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 fourth 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. Where the activities are related to program-level learning objectives established by AACSB 2015 Standard 9, the learning objective has been identified for you.

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
* Strategy Term Project
* 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:
	1. *Lecture* slides cover chapter concepts and exhibits.
	2. *Supplemental Lecture* slides cover:
		1. ChapterCases
		2. Strategy Highlights
		3. Implications for Strategic Leaders
		4. End-of-chapter myStrategy and Small Group Exercises
		5. Take-Away Concepts
		6. Key Terms
		7. Strategy Smart Video selections (not part of the book, but an additional resource found here)
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, Moodle, Desire2Learn, and Sakai
* Highly customizable formatting and editing option
1. **Create**™ **Case Support** (all cases are available in Create™ and selected ones in HBS)
	1. A *case matrix* that identifies the industry sector covered by each case, as well as the primary and secondary chapter alignments
	2. One-page *case abstract* for quick overview of each case
	3. *Case Teaching Notes* for instructor use only
	4. *Case Financials* in Excel files for the exhibit data in the most popular cases
	5. *Case Strategic Financial Analysis* template
	6. Instructions on *How to Download SEC Financial Data into Excel Spreadsheets*
2. **MiniCase Support** (all MiniCases are located in Part Four of the book)
	1. *MiniCase Matrix* that identifies chapter alignment
	2. *MiniCase Teaching Notes* comprising suggested answers to the MiniCases discussion questions. In some instance, they also provide specific additional article and video resources to accompany each MiniCase.
3. **Strategy Term Project**
	1. *Modules* for students on how to conduct a strategic management analysis of a company of their choosing; there is one module per chapter so that students can build upon their analysis and tie each section of their analysis to specific chapter concepts.
	2. *Running Case Teaching Notes* that cover the strategy term project found in Connect®. HP is used as the example firm to demonstrate how pieces of the term project align with each chapter.
4. **Video Resources**
	1. The *Video Grid* *and Guide* provides links to supplemental video resources to accompany both the MiniCases and full-length Create™ cases.
	2. The *Video Library* provides links to all the assignable videos in Connect®.
5. A link to ***Capsim’s Capstone* *Simulation*** is provided; this simulation allows students to apply their knowledge of key strategy concepts.



# **How can SmartBook® enhance my students’ performance?**

The LearnSmart®-powered **SmartBook®** isassignable 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 for them a personalized learning experience, giving them 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 the quizzes results for your students
* 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.

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% | 12% |
| 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. The **Case SFA** provides assignable key ratio comparisons for the Create™-only full-length cases available with the textbook. These require the student to analyze the case financial statements and calculate answers to several ratios in the spreadsheet. The Case SFAs engage students’ financial analysis skills—skills many professors have identified as requiring more practice among their students.
3. **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).
4. **Case Exercises**, which are new to this edition of *Strategic Management*, focus 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: Amazon, Apple, BestBuy, Facebook, McDonald’s, and Tesla.

**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>

# **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.

CHAPTER 1

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 Describe the roles of vision, mission, and values in a firm’s strategy.

LO 1-4 Evaluate the strategic implications of product-oriented and customer-oriented vision statements.

LO 1-5 Justify why anchoring a firm in ethical core values is essential for long-term success.

LO 1-6 Explain the 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.

Chapter**Case 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 3-5

Discussion Topics

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 they are making batteries for storing energy. Finally, they produce cars, SUVs and have announced plans to semi-tracker trailer truck to consume the electricity. (See “[Elon Musk’s Tesla Drops ‘Motors’ From Name](https://www.wsj.com/articles/elon-musks-tesla-drops-motors-from-name-1485962012),” *The Wall Street Journal,* February 1, 2017.)

Consider This Discussion Questions

Instructor Supplement Slide 6

1. **Do you agree with the assessment that Elon Musk and Tesla successfully fulfilled their first master plan published in 2006? Why or why not? Buttress your arguments.**

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

1. **As of today, does Tesla have a good strategy? Why or why not? How do you know?**

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 their 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.

1. **Describe the rationale behind Tesla’s new master plan. How does this new strategy help Tesla fulfill its vision? “Master Plan, Part Deux” in its entirety is on Tesla’s blog:**[**https://www.tesla.com/blog/master-plan-part-deux**](https://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 semi-trucks as announced in the fall of 2017).

1. **Apply the three-step process for crafting a good strategy outlined in the chapter (diagnose the competitive challenge, derive a guiding policy, and implement a set of coherent actions) to each element of the new master plan. On which steps of the new master plan has Tesla made the most progress? Explain. Also, which recommendations would you have for Elon Musk? Support your arguments with examples and observations.**

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 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.

Strategy Smart Video

Instructor Supplement Slide 30

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

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 4–9

Discussion Topics

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.

* AACSB 2015 Standard 9 Integrating knowledge across fields

 INTEGRATION

Whiteboard Animation: 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
* **Blooms**: Apply
* **AACSB**: Analytics

 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.

**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.

* **Difficulty**: Medium
* **Blooms**: Evaluate
* **AACSB**: Analytic

Strategy Smart Video

Instructor Supplement Slide 31

This slide links to a two-minute video by Michael Porter who wrote one of the most widely read HBR articles of all time, “What is Strategy?”

End of Chapter **Small Group Exercise 1**

Instructor Supplement Slide 19

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.

Strategy Smart Video

Instructor Supplement Slide 32

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

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

Lecture Slides 10-17

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.

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),” *The Wall Street Journal*, July 10, 2015.) 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

Whiteboard Animation: What Is Competitive Advantage?

This animated video 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
* **Blooms**: Apply
* **AACSB**: Analytics

Discussion Topic

For more advanced classes *McKinsey Quarterly*, September 2015 offers a video interview, “[Capturing Southeast Asia’s Financial System Opportunity.](http://www.mckinsey.com/videos/video?vid=4492848494001&plyrid=2399849255001&Height=270&Width=480)” 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.

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)” (August 30, 2013), 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

Strategy Smart Video

Instructor Supplement Slide 33

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 Vision, Mission, and Values

LO1-3 Describe the roles of vision, mission, and values in a firm’s strategy.

Lecture Slides 18-22

Building a great company has some similarities to building a great house. Using this analogy to start the chapter should resonate for many students. It is a helpful way to introduce the idea of vision and yet still tie it to something tangible that must be implemented (building that great new home).

Examples

Stanford University’s [Leadership in Focus](https://www.leadershipinfocus.net) center offers great materials for the classroom. Although the emphasis is on leadership and organizational behavior, several of the cases are well suited to a strategy course. One option that fits in well in this section is a video case of Roger Deromedi, Kraft CEO, describing the process of [developing a vision](https://www.leadershipinfocus.net/presentations/212/play/) for the firm. (URL is [https://www.leadershipinfocus.net/presentations/212/play/.)](https://www.leadershipinfocus.net/presentations/212/play/.%29) It includes suggested discussion questions.

Many years ago, Intel recognized that their mission of focusing on memory chips was made obsolete by industry evolution and they shifted to microprocessor chips for large computers, servers, desktops, and later laptops (see Chapter 3, Learning Objective 3-5 for an opportunity to revisit this example). Now a rapid consumer shift to mobile devices is making adherence to that mission both less profitable and riskier. Both Intel and its rival AMD are experiencing profit downturns. AMD seems to be taking strategic actions to engineer a turnaround during the market shift while retaining the same mission and vision (see “[AMD Cuts 5% of Workforce](https://www.wsj.com/articles/amd-to-restructure-and-cut-5-of-workforce-1443732224),” *The Wall Street Journal*, October 1, 2015and “[AMD Reports a Loss of 26% on Revenue Decline](http://www.wsj.com/articles/amd-reports-a-loss-but-revenue-down-less-than-expected-1444943539),” *The Wall Street Journal, October 15, 2015*). Intel’s CEO, Brian Krzanich, in contrast, appears to be changing the firm’s mission and strategic vision to focus on the “Internet of Things” (see “[Intel CEO Sccelerates Shift from PCs](http://www.wsj.com/articles/intel-ceo-accelerates-shift-from-pcs-1433201084),” *The Wall Street Journal*, June 2, 2015).

Discussion Topics

Currently, Chinese companies such as [Baidu](http://www.baidu.com/), [BYD](http://www.byd.com/), and [Lenovo](http://www.lenovo.com/) aspire to world leadership. These companies set their ambitious goals when they were only a fraction of the size of the companies they were chasing. Indeed, they were so small that initially the market leaders did not even recognize them as potential competitors; many had never competed outside their domestic markets. Yet all made global leadership their mission, with goals so ambitious they exceeded the firms’ existing resources and capabilities by a large margin. Ask students to identify what challenges these firms needed to overcome and how they might measure success.

 INTEGRATION

Video Case: The Power of a Mission: Christine Benninger, President Humane Society of Silicon Valley

This video case analysis provides students an opportunity to consider the value of a strong vision and mission in attracting talented staff and rebuilding an organization. This video is less than five minutes long and has four embedded questions contained in it.

**Video Case Tips:** We suggest setting the “attempts” policy to “revise the previous attempt” for video cases. This enables students to watch parts of the video and edit their answers without needing to watch the entire video again for each attempt at the questions. Note the video stops at the questions and the student must enter an answer for it to proceed.

**Follow-Up Activity:** The instructor can expand on the concepts in this video case by discussing how this nonprofit changed the products and services it provided in order to *survive* and thus serve its customers (the pet adopting families) better in the long-run. This may also be a starting point for a discussion of the contrasts between impactful vision statements at nonprofits such as Teach for America and the Humane Society versus the for-profit firms’ vision statements shown in the textbook.

* **Difficulty**: Medium
* **Blooms**: Apply
* **AACSB**: Analytic

Strategy Smart Video

Instructor Supplement Slide 34

This slide links to a less than two-minute video of Steve Jobs and a bit about his vision of the world.

Strategy Highlight 1.1

Instructor Supplement Slides 8-9: Teach for America: How Wendy Kopp Inspires Future Leaders

Education is a subject most students will readily relate to. An example of an organization with an inspiring vision is Teach for America. While some question the long-term effectiveness of Ivy League students teaching in blighted urban areas or impoverished rural areas for two years, there is no doubt that the organization is quite successful in terms of its ability to recruit a large pool of applicants each year and to generate passion. One of the interesting notes at the website is that the program has over 20,000 alumni and 67 percent of them are still in the educational field (and half of those are teachers in the classroom). Inspiring visions and missions (such as TFA’s) provide intrinsic motivations for employees and customers alike.

End of Chapter **Small Group Exercise 2**

Instructor Supplement Slide 20

1. Strategy Highlight 1.1 discusses the importance of the inspiring vision developed at Teach for America. In your group search the internet for other nonprofit organizations (Red Cross, Habitat for Humanity, etc.). Which of them has vision or mission statements that are appealing to donors, employees, and clients? Do these statements seem relevant in today’s environment or are they outdated? What improvements can you create for these organizational statements?

If students are not familiar with nonprofit organizations you may want to offer Red Cross, The Humane Society (relevant to a Connect® chapter exercise) or Habit for Humanity as examples of national organizations. Ask the students to consider if the mission statement speaks to them or seems more like something their parents or grandparents might connect with.

 INTEGRATION

Whiteboard Animation: The Strategic Decision Process

This animated video covers reviews the roles of vision, mission, and values in the strategic management and decision processes. Climbing Mount Everest is a key example discussed as an application of mission, vision and values.

* **Difficulty**: Medium
* **Blooms**: Apply
* **AACSB**: Analytics

LO1-4 Evaluate the strategic implications of product-oriented and customer-oriented vision statements.

Lecture Slides 23-26

Although a product-centric view can potentially limit a company’s strategic options, it can also help a company to refocus. [Shell](http://www.shell.com/) Canada provides an example of how dealing with the question, “What are we about?” led to a refocusing of the company and as a consequence, superior performance. Although the majority owner was Royal Dutch Shell, Shell Canada was more or less independent; its shares were traded on the Toronto Stock Exchange. In the 1980s, Shell Canada was a widely diversified business with interests not only in oil and gas exploration and distribution, but also in activities ranging from chemicals to forestry. Although it had performance comparable to the industry average, Shell Canada’s executives began to focus on the firm’s mission during this time. After some soul searching, the company’s managers realized that Shell Canada was at its heart a low-cost producer of oil and gas. With this new clarity of mission, Shell Canada began to sell off its peripheral businesses to refocus on oil and gas. In 2007, Royal Dutch Shell bought, at a cost of $8.7 billion, the remaining 22 percent of shares that it didn’t already own. By refocusing on oil and gas, Shell Canada was able to apply its core competency to increase the value created for customers, and to do this at a low cost. Its mission statement helped Shell Canada focus on the activities that yielded the greatest returns.

Strategy Smart Video

Instructor Supplement Slide 35

This slide links to a less than three-minute video of several well-known brands and their respective vision statements.

End of Chapter **Ethical/Social Issues 2**

**2. The list below shows a sample of various vision/mission statements. Match the company with its corresponding statement. Also identify whether the statements are principally customer-oriented or product-oriented.**

**Below is the answer key for the chapter matching questions.**

|  |  |  |
| --- | --- | --- |
| Vision/Mission Statement | Type of Statement | Company |
| To be our customers’ favorite place and way to eat and drink. | Customer | McDonald’s |
| To supply the consumer and our customers with the finest, high-quality products. | Customer | Dole Foods |
| To help women feel great about themselves and their potential. | Customer | Spanx |
| To provide a global trading platform where practically anyone can trade practically anything. | Customer | eBay |
| To operate the best omni-channel specialty retail business in America. | Product | Barnes & Noble’s |
| To be financially successful through great people consistently delivering outstanding food, drinks, and service in an inviting atmosphere. | Product | Darden Restaurants |
| To be America’s best run, most profitable automotive retailer. | Product | AutoNation |
| Bringing the best to everyone we touch and being the best in everything we do. | Customer | Estee Lauder |
| To develop the social infrastructure to give people the power to build a global community that works for all of us. | Customer | Facebook |
| To give everyone the power to create and share ideas and information instantly, without barriers. | Customer | Twitter |
| To be the best worldwide provider of higher-value staffing services and the center for quality employment opportunities. | Product | Manpower |
| To sell food in a fast, friendly environment that appeals to price conscious, health-minded consumers. | Product | KFC |
| To build the future infrastructure of commerce. | Product | Alibaba |

LO1-5 Justify why anchoring a firm in ethical core values is imperative for long-term success.

Lecture Slide 28

Strategy Smart Video

Instructor Supplement Slide 37

This slide links to a two-minute video of the cultural values of Nordstrom’s, a firm perennially on the “best places to work” lists in the United States.

Discussion Topics

What responsibility do lower-level executives at Enron bear for not reporting questionable practices by the firms’ leadership? Why do you think only one employee initially came forward to report the irregularities and help with the investigation? Lower-level executives have an ethical responsibility to report questionable practices, beginning by questioning the authority, and moving outside the company if necessary. We don’t know how many employees really knew about the fraud underway at Enron versus how many “just heard rumors.” Still with over 20,000 employees at Enron, and another 30,000 at Arthur Anderson, it is clear some people knew and did nothing about it. Whistle-blowing is a difficult choice and there are many factors to consider, but the fact that so few came forward says that the actions were in alignment with the values and culture of the firm actually practiced, even if it was at odds with their stated values.

* AACSB 2015 Standard 9 Ethical understanding and reasoning

Strategy Highlight 1.2

Instructor Supplement Slides 10-11: Merck: Reconfirming Its Core Values

Merck illustrates how a firm’s values define both what it should do and what it should not do. This strategy highlight offers the opportunity to illustrate that a firm’s strategy is—and should be—constrained by its core values. These values guide a firm on strategies on which it should embark and strategies that it should avoid or abandon. It also does a nice job of illustrating that strategic planning involves many decisions that are legal but may not conform to the firm’s ethical values.

End of Chapter **Ethical/Social Issues 1**

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?**

The connection that we want students to make is to link strategy development back to the direction provided by the firm’s vision, mission, and values. The firm’s values should constrain the firm’s actions to the way that the firm wants to do business. The vision and mission should offer directional guidance of what to do AND what not to do. More detailed guidelines should also be offered to managers at various levels throughout the company to provide clear frames of reference on overall strategic goals to provide a context for decision making. Leaders also need to create a firm culture that supports the values. Selection and retention of employees needs to reinforce these cultural values.

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. Such an assignment could be used either in an online course or a classroom setting.

* AACSB 2015 Standard 9 Ethical understanding and reasoning

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. (“[Q&A on Madoff Case](https://www.wsj.com/articles/SB123005811322430633),” *The Wall Street Journal*, March 12, 2009.)

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 “[FIFA Corruptions Scandal Pressures Soccer Governing Body’s Sponsors](http://www.wsj.com/articles/scandal-in-world-soccer-pressures-sponsors-1432861411),” *The Wall Street Journal*, May 31, 2015*.*)

A Stanford University video case addresses making ethical decisions. Michael Marks, former Chairman and CEO of Flextronics discusses such a decision in “[Right, Wrong, or Just Business](https://www.leadershipinfocus.net/presentations/378/play/)?”

1.3 Explain the AFI strategy framework.

Lecture Slides 29-35

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 [*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.

1.4 Implications for Strategic Leaders

Instructor Supplement Slides 13-16

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](https://www.youtube.com/watch?v=bfRp9PhPDME). He discusses the meaning of competitive advantage and strategy.

* AACSB 2015 Standard 9 Thinking creatively and Application of knowledge

Related **MiniCase**

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

Minicase 1: Michael Phelps: The Role of Strategy in Olympics and Business

End of Chapter **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?

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).” *The Wall Street Journal*, September 3, 2015). 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.

1. **What characteristics does an effective mission statement have?**

A mission statement describes what a company does and why it does it. A clear and compelling mission statement can assist the company in reaching for stretch goals. The mission statement in most organizations should be customer-oriented. Customer-oriented defines the mission in terms of solutions for customer needs. An example would be [Disney](http://www.thewaltdisneycompany.com/)’s (“Make people happy”). Product-oriented defines the business in terms of goods or services provided. Examples here would be [CSX](http://www.csx.com/) (“the safest, most progressive North American railroad”) and [Intel](http://www.intel.com/)’s mission from 2000 (“the preeminent building-block supplier to the Internet economy”). Students will see the basic differences in customer and product orientations fairly quickly. However, they don’t always see the difference between a customer-oriented mission and listening to the customer. We use the Henry Ford “horse and buggy” example, but sometimes students want something more contemporary. An additional example we’ve used is Steve Jobs at [Apple](http://livepage.apple.com/). Until the innovation of MP3 players (and especially the iPod), customers never knew they needed our entire music collection to carry around with them in their pockets!

1. **The “job to do” approach discussed with the Clayton Christensen milk-shake example can be useful in a variety of settings. Even when we are the customers ourselves we don’t always look for better solutions because we get into routines and habits. Think about a situation you sometimes find frustrating in your own life or one you hear others complaining about frequently. Instead of focusing on the annoyance, can you take a step back and look for the real job that needed doing when the frustration occurred? What other options can be developed to “do the job” that may lead to less irritation in these situations?**

Many students will bring work experience to the classroom and this can present some opportunities for discussion about frustrations but really anyone can take this perspective. The founder of Kinko’s got tired of standing in line to make copies while he was in college, so he found a way to rent some copy machines and opened a small storefront that went nationwide before selling to FedEx. The founders of Google just wanted to make a search engine that would be useful on the burgeoning internet. Airbnb was started because the founders needed to pay the rent and had some air mattresses they decided to rent out on a web-site to strangers coming to town for a convention.

 INTEGRATION

HP Running Case: Module 1

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.

Strategy Term Project: Initial Firm Selection & Review

Term Project Module 1

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.

*my*Strategy

Instructor Supplement Slide 18: How Much Are Your Values Worth to You?

Here, we encourage the student to take what he/she has learned about competitive advantage and apply it to his/her personal career. Encourage students to spend a few minutes looking at themselves to discover their own competitive advantages.

* AACSB 2015 Standard 9 Reflective thinking (able to understand oneself in the context of society)
1. **Identify your personal values. How do you expect these values to affect your work life or your career choice?**

These questions are meant to be personal but we offer a few thoughts on them. Values should play some part, but it is not likely to be the most important influence. If your only goal is to become 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 to worry solely about market growth (industry effects).

1. **How much less salary would (did) you accept to find employment with a company that is aligned with your values?**

Studies have shown that once workers get above a certain “pay the bills” space financially, intrinsic rewards often become more important than money. We have found a wide variance of answers when we have run this exercise in our classes.

1. **How much are you willing to “pay for pay” if your dream job is in management consulting or investment banking?**

Encourage students to consider work/family life balance and recognize the implications of long hours and extensive travel that usually accompany high-paying jobs.