about resources that are more durable and less imitable and capabilities that are dynamic, allowing the firm to respond quickly to competitive advantage. A good example to expand this discussion is Xiaomi (see [“Rivals try to reinvent Xiaomi business model”](http://www.wsj.com/articles/rivals-try-to-reinvent-xiaomi-business-model-1441658086) Eva Dou.09/08/2015 *The Wall Street Journal*). Xiaomi’s business model of selling high-end phones at very low prices is being imitated by multiple Asian rivals.

End of Chapter Discussion Question 4

**Choose an industry with a clear leader, then examine the differences between the leader and one or two of the other competitors in the industry. How do the strategies differ? What have the leaders done differently?** Ideally this question would be assigned in advance and the students would be encouraged to consider profits in deciding which firm has a competitive advantage. Some examples that could provide rich dialogue are Coca Cola versus Pepsi in the soft drink industry (especially attractive if you are using a Cola Wars case in your course), [Barnes & Nobl](http://www.barnesandnoble.com/)e versus [Amazon](http://www.amazon.com/) in the textbook industry, or [McDonald](http://www.mcdonalds.com/)s versus [Wendy’s](http://www.wendys.com/) in quick service restaurants. To take a more international perspective, consider Uber’s competition in China with Didi Kualdi (see “[Inside Uber’s Fight with Its Chinese Nemesis, Didi Kualdi](http://www.wsj.com/articles/inside-ubers-fight-with-its-chinese-nemesis-didi-kuaidi-1441234010)” E Dou and R Carew 09/03/15 *The Wall Street Journal*). Students will have a natural tendency to fall into the trap of basing their assessment of competitive advantage on the consumer preferences of a sample size of one (themselves). You can use this discussion to emphasize strategic management as a firm-level discipline in which all methods of measuring competitive advantage depend, at least in part, on firm profitability. You can also use this exercise to bring out the issue of the difference between a cost leadership position and low prices to the consumer to point out that low revenue cannot lead to competitive advantage unless it is matched by even lower cost and expense. AACSB 2015 Standard 9 Financial theories, analysis, reporting, and markets

**Newer Faculty:** Competitive advantage is always relative, not absolute. Explain the differences among competitive disadvantage, competitive parity, temporary competitive advantage, and sustainable competitive advantage. Competitive advantage has to come from performing different activities or performing the same activities differently than rivals are doing.

What Strategy Is: Gaining and Sustaining Competitive Advantage? LO 1-2

PowerPoint Slides 15–18

Discussion Topics

Newer Faculty: Consider [Google](http://www.google.com/)’s competition with [Microsoft](http://www.microsoft.com/) in search engines. Google was not the first search engine on the Internet, but it has been the most successful for a decade. What is Google’s competitive advantage? Google possesses some 70 percent of the market share in the online search/advertising business. One way they have developed a competitive advantage is through their PageRank algorithm which (by providing more relevant search results) offers a higher-quality search engine (product) to Internet users (customers). What strategy and business model is Microsoft using today with Bing to try to succeed in the Internet-search business? Microsoft is essentially subsidizing Bing with the profits from its software and operating systems. They are attempting to create a competitive advantage by making search faster and easier. This has the potential to be a game changer in the field of online searches. For example, if you are looking for a place to eat dinner, on Bing you could see which local restaurants your [Facebook](http://www.facebook.com/) friends have said they “like.” The same for searching to buy a new TV, and so on. There is value created with social searching. Time will tell as to who can capture the benefits from it.

Newer Faculty: If you chose to start the course with a sports analogy for competition and your group of students have a high level of engagement with that topic, you might want to reintroduce it at this point in your lecture with a sports-related example. Long an industry leader, ask students to consider what new strategies ESPN could pursue to combat the industry trend of customers trying to cut cable bills that might be more effective than firing talent. (See “[ESPN tightens its belt as pressure on it mounts](http://www.wsj.com/articles/espn-tightens-its-belt-as-pressure-on-it-mounts-1436485852)” S Ramachandran and J Flint 07/10/15 *The Wall Street Journal*. This example tends to resonate with students because their age group is in the forefront of the trend to replace cable TV with streaming options, such as Hulu, Netflix, and Amazon Prime.

#  **INTEGRATION**

# Case Analysis: Gaining Competitive Advantage at Nvidia

This case analysis provides the students an opportunity to think through the three elements of a good strategy with a complementary application from the textbook. The case also helps students see the value in learning from failures. The case here ties closely to the materials in the beginning sections of Chapter 1. Students will read the case and then answer the four questions following it. **Difficulty:** Medium **Blooms:** Evaluate **AACSB:** Analytic

The instructor can expand on the concepts in this case analysis by comparing some of the business decisions made by Nvidia and Apple. Many students may not be familiar with Nvidia as a firm, but they may find some of their favorite gaming devices are powered by Nvidia products. We find students sometimes lacking in business-to-business experiences and firms such as Nvidia, which are not retail oriented, can enhance their conceptual application and give students thought-provoking business examples.

Experienced Faculty: Consider [Microsoft’s](http://www.microsoft.com/) recent efforts to launch the Surface tablet and to buy Nokia’s cell phone business and [Google](http://www.google.com/)’s recent acquisition of Motorola’s cell phone business. Although Microsoft and Google still have very small market shares compared to Apple and Samsung, how should Apple address this potential threat? We suggest splitting the class in half for this exercise and then forming small groups of 3–4 students. One half of the small groups will be Apple and the other half will be [Samsung](http://www.samsung.com/). After the small groups have five or so minutes to discuss the issue, the class returns to normal, and through discussion, brings out the high points of each firm. The students should identify that Samsung’s dependence on open software gives it less protection against these new rivals in hardware. They may also note that more robust application development ecosystems provide at least a temporary protection against Microsoft.

Strategy Highlight 1.1

PowerPoint Slides 16–17:

[Threadless](http://www.threadless.com) is an example of a firm building on its customer base through crowdsourcing to use new products and also participate in the design and vetting of popular designs. The firm invites its customers to submit designs for t-shirts. In the summer of 2010, Dell Computer announced a partnership with Threadless for designs on its laptop computers. For a small additional fee (and an extra day’s delay in shipping), you can get a Threadless design etched on your new Dell laptop. Why do you think Dell is keen on offering this service? What other firms use this crowdsourcing technique to achieve competitive advantage? Where else might this type of business model show up in the future? How durable is a competitive advantage derived from crowdsourcing? Students could say Dell is keen on offering this service because it provides differentiation, and hopefully a competitive advantage. Dell is able to tap into a community of talented online designers and try to regain some market share with a younger demographic at the same time. Crowdsourcing is becoming more and more popular and widely accepted. A well-known example is Wikipedia, which has become a giant crowdsourced encyclopedia. Threadless specifically has partnered with Thermos for lunch box designs and Griffin for smartphone cases. One area where it would not be surprising to see this type of crowdsourcing is in video games. An enterprising company could ask for ideas, perhaps from many fans, to create a new game that would fit the desires of many of their customers. Students may cite Lego as a firm that is letting customers submit their own designs and then produces them as the demand is generated, or they may just provide the parts for the custom design back to the client. AACSB 2015 Standard 9 Information technology and statistics/quantitative methods impacts on business practices to include data creation, data sharing, data analytics, data mining, data reporting, and storage between and across organizations including related ethical issues

Exercise

Newer Faculty: **Ask students to scan the current mainstream media for examples of companies that are launching new products or services. Identify whether the company seems to be emphasizing ways that it has lowered costs (and will compete on the basis of price) or ways that it is adding features (and will compete on the basis of uniqueness). Or, does the company seem to be trying to do both?** [JetBlue](http://www.jetblue.com/) offers an example of a firm that allowed their competitive position to become stuck in the middle. After the students’ presentations, you may want to extend the discussion to talk about whether the strategy formulation was misguided or whether the firm was unclear in its implementation of that strategy. At the end of the day, shareholder value creation requires both a successful strategy and effective implementation. However, with a poor strategy, the board may want to replace the CEO. Poor implementation may call for investment in new systems and processes.

Experienced Faculty: *McKinsey Quarterly*, Sept. 2015 offers a video interview, “[Capturing Southeast Asia’s financial system opportunit](http://www.mckinsey.com/videos/video?vid=4492848494001&plyrid=2399849255001&Height=270&Width=480)y.” After showing the video in class, invite students to brainstorm ideas on how a firm might gain and sustain a competitive advantage in this arena. AACSB 2015 Standard 9 Thinking creatively and managing in a global context

What Strategy Is: Gaining and Sustaining Competitive Advantage LO 1-3

PowerPoint Slides 19–20

Exercise

If you are teaching a capstone course that meets broad program-level learning objectives, such as critical reasoning skills and decision-making skills, as well as discipline-specific strategy learning objectives, the Wall Street Journal article, “[GE set to exit retail lending](http://online.wsj.com/article/SB10001424127887324324404579043251576214402.html?mod=djem_jiewr_MG_domainid)” (8/30/13), offers material for one such exercise. You can begin exploring the concept of competitive advantage by contrasting shareholder value creation under Jack Welch and destruction under Jeff Immelt and then discuss the role that [GE](http://www.ge.com/) Capital played in both of these trends. What changed in the external environment to cause the crown jewels to become a liability? Then challenge the students to use critical reasoning skills to (a) identify specific information in the article that is relevant to making that determination and (b) evaluate the validity of that information. From that point you could move into a discussion of decision-making skills. What information would you want to know in order to determine whether Immelt is making the right choice for GE Capital? What other alternative solutions might the company consider? AACSB 2015 Standard 9 Analytical thinking

Discussion Topics

Newer Faculty: Industry effects describe the underlying economic structure of the industry. Firm effects, or the actions managers take, tend to be more important in determining firm performance. Since this is a strategy class, it’s good to know the decisions that managers make can have significant (good or bad) impacts on the firm. Industry and firm effects are INTERDEPENDENT. Firms can create or influence the structure of their industry. You may want to bring in some background here and mention that if we were in the perfectly competitive environment often used in economics, strategy would not be important. In a perfectly competitive market, all the firms are identical and therefore none have superior performance relative to the rest. Perfect markets though do make the math easier for us to get through those econ courses.

Experienced Faculty: Given that traditional U.S. firms such as [IBM](http://www.ibm.com/) have over 70 percent of their employees and over 60 percent of their revenues outside the United States (in 2009), what is an appropriate definition of a “U.S. firm”? Is there any special consideration a firm should have for its “home country”? A “U.S. firm” typically will have its headquarters inside the U.S. So where the CEO and senior leaders are located is the “home” of the firm. Historically, where the company is incorporated and what stock market its shares are listed on have also been used to denote a home country firm. In today’s “flatter world,” the senior officers of large firms may not all be in the same country. Some traditionally U.S. firms such as Accenture, Tyco, and Ingersoll-Rand have moved their incorporation to places like Bermuda, the Cayman Islands, or Ireland, largely for tax reasons, though all still maintain their senior offices largely in the U.S. A home country in most corporations still carries significant influence in the organization, structure, and culture of the firm. However, in a global economy, the corporation must make decisions based on what is best for the variety of stakeholders. Hiring and investment decisions are made relative to the competitive environment and often only limited consideration is given to the home country ahead of other locales for investment and the growth of the firm. AACSB 2015 Standard 9 Managing in a global context

End of Chapter Discussion Question 3

**As noted in the chapter, research found that firm effects are more important than industry effects. What does this mean? Can you think of situations where this might not be true?** It means that, in general, how a company is run is more important than the success or failure of an industry as a whole. For instance, an oil company (that should be making enormous profits), if poorly run, could still go bankrupt, while a Nevada home construction company (hit hard by the recession), if well-run, could still manage to turn a profit. Situations where this might not be true may include the total collapse of the industry due to legal issues or obsolescence. Hypothetically, if the U.S. government outlawed the use of tobacco, it would become virtually impossible for even a well-run tobacco company to survive. If automobiles could now run on water, oil companies would assuredly face hard times.

1.2 Stakeholders and Competitive
Advantage LO 1-4

PowerPoint Slides 19–26

Discussion Topics

Newer Faculty: Stakeholders are organizations, groups, and individuals who have a vested interest in the performance and survival of the firm. Stakeholder strategy is a framework that connects corporate governance, business ethics, and strategic leadership and thus helps managers think through these issues in a holistic fashion. Stakeholder theory is a theoretical framework that is concerned with how different stakeholders create and trade value. Instructors can discuss the importance of public companies and their influence on our daily life. Students need to understand the interdependent relationships between these organizations and the average citizen. Then, discuss the importance of the public companies’ stakeholders and why companies need to take good care of them. The answer is, “It is an interdependent relationship.” Only by taking care of the stakeholders can they create a win–win, with mutually beneficial results to both companies and to society. This section sets a foundation that allows instructors to talk later about social responsibilities.

Newer Faculty: Tap into the students’ very real experience of the impacts of the recent financial crisis on society and its trust in business institutions. How has their trust in the financial system changed? What impacts might a loss of trust have on financial firms’ ability to operate? (See “[Life on Wall Street grows less risky](http://online.wsj.com/article/SB10001424127887324324404579044503704364242.html?mod=ITP_pageone_0)” *The Wall Street Journal* 9/9/13.)

Exercise

 **INTEGRATION**

# Interactive Sequencing: Internal and External Stakeholders

This click-drag sequencing activity starts with chronological ordering of some black swan events, as discussed in the textbook. Then, the students are asked to consider the benefits and contributions of several different types of stakeholders by answering two multiple choice questions from the text material. The student must read the textbook and then drag the elements to the correct locations in both stages of this activity. Difficulty: Medium Blooms: Understand AACSB: Analytic The instructor can expand on the concepts from this interactive by discussing recent activist stockholder activities at firms such as Apple (Carl Icahn’s push for stock buybacks) and others pulled from the headlines.

Corporations are increasing their use of social media to stay in touch with their stakeholders. They use company blogs, Twitter feeds, and Facebook postings to communicate the firm’s message in a positive way. They also have begun to pay attention to and engage with third party websites, such as Yelp and blogs written by others. This exercise on the use of blogging by large companies can be used to discuss the communication of strategies by these firms. Here is a link to the *BusinessWeek* article about Dell’s response to a negative customer blog that generated a flurry of other negative customer responses (<http://buswk.co/RPOWr>). Ask students to search for a large company that includes a blog on its official website. Ask them to determine: What seems to be the primary purpose of the blog that you found? Does the blog seem to be updated regularly? Does the blog allow users to post comments or questions? If so, what type of stakeholders post most of the comments and how effectively does the company respond? Students may enjoy surfing the Web for companies that make some of their favorite products. We have suggested a large firm because big and well-known firms have more of an Internet presence than newer startup ventures. Another alternative for this exercise is to look for the corporation’s Twitter postings or their Facebook fan page. We selected blogging for the exercise because that media format provides enough length for the message to be captured fairly quickly. It is also a less restrictive communication tool and provides room for a wide diversity of uses between different firms. This exercise lends itself well to blended or online courses. AACSB 2015 Standard 9 Information technology and statistics/quantitative methods impacts on business practices to include data creation, data sharing, data analytics, data mining, data reporting, and storage between and across organizations including related ethical issues

End of Chapter Discussion Group Exercise

Students in Oklahoma, New Jersey, Louisiana, Texas, Japan, Nepal, and other areas around the world that have recently experienced natural disasters will be able to relate to this topic. This exercise can be used to push students to address this problem from the perspective of a senior leader, such as a mayor, a governor, or the head of FEMA, rather than an individual person or one functional discipline. Before breaking the students into small groups for discussion, you might want to work as a large group to identify a list of critical social needs that must be met during a crisis. Then to lead into a discussion of the role of business in society, you might want to start a discussion on how business needs during a black swan event might differ from societal needs, but may be critical to meeting societal needs. For example, businesses need backup IT systems to keep their supply chain and production operational; without this they may be unable to deliver vital goods, such as food or energy. AACSB 2015 Standard 9 Social responsibility, including sustainability, and ethical behavior and approaches to management

End of Chapter Ethical/Social Issues

AACSB 2015 Standard 9 Ethical understanding and reasoning (able to identify ethical issues and address the issues in a socially responsible manner) or Social responsibility, including sustainability, and ethical behavior and approaches to management

Choose one of the companies discussed in the chapter (such as [BP](http://www.bp.com/), [Target](http://lwww.target.com/), [Threadless](http://www.jetblue.com/), [Twitter](http://www.twitter.com), or [Facebook](http://www.facebook.com)). By looking at the company’s annual report on its web page or conducting an Internet search for news about the company, identify instances where the company has acted ethically or showed its interest in a key stakeholder—or where it has failed to do so**.** Encourage the students to draw a distinction between illegal behavior and actions that are legal, but might be considered unethical under one or more value systems.

Corporate leaders are responsible for setting the firm’s strategies to gain and sustain a competitive advantage. Should managers be only concerned about the company’s financial performance? What responsibility do company managers have for other consequences of their strategies? For example, should [Walmart](http://www.walmart.com/) try to mitigate the negative impact its arrival in communities can have on small locally owned stores? Should [Apple](http://livepage.apple.com/) be concerned about the working conditions at Foxconn (the company that manufactures Apple’s devices such as the iPhone and the iPad in China)? Why or why not? Explain. The senior leadership should be accountable for the firm’s performance and its relationship with both internal and external stakeholders. As noted in the chapter, those stakeholders will include the community. However, the influence of the community stakeholders is quite often small relative to many other groups. Generally, consumer-oriented firms such as Walmart should care particularly about the reception they receive when moving into a new location. However, it is not Walmart’s responsibility to use its competitive advantage to subsidize small locally owned stores that may have difficulty competing against the economy of scale and scope that Walmart has developed. Students may point out that patrons can choose to shop at local stores or big-box retailers. Also, the array of economical products and services provided by major retail chains like Walmart benefitted all the customers, suppliers, and employees involved. Apple needs to be concerned about working conditions at [Foxconn](http://www.foxconnchannel.com/) due to the expectations of customers that social responsibility extends through the supply chain. This issue is becoming particularly salient for fashion retailers who are coming under pressure due to poor working conditions for employees of their suppliers in Bangladesh. See [Foxconn says 11 injured in large scale fight at Chinese campus](http://online.wsj.com/article/SB10001424052702303759604579092641376933788.html?mod=ITP_marketplace_2) *The* Wall Street Journal 9/24/13 and [Walmart and other U.S. retailers commit to factory safety in Bangladesh](http://online.wsj.com/article/SB10001424127887323740804578597600220490718.html?KEYWORDS=bangladesh+building+collapse) *The* Wall Street Journal 7/10/13.

Other than [Whole Foods](http://www.wholefoods.com/), think of company examples where “doing things right” and acting in the interests of broader stakeholders (rather than just stockholders alone) have produced a stronger competitive advantage. Why was this the case? Challenge students to identify firms whose products they prefer due to the firm’s reputation for social responsibility. Do these firms create a higher “willingness to pay” among their customers or do they command a larger market share? Some examples include [Tom’s of Maine](http://www.tomsofmaine.com/), [Starbucks](http://www.starbucks.com/), and [Ben & Jerry’](http://www.benjerry.com/)s. Starbucks is a great example for a dialogue about how much difference positive social responsibility makes in consumer choice. Which students buy Starbucks coffee because it tastes best, because it has a comfortable ambiance, or because it has fair trade contracts with coffee farmers? Then switch to negative social responsibility. How many students have stopped buying clothing manufactured in Bangladesh (“[U.S. retailers to implement Bangladesh factory plan](http://online.wsj.com/article/SB10001424127887323423804579023640207379578.html)” *The* Wall Street Journal 8/20/13) or BP gasoline?

1.2 Stakeholders and Competitive Advantage
Lo 1-5

PowerPoint Slides 27–31

Strategy Highlight 1.2

End of Chapter Discussion Question 2

PowerPoint Slide 31: The BP Horizon environmental disaster shows the consequences of failure to live up to the expectations of society for corporate social responsibility. One might argue that they were effective in responding to stakeholder concerns after the fact, by setting up processes for rapid payment of claims, supporting fishing communities, and running advertisements for tourism. Others will fault their performance after the fact, arguing that the CEO at the time was too standoffish and that the firm took too long to recognize and solve the technical issues and stop the leak. You might invite students to research BP/Amoco safety incidents. They will find that one of the reasons the U.S. government was unwilling to excuse this disaster as an unavoidable accident is that BP/Amoco had a track record that included several large-scale safety incidents with fatalities. Persistent accidents argue that safety leadership and safety culture were lacking, thus breaching the public trust. If time permits, you might also open a discussion as to whether energy, food, and pharmaceutical firms that serve basic human needs should be held to a higher standard than manufacturers of less critical products, such as fashion. AACSB 2015 Standard 9 Social responsibility, including sustainability, and ethical behavior and approaches to management

Discussion Topics

Newer Faculty: Stakeholder impact analysis is a decision tool with which managers can recognize, assess, and address the needs of different stakeholders to allow the firm to perform optimally and act as a good corporate citizen. Stakeholder impact analysis is a five-step analysis. Who are our stakeholders? What are our stakeholders’ interests? What opportunities and threats do our stakeholders present? What economic, legal, ethical, and philanthropic responsibilities do we have to our stakeholders? What should we do to effectively address the stakeholder concerns?

Possible examples to illustrate the five-step stakeholder impact analysis could be [BP](http://wwwq.bp.com/)’s relationships with its shareholders and U.S. government agencies. Another possibility is [Nestle](http://www.nestle.com/)’s relationships with its shareholders, its customers, and nutrition activists. If you choose the Nestle example, you may want to ask students to read the comments about Nestle in its social media pages. A way to make this discussion more interesting if you have journalism, public relations, public health, or communications majors in your course, would be to invent an “event” for Nestle or use the real event for BP. Then ask selected students to “report” on the incident from a few different perspectives and ask other students to present the company’s position, as if they were the CEO. AACSB 2015 Standard 9 Social responsibility, including sustainability, and ethical behavior and approaches to management and written and oral communication

Experienced Faculty: A more complex example that one might use for stakeholder impact analysis is the U.S. auto industry during the recent financial crisis and the impact on its supplier stakeholders. Financial weakness in suppliers of specialized parts can make it impossible for an auto manufacturer to continue to produce cars or to recover production levels after the crisis. However, the auto manufacturers were going through or approaching bankruptcy themselves, so throwing financial lifelines or even paying the bills was challenging. Invite students to step through the five-step process with this example. A similar example that might be more salient for some groups is the relationship between the home building industry and its relationship with skilled tradesmen. AACSB 2015 Standard 9 Systems and processes in organizations, including planning and design, production/operations, supply chains, marketing, and distribution

#  **INTEGRATION**

# Interactive Labeling: Identifying Social Responsibilities

This click-drag matching activity builds student comprehension of the Stakeholder Impact Analysis. In particular, it builds upon step 4 and the concept of Corporate Social Responsibility for the students. The student must read the application examples provided and move the correct type of social responsibility to the box provided. Then the student will answer three further questions. **Difficulty**: Medium **Blooms**: Apply **AACSB**: Analytic The instructor can expand on the concepts from the Click and Drag by having students discuss the variety of social responsibilities surrounding Strategy Highlight 1.2 about the Deepwater Horizon oil spill.

# Research Update

“Product and environmental social performance: Varying effect on firm performance,” Satish Jayachandran1,\*, Kartik Kalaignanam1, Meike Eilert,Strategic Management Journal, [Volume 34, Issue 10,](http://onlinelibrary.wiley.com.ezproxy1.lib.asu.edu/doi/10.1002/smj.2013.34.issue-10/issuetoc) pages 1255–1264, October 2013

**Experienced Faculty:** These researchers disaggregate corporate social performance into product social performance (“actions of a firm include meeting consumer needs effectively and efficiently while avoiding ethical and regulatory problems”) and environmental social performance (“diligent policy of limiting the negative impact that its business has on the natural environment as well as acting to sustain the natural environment proactively”). They find that product social performance has a positive impact on firm performance (Tobin’s Q) and that environmental social performance was not related to firm performance. They suggest that environmental social performance is harder for shareholders to diagnose. They also found a negativity bias, in that the negative effect of poor product social performance was greater than the positive effect of good product social performance. This suggests that shareholders punish negative social performance. This research can be incorporated into your course with a class discussion on how a firm’s product social performance and environmental social performance impact students’ purchasing behavior. Marketing students could be invited to discuss how they might raise consumer awareness of a firm’s superior environmental social performance.

Exercise

National differences may cause the definitions of corporate social responsibilities to differ across national borders. Also, the relationship between “doing well” and “doing good” is perhaps not yet clear enough to guide business practices. That means the causal relationships are not clear. If you have international students represented in your class this would be an interesting topic for small group discussion.

1.3 The AFI Strategy Framework

PowerPoint Slides 32–34

Discussion Topics

Newer Faculty: You might consider using discussion of a popular movie that illustrates strategy, such as “[Master and Commander](http://en.wikipedia.org/wiki/Master_and_Commander%3A_The_Far_Side_of_the_World)” or “[Braveheart](http://en.wikipedia.org/wiki/Braveheart).” What were the keys to the hero’s success? These types of examples will enable you to bring out the importance of careful analysis, a well-formulated strategy, and effective implementation. Each also offers illustrations of effective and ineffective strategic leadership. AACSB 2015 Standard 9 Leading in organizational situations

End of Chapter Discussion Question 1

Consider the brief description of [Target](http://www.target.com/)’s stakeholder relationships and combine that information with your experience shopping in a Target store. How might Target’s stakeholders (in particular, its employees, customers, local communities, and suppliers) influence the manager’s decisions about building competitive advantage in the analysis stage of the AFI framework? How might Target gather information from its stakeholders to inspire a better customer experience in the formulation stage in order to differentiate? Or in order to lower costs? Brainstorm (by jotting down as many ideas as you can think of) about how key stakeholders may affect (or be affected by) the implementation stage. We recommend dividing the class into groups of 3–4 for small group discussion and assigning some groups to represent each stakeholder group: customers, employees, suppliers, shareholders, and the local community. Ask them to focus on one method to gather data for analysis and one change in strategy that might be proposed. Then focus the rest of their efforts on identifying the implementation steps for that strategy and how they might affect their assigned stakeholder group. AACSB 2015 Standard 9 Creative thinking, Group and individual behaviors in organizations and society, and Integrating knowledge across fields

1.4 Implications for Strategists

PowerPoint Slide 35

Discussion Topic

Newer Faculty: A nice video to illustrate the implications for strategists is this one by James Goth, Partner and Managing Director of BCG, [Competitive Advantage](http://vimeo.com/16644996). He discusses the meaning of competitive advantage and strategy.

Strategy Term Project: Initial Firm Selection & Review

The goal of this course-long project is to provide a tangible application of many of the concepts discussed in the text. By the end of the project, students will not only have practice in using key strategic management components and processes to increase understanding of the material, but also will be able to conduct a complete strategic management analysis of any company.

This first task is to identify a firm to study for this course-long project. In the text, we suggest two methods for choosing a firm. The easiest and most consistent method will be to select a medium- or large-sized public company to study. The secondary approach of selecting a local firm can provide challenges regarding the appropriate collection of data. Even if a student works at the firm, there are quite often proprietary limits on the data (especially financial and competitive data) that these firms will allow to be used for such a project. Be sure the student checks with the local firm on data availability.

Of course, as the instructor you may choose to assign firms or provide a list of acceptable firms for the student to select from. As you are kicking off this project, now is a good time to discuss appropriate data sources with your students. There is a lot of information available on the Internet. Unfortunately, a lot of it is nonsense, or is at least heavily flawed or biased. Encourage your students to stay away from websites such as “I hate Company X” and to focus on reputable news and market outlets for the bulk of their information. They should use a variety of sources, because even highly esteemed sources like *The Wall Street Journal* and *The New York Times* can be biased in choosing their reporting topics and tone.

Once the firm is selected, it’s time for the students to start gathering information on the history of the firm, its current top management team, and the primary business model for the firm (How does the firm make most of its money?). The goal of this first assignment is basic familiarization with the firm and a check to be sure data sources are forthcoming and reputable.

#  **INTEGRATION**

# Running Case: HP

While offering each student the opportunity to explore and analyze the company of his/her choice can add interest to the exercise, there are many advantages for an instructor when the entire class works on the same firm. Connect allows you to do this with a running case for a single firm that encompasses every chapter in the textbook and tracks the Strategy Term Project. Inside Connect each new module of the Strategy Term Project is available in the chapter activities. Hewlett Packard is used as an exemplar running case. If your term project is a team activity, these modules may be used to give the teams an idea of the type of information and analysis needed for their own firm by running through the HP examples. Each module can be individually modified and assigned per the instructor’s desires.

If you choose a term project for your course, you may want to consider inviting a local company representative to your classroom during the first week to speak to the students about the firm’s strategies and values.

*my*Strategy

If you are about to embark on a new career, what effect should the likelihood of industry growth play in your decision? It should have some effect, but it is not likely to be the most important concern. If your only goal is to become the head of a large company, market growth and expansion may become a high priority. However, success can be found in many places, and it is usually more important to find a company with good leadership (firm effects) than worry solely about market growth (industry effects).

Why could growth rates be an important consideration? Why not? A high growth rate indicates more and faster advancement. If, for example, you are planning on a career in accounting, you might focus your job search on firms in growing segments of the market such as power, pharmacy services, or property insurance rather than homebuilding or banking. Particularly coming out of a recession when many workers have needed to delay their retirement dates, items like new job opportunities, training, and promotions are more likely in growing organizations. On the other hand, if you know exactly what you want to do or have a passion for something, you should not turn it down simply because higher growth rates may be in some other area.

How do you expect this list to look five years from now? Which three to five industries do you expect to top the list, and which three to five industries will be at the bottom of the list? Why? This exercise speaks to the challenge of formulating a strategy of high uncertainty on key data. We suggest that students be challenged to choose one industry that they think will be high growth or low growth and justify their position with logic that draws on information that they do know, for example, pent up demand for housing during the recession, lower energy costs in the U.S. due to booming shale gas production, aging of the baby boom generation, or growth in digital media accessibility. AACSB 2015 Standard 9 Analytical thinking (able to analyze and frame problems) and Making sound decisions and exercising good judgment under uncertainty