# *Strategic Management 5th edition Rothaermel Solutions Manual*

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# CHAPTER 1

# What Is Strategy?

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# Teacher's Resource Manual: Implementation Guide

This improved **Teacher's Resource Manual (TRM)**, formerly the Instructor's Manual (IM), supports delivery of your chosen curriculum and pedagogy. This manual contains more than just guidance on how to cover concepts discussed in the fifth edition of *Strategic Management*; it also provides tips and best practices for how to utilize the full product suite (from the textbook to SmartBook® to Connect®). In addition, this manual includes a variety of supplemental teaching resources to enhance your ability to create an engaging learning experience for your students. Regardless of whether you teach in face-to-face traditional classrooms, blended (flipped) classrooms, online environments, or hybrid formats, you'll find everything you need in this improved resource.

The TRM follows the order of the textbook outline for each chapter and is divided into sections for each learning objective. Each section identifies the relevant PowerPoint slides from both the Lecture slides and the Supplemental Lecture slides (more on this below). This eases your preparation time for class as you can adjust slides as needed to ensure your students stay actively engaged throughout each session.

## WHAT INSTRUCTOR RESOURCES ARE AVAILABLE?

Within each section of the TRM you will find an assortment of examples, exercises, Connect® Integration assignments, updates on the latest research, Strategy Smart Video discussions, and end-of-chapter discussion questions and exercises from which you can choose to enhance your students' learning and engagement.

Within the **Instructor Resources Tab,** located in the Connect® Library, the following **Instructor Resources** can be found:

- Teacher's Resource Manual
- PowerPoints (Accessible)
- Test Bank
- Create™ Case Support
- MiniCase Support
- Video Resources
- Capsim's Capstone Simulation

1) This **Teacher's Resource Manual** is posted by chapter.
2) Two sets of ADA-accessible **PowerPoints** are available with each chapter:
    a. *Lecture* slides cover chapter concepts and exhibits.
    b. *Supplemental Lecture* slides cover:

        i. Chapter Cases
        ii. Strategy Highlights



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iii. Implications for Strategic Leaders
iv. End-of-chapter myStrategy and Small Group Exercises
v. Strategy Smart Video selections (not part of the book, but an additional resource found here)
vi. Key Terms

3) **Test Bank** questions are posted by chapter. You will find a variety of question types within the test bank such as Matching, Ranking, Multiple Choice, Select-All-That-Apply, True/False, Short Answer, and Essays to test student mastery across Bloom's Taxonomy (i.e. Understand, Apply, and Analyze). Due to the evolving needs around generating high-quality print test experiences, McGraw-Hill Education provides a free copy of the industry-leading test generation software TestGen® to users (more details can be found within the Instructor Resources tab under "Test Bank"). Furthermore, due to its limitations to function with the latest browsers and operating systems, McGraw-Hill Education has discontinued EZ-Test Online. Some of the robust new features present in TestGen®, include:
   - Cross-platform software compatibility with Windows and Mac
   - Multiple LMS export formats, including Blackboard, Brightspace, Canvas, Desire2Learn, Moodle, and Sakai
   - Highly customizable formatting and editing option
4) **Create™ Case Support** (all cases are available in Create™ and selected ones in HBS)
   a. A *case matrix* that identifies the industry sector covered by each case, as well as the primary and secondary chapter alignments
   b. One-page *case abstract* for quick overview of each case
   c. *Case Teaching Notes* for instructor use only
   d. *Case Financials* in Excel files for the exhibit data in the most popular cases
   e. *Case Strategic Financial Analysis* template
   f. Instructions on *How to Download SEC Financial Data into Excel Spreadsheets*
5) **MiniCase Support** (all MiniCases are located in Part Four of the book)
   a. *MiniCase Matrix* that identifies chapter alignment
   b. *MiniCase Teaching Notes* comprising suggested answers to the MiniCase discussion questions. In some instances, they also provide specific additional article and video resources to accompany each MiniCase.
6) **Video Resources**
   a. The *Video Grid and Guide* provides links to supplemental video resources to accompany both the MiniCases and full-length Create™ cases.
   b. The *Video Library* provides links to all the assignable videos in Connect®.

7) A link to ***Capsim's Capstone Simulation*** is provided; this simulation allows students to apply their knowledge of key strategy concepts.



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## HOW CAN SMARTBOOK® ENHANCE MY STUDENTS' PERFORMANCE?

The LearnSmart®-powered **SmartBook®** is assignable through Connect®, McGraw-Hill's online assignment and assessment system. One of the first fully adaptive and individualized study tools designed for students, it creates a personalized learning experience, giving students the opportunity to practice and challenge their understanding of core strategy concepts. The reporting tools within SmartBook® show where students are struggling to understand specific concepts.

Typically, SmartBook® is assigned by module (chapter), and instructors can set which learning objectives to cover as well as the number of probes the student will see for each assignment. Instructors also set the number of points a SmartBook® module is worth in the course. Usually, applying a minimal number of points for completion of each module is enough to encourage students to read the chapter. Many instructors assign these modules to be completed *before* the class or online session.

SmartBook® provides several diagnostic tools for instructors to gauge which concepts their students struggle to understand. Below is the set of adaptive assignment reports available in SmartBook®:

- Progress Overview: View student progress broken down by module.
- Student Details: View student progress details plus completion level breakdown for each module.
- Module Details: View information on how your class performed on each section of their assigned modules.
- Practice Quiz: This gives you a quick overview of your students' quizzes results.
- Missed Questions
- Metacognitive Skills

By selecting "Module Details" the instructor finds the results for the students in the class overall. These details reveal where in the chapters students might be struggling. The module gives the chapter section, average time spent, average questions per student correct/total, and the percentage of correctness (number of assigned items). Information about the most challenging sections for students can help instructors refine the focus of the next classroom or online session.



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For more detailed analysis, SmartBook® captures students' confidence in their competency using the "Metacognitive Skills" report. Below (a recreation of the Metacognitive Skills report), we find the second student is confident and mostly correct (91% in the correct & aware column) while the first student "doesn't know what she doesn't know" (39% in the far-right column).

| STUDENT | CORRECT and AWARE | CORRECT and UNAWARE | INCORRECT and AWARE | INCORRECT and UNAWARE |
|---|---|---|---|---|
| Student 1 | 61% | 0% | 0% | 39% |
| Student 2 | 91% | 0% | 3% | 5% |
| Student 3 | 81% | 0% | 0% | 19% |
| Student 4 | 83% | 0% | 0% | 17% |
| Student 5 | 76% | 0% | 3% | 21% |
| Student 6 | 66% | 0% | 9% | 25% |
| Student 7 | 77% | 0% | 3% | 20% |
| Student 8 | 91% | 0% | 2% | 7% |
| Student 9 | 93% | 0% | 2% | 5% |
| Student 10 | 70% | 0% | 6% | 25% |

## APPLICATION EXERCISES, QUIZZES, AND TEST BANK

**What resources are available at the book level?**

**Connect®** offers a wealth of content for both students and instructors. **Application Exercises** require students to apply key concepts to close the *knowing* and *doing* gap, while providing instant feedback for the student and progress tracking for the instructor. Before getting into chapter-level assignments, let's look at the book-level assignments available.

Four exercises are available for instructors to assign beyond the chapter materials. These are 1) MiniCase Case Analyses, 2) Case Strategic Financial Analyses (SFAs), 3) Financial Ratio Reviews, and 4) Case Exercises.

1) To encourage analytical thinking, each MiniCase from Part Four of the book is also an assignable application exercise (**MiniCase Case Analysis**). Each MiniCase is followed by four to five multiple-choice questions that assess students' understanding of the key issues presented in the MiniCase.
2) **Financial Ratio Reviews** give students the opportunity to further hone their financial analysis skills; review exercises cover each type of financial ratio (activity, leverage, liquidity, market and profitability).
3) **Case Exercises**, this edition of *Strategic Management*, focuses on the key symptoms and influences of a problem a firm might be facing, followed by a series of questions that help students understand how the firm eventually achieves a solution to that problem (or asks students to suggest a solution). Case Exercises for this edition accompany the most popular full-length cases.



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**What resources are available for each chapter and how should I integrate them in my course?**

Consider assigning one or two Application Exercises per chapter. They are built around chapter learning objectives, so the instructor can choose based on his/her focus for each specific chapter. Several types of application exercises are available in each chapter. The newest addition is the **Whiteboard Animation** series, comprising four- to five-minute videos on key concepts or concepts that tend to challenge students the most. Each animation is accompanied by three to four multiple-choice questions to check student attention and comprehension. Comprehensive **Case Analyses** and **Video Cases** each feature firms and industries different than those discussed in the textbook. Finally, **Click-and-Drag** exercises help students actively demonstrate their understanding of the associated learning objectives. Application Exercises can be assigned as preparatory exercises due ***before*** class (this is especially good for flipped classrooms), or ***after*** class as concept comprehension checks. Applications Exercises will generally be assigned as homework or practice as part of the overall class grade. A general rule of thumb would be to make application exercises worth 5 to 10 points each since these require time and thought.

To find the Applications in Connect®, go to "Add Assignment" and then select "Question Bank." Application Exercises are organized by chapter. Instructors have the option to select for one attempt only, but they may want to give students unlimited or multiple attempts on the first few assignments to give students a chance to learn and navigate the system. (As the course progresses, instructors may want to tighten up the time on task and reduce the number of attempts to complete each exercise).

Chapter **quizzes** and full chapter **test banks** are available for assignment, and like the Application Exercises, are organized by chapter. The value applied to each question should be relatively low because numerous questions are usually assigned for each chapter. As such, make these questions worth 1 or 2 points each. The feedback given to students is time-flexible. Selecting feedback to be displayed ***after*** the assignment due date helps to keep students from giving the correct answers to other students while the questions are still available. For this reason, it is suggested that no feedback to quizzes and test bank exams be made available until after the assignment is due.

**When should I assign these digital components?**

To fully utilize the power of the digital components, instructors will often assign the SmartBook® reading and adaptive learning probes ***before*** class meets. Application Exercises can be completed either before or after class; if they are completed before class, they can sometimes serve as good springboards for class discussions. The chapter quiz makes a good check on comprehension of the material and may work best if assigned ***after*** each class period. The test bank serves as a good resource for building mid-term or final exams.

More detailed information on SmartBook® and Connect® is available through several resources at McGraw-Hill. A good starting point is your local Learning Technology Representative, who can be found here:
http://www.mheducation.com/highered/platforms/connect/features-educators.html



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# 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/application 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 application/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.

Throughout the TRM for each chapter, we will **integrate** materials from the Lecture PowerPoint slides, Supplemental Lecture slides, Connect® Application Exercises, end-of-chapter activities, and MiniCases. This integration of resources will allow for a cohesive presentation of the relevant resources at your disposal, helping you to convey these topics effectively and efficiently to your students.



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# CHAPTER 1

## Learning Objectives

1.1 Explain the role of strategy in a firm's quest for competitive advantage.

1.2 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.

1.3 Assess the relationship between stakeholder strategy and sustainable competitive advantage.

1.4 Conduct a stakeholder impact analysis.

1.5 Explain the Analysis, Formulation, Implementation (AFI) Strategy Framework.

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 United States, 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?

A chapter opening case on Tesla and two strategy highlights are included in the chapter for tangible applications of the theoretical frameworks discussed.



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# Text Chapter Contents

**Chapter Case 1: Tesla's Secret Strategy**

**1.1 What Strategy Is: Gaining and Sustaining Competitive Advantage (LO 1-1, LO 1-2)**

Strategy Highlight 1.1: Does Twitter Have a Strategy?

CONNECT® INTEGRATION

Whiteboard Animation: Role of Strategy in a Firm's Quest for Competitive Advantage

CONNECT® INTEGRATION

Case Analysis: What Strategy Is: Gaining Competitive Advantage at Nvidia

**1.2 Stakeholder Strategy and Competitive Advantage (LO 1-3, LO 1-4)**

Strategy Highlight 1.2: Merck's Stakeholder Strategy

**1.3 The Analysis, Formulation, Implementation (AFI) Strategy Framework (LO 1-5)**

**1.4 Implications for Strategic Leaders**

ChapterCase 1 / Part II

***my*Strategy**

**Discussion Questions**



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# Chapter Teaching Resources

| SECTION | Title | RESOURCE TYPE |
|---|---|---|
| CHAPTERCASE 1 | **Tesla's Secret Strategy** | |
| | Tesla Customer Testimonial | Web Video (2 min) |
| | Tesla's Musk says solar, energy storage will grow faster than electric cars | CNBC Article |
| **1.1: What Strategy Is: Gaining and Sustaining Competitive Advantage** | | |
| | Role of Strategy in a Firm's Quest for Competitive Advantage | Connect® Whiteboard Video |
| | What Strategy Is: Gaining Competitive Advantage at Nvidia | Connect® Case Analysis |
| | "What is Strategy?" | Michael Porter Video (6 mins) |
| | Small Group Exercise: 3 Step Strategy | TRM Extra |
| **1.2: Stakeholder Strategy and Competitive Advantage** | | |
| | Ethical/ Social Issues: Merck | TRM Extra |
| | Wells Fargo finally has a CEO | WSJ Article |
| | What is Competitive Advantage? | Connect® Whiteboard Video |
| **1.3: The Analysis, Formulation, Implementation (AFI) Strategy Framework** | | |
| | The AFI Strategy Framework | Connect® Click &Drag/Multiple Choice |
| | **MiniCase 1: Apple: What's Next?** | Rothaermel Textbook |
| **1.4: Implications for Strategic Leaders** | | |
| | Competitive Advantage | BCG Interview (14 mins) |



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# Overview of the Chapter

## 1.1 What Strategy Is: Gaining and Sustaining Competitive Advantage

Strategy is a set of goal-directed actions a firm takes to gain and sustain superior performance relative to competitors. To craft a good strategy requires three critical steps: (1) defining the competitive challenges facing the organization; (2) providing an over arching approach on how to deal with the competitive challenges identified; and (3) effective implementation through a coherent set of actions. This section discusses the difference between a ***Competitive Advantage*** and a ***Sustained Competitive Advantage***. It also explores why ***Grandiose Statements***, failure to face a ***Competitive Challenge*** and tactical tools such as ***Competitive Benchmarking*** are not strategy.

## 1.2 Stakeholder Strategy and Competitive Advantage

At the core of strategy studies is the concept of ***Value Creation*****.** Stakeholder Strategy focuses on how organizations, groups, and individuals can affect or be affected by a firm's actions. ***Stakeholders*** can be internal or external. All stakeholders make specific contributions to a firm. Exhibit 1.2 illustrates the steps necessary to perform a ***Stakeholder Impact Analysis***. Effective ***stakeholder management*** can act to improve firm performance, thereby enhancing the firm's competitive advantage. Strategy Highlight 1.2 discusses the Stakeholder Strategy implemented by Merck.

## 1.3 The Analysis, Formulation, Implementation (AFI) Strategy Framework

The ***AFI Strategy Framework*** provides a basis for understanding the interdependent relationships necessary to manage the strategy process. Exhibit 1.4 shows the framework and provides a discussion of the subcomponents as well as a roadmap to where these components are addressed in this book. The ***Analysis*** aspects are covered in Chapters 2 to 5. The ***Formulation*** components, including Business, Corporate and Global Strategy, are found in Chapters 6 to 10. The ***Implementation*** topics of ***Organizational Design, Corporate Governance*** and ***Business Ethics*** reside in chapters 11 & 12.

## 1.4 Implications for Strategic Leaders

Strategy is the art and science of success and failure. Strategic leaders are making decisions under conditions of ***uncertainty*** and ***complexity***. They must ***monitor*** and ***evaluate*** the progress toward key objectives. ChapterCase 1/Part II allows students to explore the strategy quality and implications of Tesla's new master plan.



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# Classroom Outline

## ChapterCase 1
## Tesla's Secret Strategy

The opening ChapterCase discusses the story of the founding of Tesla. CEO Elon Musk wrote a public blog in 2006 that basically laid out the plans for the first decade of the firm. He seems to be doing quite well with his "secret plan."

INSTRUCTOR SUPPLEMENT SLIDES 2-4

## STRATEGY SMART VIDEO EXAMPLE

INSTRUCTOR SUPPLEMENT SLIDE 14

This slide links to a two-minute interview with a Tesla customer who speaks about his Tesla car and home battery storage.

## ChapterCase 1 Part II

The closing ChapterCase provides information on the 2016 updated strategy for Tesla. Musk envisions Tesla as a fully integrated sustainable energy company now with vehicles only a piece of the long term picture.

## ChapterCase 1 Discussion Questions

1. **Do you agree with the assessment that Elon Musk and Tesla successfully fulfilled the first master plan published in 2006? Why or why not? To answer this question, apply the three-step process for crafting a good strategy explained in Section 1.1 (diagnose the competitive challenge, derive a guiding policy, and implement a set of coherent actions).**

Given the uncertainty of the electric vehicle industry especially in 2006 most would agree Tesla has done an amazing job of meeting its plans. Ultimately though it needs to scale up the model 3 cars to really complete the plan. Thus, the argument against the company's successful execution is most tangible in "step 3" largely due to delays in the Model X SUV. Tesla's version of "don't tell anyone" can be seen in the little to no sales and advertisement budgets for the firm.

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2. **Does Tesla have a good strategy? Why or why not? How do you know? Consider: By summer 2019, Tesla's market cap had fallen by 30 percent to $45 billion, down from $65 billion a year earlier. Many wondered: Is Tesla in trouble?**

The chapter covers this question in some detail. The firm seems set up with a compelling vision from diagnosis and also a guiding policy. The biggest question is the execution of its coherent actions in scaling up both the battery factory and the auto assembly lines in a cost-effective manner with the required high quality of products. As they expand models to include trucks, semi-trucks, and more car models, the importance of additional manufacturing capacity (like in their Shanghai giga3 factory) will be vital if they are to be successful. Tesla also needs to demonstrate that by scaling they are able to bring in consistent profits.

3. **Describe the rationale behind Tesla's new master plan. How does this new strategy help Tesla fulfill its vision? To view Tesla's "Master Plan, Part Deux" in its entirety, see Tesla's blog: www.tesla.com/blog/master-plan-part-deux.**

After a decade in electric vehicles, Tesla was ready to move to its next stage of the master plan as an integrated sustainable energy company. The acquisition of Solar City and commercialization of solar roof panels drives the clean energy generation which is stored in the "powerwall" and other types of batteries while the vehicles become exemplars of uses of the energy (including all electric semi-trucks and "cybertrucks").

4. **Apply again the three-step process for crafting a good strategy (see Section 1.1), this time to each element of the new master plan. On which steps of the new master plan has Tesla made the most progress? Explain. Also, what recommendations would you offer Elon Musk? Support your arguments and recommendations with examples and observations from the ChapterCase.**

Tesla is putting out a master plan for the long term and in concert with Mr. Musk's views on the need for sustainable clean energy sources, they have diagnosed this area as not only a business opportunity (which some question as viable) but a larger need for society. To accomplish this challenge, they have again laid out a guiding policy with coherent steps for the firm to follow. Students may argue that the self-driving capability and idea of making money from your own car is beyond the integrated energy company vision. Though Tesla inspires many people, especially the millennial and generation Z segments, profitability is still elusive and inconsistent. This is especially a concern as the aspirations of the master plan require large investments in new areas to be successful.

## DISCUSSION TOPIC

In February 2017 Tesla Motors became just Tesla. After the Solar City purchase was approved in November of 2016, the firm is repositioning itself as the "world's first vertically integrated sustainable energy company." Tesla now has solar panels and soon will have solar roof tiles for generating electricity. Then the company is making batteries for storing energy. Finally, Tesla produces cars, SUVs and has announced plans for semi-tracker trailer trucks to consume the electricity. (See "Elon Musk's Tesla Drops 'Motors' From Name."). In December 2019 Musk gave an interview to CNBC after Tesla showed a quarterly profit with Model 3 production but touting the growth planed for solar and storage



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above the growth of electric cars. (Tesla's Musk says solar, energy storage will grow faster than electric cars).

## 1.1 WHAT STRATEGY IS: GAINING AND SUSTAINING COMPETITIVE ADVANTAGE

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

LECTURE SLIDES 3 - 15

### DISCUSSION TOPIC

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.

## Strategy Highlight 1.1
## Does Twitter Have a Strategy?

Click here for a summary of the Strategy Highlight covering the application of the 3 elements of a good strategy to Twitter (hint: it doesn't look too good).

INSTRUCTOR SUPPLEMENT SLIDES 6: DOES TWITTER HAVE A STRATEGY?

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connect **INTEGRATION**

**Whiteboard Video: Role of Strategy in a Firm's Quest for Competitive Advantage**

This animated video covers strategy, which is inherently competitive, is a juxtaposition of competitive challenges and the resources that can be marshaled by the firm. This activity is important because as a manager, you must be able to articulate the role of strategy in a firm's quest for competitive advantage. The blending of military and business strategy is discussed.

✓ ***Difficulty****: Medium*



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✓ ***Blooms**: Apply*

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

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

If you chose to start the course with a sports analogy for competition and your group of students has 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. Ask students to consider what new strategies longtime industry leader ESPN could pursue, more effectively than firing talent, to combat the industry trend of customers trying to cut cable bills. (See *WSJ* article "ESPN Tightens Its Belt as Pressure on It Mounts,") 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 Netflix, Disney+, Apple Tv+, Hulu live, and Amazon Prime.

STRATEGY SMART VIDEO LECTURE

INSTRUCTOR SUPPLEMENT SLIDE 20

This slide links to a two-minute video about Nordstrom being a great place to work. This is related to the strategic trade-off discussion in the textbook.

## connect INTEGRATION

**Case Analysis: What Strategy Is: 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**: Apply*

**Follow-Up Activity**: 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.



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### Strategy Smart Video Lecture

Instructor Supplement Slide 15

This slide links to a six-minute video by Michael Porter who wrote one of the most widely read HBR articles of all time, "What Is Strategy?"

## Teacher Resource Extra:

### Small Group Exercise

Click here for a suggested small group activity around the three elements of a good strategy.

### Strategy Smart Video Lecture

Instructor Supplement Slide 16

This slide links to an eight-minute interview with renowned investor Warren Buffet. The first two minutes speak to his view of competitive advantage.

Instructor Supplement Slide 17

This slide links to a two-minute video by Michael Porter on critical aspects of good management including the importance of having the right goals for the organization.

# 1.2 STAKEHOLDER STRATEGY AND COMPETITIVE ADVANTAGE

Lecture Slides 16 - 21

LO 1-3 Assess the relationship between stakeholder strategy and sustainable competitive advantage.

### DISCUSSION TOPIC

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



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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.

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connect INTEGRATION

**Whiteboard Video: What is Competitive Advantage?**

This animated video covers competitive advantage, which is fundamentally comparative. Only through comparison can firms gain a better understanding of how well they are performing in the context of their respective markets. This activity uses a track and field race analogy to address the key concepts of competitive advantage, and it is important because competition is at the heart of business.

✓ ***Difficulty****: Medium*

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connect INTEGRATION

**Click and Drag/Multiple Choice: The AFI Strategy Framework**

This click-drag (multiple choice accessible version) activity shows students how successful strategy happens—when leaders perform these three actions interdependently. Students will identify the strategic questions that managers focus on in achieving superior performance. They will read each question and categorize it according to its task (Analysis, Formulation, or Implementation).

✓ ***Difficulty****: Medium*
✓ ***Blooms****: Apply*

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LO 1-4 Conduct a stakeholder impact analysis.

## DISCUSSION TOPIC

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's relationships with its shareholders and U.S. government agencies. Another possibility is Nestle's relationships with its shareholders, its customers, and nutrition activists. If you choose the Nestle example, you may want to



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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. 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.

## Strategy Highlight 1.2
## Merck's Stakeholder Strategy

Click here for a summary of the Strategy Highlight covering a series of strategic steps applied to Merck.

INSTRUCTOR SUPPLEMENT SLIDE 7: MERCK'S STAKEHOLDER STRATEGY

# TEACHER RESOURCE EXTRA:

## Ethical/Social Issues

Click here for some thoughts on a further discussion of stakeholder tradeoffs at Merck.

### EXAMPLES

You might want to use an example to show that firms with lax ethical values hurt more than their shareholders. Using a giant Ponzi scheme, Bernie Madoff, with the help of several employees in his investment securities firm, defrauded high-profile institutional and individual investors such as the bank HSBC, Banco Santander, Human Rights First, the International Olympic Committee, film producer and CEO of DreamWorks Animation Jeffrey Katzenberg, actor Kevin Bacon, and Nobel Peace Prize winner Elie Wiesel. Madoff's fraud totaled an estimated $65 billion. He was sentenced to 150 years imprisonment and fines of more than $170 billion. (See WSJ, "Q&A on Madoff Case." )

Businesses also have an ability to influence the ethical decisions of other organizations. The recent FIFA scandal offers a great example of this. Corporate sponsors of football (soccer) had not taken action during years of rumors of FIFA corruption, but in 2015 that changed. Coca-Cola, Emirates, Sony, and other firms have used their sponsorship dollars to make a statement about ethics and integrity. (See WSJ "FIFA Corruptions Scandal Pressures Soccer Governing Body's Sponsors.")

Wells Fargo has been plagued with ethics and legal issues such as opening thousands of fake bank accounts to artificially meet managerial goals. Real customers were sometimes charged fees from these bogus accounts and had to deal getting them closed once they discovered they existed. In response, Wells Fargo fired thousands of low-level branch workers, but observers question if the executives and managers who set up the policies leading to this fraud have been properly penalized. The firm brought in



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an outside CEO in October 2019. Charles Scharf is the fourth CEO since 2016 and the first outsider in several decades (See WSJ "Wells Fargo finally has a CEO.")

## 1.3 THE ANALYSIS, FORMULATION, IMPLEMENTATION (AFI) STRATEGY FRAMEWORK

LECTURE SLIDES 22 - 23

LO 1-5 Explain the Analysis, Formulation, Implementation (AFI) Strategy Framework.

The Analyze, Formulate and Implement framework is the organizing principle of this book. It seeks to capture the interdependent relationships needed for organizations to generate competitive advantage. The framework can help managers formulate and implement strategies that will lead to superior performance.

### EXAMPLES

You might consider using discussion of a popular movie that illustrates strategy, such as *The Martian* or *Ocean's 8*. 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.

Additionally, **MiniCase 1: Apple: What's Next?** is a good example for discussion of the elements of a good strategy. Apple has been successful in analyzing, formulating, and implementing strategy for several years as Tim Cook is building upon the guiding policies set by Steve Jobs before him. There is also a Connect® exercise available that instructors can assign for each MiniCase in the text.

### STRATEGY SMART VIDEO LECTURE

INSTRUCTOR SUPPLEMENT SLIDE 19

This slide has a link to a two-minute video of narration by Steve Jobs about his vision of the world.



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## 1.4 IMPLICATIONS FOR STRATEGIC LEADERS

INSTRUCTOR SUPPLEMENT SLIDE 9

### DISCUSSION TOPIC

A nice 14-minute video to illustrate the implications for strategists is this one by James Goth, Partner and Managing Director of BCG, Competitive Advantage. He discusses the meaning of competitive advantage and strategy.

# Strategy Highlights

## Strategy Highlight 1.1
## Does Twitter Have a Strategy?

This highlight looks at Twitter through the lens of the three elements of a good strategy. Twitter certainly faces several competitive challenges, but the firm does not seem to have a guiding policy for how to address these challenges. Coherent actions can be difficult with a clear guiding policy but in the case of Twitter the goals of the firm change frequently, and the culture of the firm is not conducive to coordinated actions. The highlight suggests that Twitter may be a takeover target if it does not find a profitable and growing business model.

## Strategy Highlight 1.2
## Merck's Stakeholder Strategy

This highlight discusses the vision of Merck and two examples of how it operates relative to this vision for the benefit of the stakeholders. Merck is applauded for major contributions to the eradication of Africa's river blindness parasitic disease. However, its actions in the case of Vioxx are more questionable. Vioxx turned out to have more severe side effects than the pain-killing remediation it was designed to attack. Though Merck did eventually voluntarily withdraw the drug from the marketplace, many question whether it should have ever pushed it out into the market with the information the firm had about side effects. Vioxx was initially a blockbuster success in the marketplace which was good for the stock owners but it turned out not to be good for the firm's customers.



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# *my*Strategy

## INSTRUCTOR SUPPLEMENT SLIDE 11: WHO ARE YOUR STAKEHOLDERS?

How do you think about accomplishing your goals? One way to strategize your success is to use a version of the stakeholder impact analysis. On a personal level, your internal stakeholders might be immediate family members and close personal friends. External stakeholders could be neighbors, peers, funding sources, and managers.

A key aspect presented in this chapter is to consider the point of view of a variety of stakeholders in meeting the goals of the firm. The same logic applies to many of your own personal or career goals as well. For instance, let's say you are close to graduating from a university. How do your stakeholders view your job and career prospects? Do they want you to stay close to home? Do they encourage you to start a new business?

As noted in the chapter, stakeholders will have different points of view and different levels of impact upon your successes or failures.

1. **List your personal goals. Which stakeholders are supportive of these goals? Which are likely to try to block these goals?**

These questions are meant to be personal but we offer a few thoughts on them. Goal setting and sharing has been shown to be a key of success for many people. Career related goals are impacted by both close relationships and those further away. Students are encouraged to write down internal stakeholders like parents and siblings and decide if each is supportive of the given goal. Then they are asked to think about teachers, coaches, friends, and parents of friends who are more like external stakeholders. Particularly important may be these external relationships that are supportive of your goal.

2. **Develop a plan to address key stakeholder concerns from each perspective. Can you find a pathway in the stakeholder analysis to build support for your key goals?**

Using the list of stakeholders above, the student can adapt the stakeholder impact analysis (exhibit 1.2) to map out supporting players and also to mitigate stakeholders who are not in favor of the goal.

3. **What would it take to implement your ideas/plans to move forward with these goals?**

Implementation needs to have both timeframe and time commitment elements for success. Saying "I will save 10 percent of my income over the next 6 months to have funds to start my own company" may be a great start. It establishes a timeframe. But from the commitment perspective, what will you be giving up to save that extra money? If you have not previously been able to save funds from your paycheck, what behaviors will be different going forward to make this goal achievable? Who on your stakeholder list can be most helpful in achieving this goal?



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# Discussion Questions

1. **The text discusses strategic trade-offs that are different between Walmart and Nordstrom even though they are in the same industry. Think of another industry that you know fairly well and select two firms there that also have made very different choices for these trade-offs. Describe some of the differences between these firms. What type of trade-off decisions have these firms made?**

Tesla and GM would be an example building on other firms discussed in this chapter. It should be clear to the students that these firms are making quite different decisions regarding their strategies and resources. Restaurants are often a fertile ground for student discussions as well. A local high-end steak restaurant versus a chain like Applebee's for example should yield a number of differences in company decisions that would be enlightening to think about.

2. **Corporate social responsibility has four components. Do you agree that public firms should address all four elements? Why or why not? If not, where should the firm "draw the line?" Please provide an example to explain your logic.**

The Friedman view of the stockholder (owner) purpose of a firm, has come under increasing scrutiny in recent years. A variety of business organizations, individual firms, and major investors are raising issues of societal equity and health of the planet rather than strictly optimizing shareholder returns. Student views are likely to reflect this broader dialogue about the role of the firm in the 21st century.

3. **In the discussion about Merck (Strategy Highlight 1.2), the firm faces difficult situations about life-saving drugs. What is your assessment of Merck's consideration of various stakeholders in the two situations described?**

The chapter argues that the river blindness case was Merck at its best in reflecting the founder and company values. The Vioxx case is murkier. Students may want to do some additional internet searches about this incident before a class discussion. Nearly all will agree in the importance of the customer as a stakeholder, certainly for the long-term health of the business. In the case of Vioxx it may be the short-term focus on stockholders overwhelmed the longer-term benefits of the customer.



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# TRM Extra: Ethical/Social Questions

1. **In the discussion about Merck (Strategy Highlight 1.2) it is clear the firm has followed a socially responsible path by donating more than 1 billion drug treatments to remedy river blindness in remote African communities. Yet Merck must also meet shareholder responsibilities and make profits on drugs in use in more affluent societies. How should a responsible firm make these trade-offs? What steps can strategic leaders take to guide organizations on these challenging issues?**

This is an excellent topic for an in-depth class exercise on ethical considerations in strategy. If your course requires an assessment on ethics and social responsibility, then you could require the students to write a position paper recommending a strategy position for Merck on pricing of critical drugs in impoverished regions, that addresses both patient needs and firm profit objectives. Some aspect of short-term and long-term view is helpful to keep in mind also for such trade-offs. Such an assignment could be used either in an online course or a classroom setting.

# TRM Extra: Small Group Activity

1. **The chapter applies the three elements of a good strategy to Tesla for insights into the company's possible competitive advantage. As a group, choose a different firm that is well known to the students. Assign the competitive challenges and company guiding policies and search the internet for information about the firm's actions. As a group, discuss key actions the firm has taken and decide if they seem to be coherent. Does the firm demonstrate measures of a competitive advantage? If yes, does it look to be sustainable?**

Students should choose a public company they know pretty well and have access to the internet to look up information about the firm to be able to give a reasonable answer to this question. The group will want to look up the key success factors for the firm from either the website or a recent annual report. Have the students move through each of the three steps in the good strategy methodology to reach a conclusion about how the firm is positioned. They should be on the lookout for some of the bad strategy elements such as "grandiose statements" while they are researching the firm.

# Related MiniCases

Instructors may want to consider assigning and discussing any of the following MiniCase that covers topics found in this chapter. All MiniCases have assignable McGraw-Hill Connect® case questions available.

MiniCase 1: Apple: What's Next?



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