

CHAPTER 1

WHAT IS STRATEGY AND WHY IS IT IMPORTANT?



CHAPTER OUTLINE

Chapter Case

Apple: Once the World's
Most Valuable Company

1.1 What Strategy Is: Gaining and Sustaining Competitive Advantage

1.2 Stakeholders and Competitive Advantage

1.3 AFI Framework

1.4 Implications for the Strategist

Strategy Term Project

my STRATEGY

Overview

This chapter begins to set the stage for the rest of the semester. Here we introduce the concepts of strategy and competitive advantage. The opening Chapter Case on Apple offers a fruitful field for exploring the challenges of gaining and sustaining a competitive advantage. We elaborate on these concepts by defining the elements of a good strategy and introducing the role business-level strategy plays in positioning a firm for competitive advantage in its industry. A Strategy Highlight illustrates this point using JetBlue as an example of the risks of becoming “stuck in the middle.” We then introduce industry-level concepts with a discussion of firm vs. industry effects on firm performance.

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

Finally, we describe the strategic management model around which the book is organized: the Analyze, Formulate, and Implement (AFI) framework. Chapters 1 and 2 comprise the “Analysis: Getting Started” portion of the framework.

Learning Objectives

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

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

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

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

LO 1-5 Conduct a stakeholder analysis.

INTRODUCTION

Discussion Topics

What enables some firms to gain and then sustain their competitive advantage over time? Why do once-great firms fail? How can a firm's managers influence performance? Strategic management is the integrative management field that combines analysis, formulation, and implementation in the quest for competitive advantage.

Many students will relate to strategy through sports analogies. You may want to start the course by discussing the contrast between a powerful sports dynasty and its weaker competitors. In the U.S., compare the Yankees to the Cubs. Why does U Conn appear in the NCAA Men's and Women's Basketball Final Four so frequently? In other countries, you might compare Man U or Real Madrid to your local football club or discuss Red Bull's ability 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?

Another option could be a brief discussion of the game of chess. In chess, the best position is relative to the placement of your opponent's pieces. You also need to think about where your opponent may be moving the pieces in the future. In the firm, strategy will entail allocating resources in a manner that positions your firm well compared to competitors both today and in the future.

Exercises

If you plan to have a number of team assignments in your course, you may want to do an ice-breaker activity that allows students to get to know each other. One such exercise is "Hidden Diversity." Students are asked to stand up, then the instructor quickly goes through a list of invisible sources of diversity, such as number of siblings, marital/dating status, number of languages spoken, work schedule, favorite place to do homework, generation in U.S., major, etc. After you name each category, send students to different corners of the room by group. For example, only child—front left; one sibling—front right; two siblings—back left; three siblings—center, etc. This exercise gets students moving around and can uncover important commonalities for team formation, such as work schedule. It also accentuates the point that there are many more types of diversity than the racial, height, and other differences that we can see. **AACSB 2013 Standard 9 Diverse and multicultural work environments (able to work effectively in diverse environments)**

CHAPTER CASE

This brief case is designed to engage the student's attention and discuss how a firm can gain competitive advantage through successful strategy formulation and implementation.

In the "Consider This" section at the end of the chapter, we see how a slowdown in forward momentum can cause a firm to lose ground to rivals.

Exercises

Students will be familiar with Apple and its battle with Android in the smartphone business. You might want to open by taking a poll on who has Apple phones, Android, Microsoft, or BlackBerry phones. Explore that further by asking how many students have ever switched from an Apple phone to a different operating system compared to how many have switched from a different operating system to an Apple. This opens the floor for a discussion of sources of competitive advantage.

If you want to extend the discussion with another illustration, consider [Dell](#), once the undisputed leader in personal computers, now outpaced by Lenovo and HP. The Dell example is more complex than Apple. Apple is competing against Samsung with similar strategies. Dell is being squeezed on the bottom end by cost leadership strategies by Asian firms and on the top by greater innovation and broader services options by HP. You could use this example as an introduction and then return to it in the section on competitive advantage. (See "[Dell profit falls 72%; Sales flat.](#)" *The Wall Street Journal*, August 15, 2013.) What were the keys to Dell's success in the past? In what ways did the competitive environment change? Why did Dell lose ground to its rivals?

Consider This Discussion Questions

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

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

Apply the three-step process for developing a good strategy outlined earlier (diagnose the competitive challenge, derive a guiding policy, and implement a set of coherent actions) to Apple's situation today. Which recommendations would you have for Apple to outperform its competitors in the future? Use this question to transition from the past to the present and future. Is [Apple](#) facing increased pressure because the market for phones and tablets is becoming structurally less profitable or because they are losing competitive position versus Samsung and others? Depending on where the discussion goes in this analysis phase, develop alternative strategies to (a) react to industry changes or (b) out-innovate [Samsung](#). Solutions for (a) might include supply chain management or design strategies to reduce cost structure. Solutions for (b) might include increased R&D, adding new features, or re-imagining the category. Some implementation strategies might include bringing in new executives to reinvigorate the innovation climate or redesigning the organization structure to be more product-based, rather than functional. **AACSB 2013 Standard 9 Thinking creatively and Making sound decisions and exercising good judgment under uncertainty**

Do you think it is so hard to not only gain, but also to sustain a competitive advantage? At this early point in the course, it is unreasonable to expect the students to have opinions on this matter that are well-grounded in theory, but it is a good opportunity to get them thinking about resources that are more durable and less imitable and capabilities that are dynamic, allowing the firm to respond quickly to competitive advantage.

1.1 WHAT STRATEGY IS: GAINING AND SUSTAINING COMPETITIVE ADVANTAGE

What is Strategy? [LO 1-1]

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.

You might enjoy opening this discussion with a humorous video. One possibility is [NASCAR coach reveals winning strategy: Drive Fast](#).

The underlying assumptions about competitive positions and resources are very important in creating forward-looking strategies. Whether you choose to talk about this subject using Walmart, the auto industry, or PDAs, we hope you will bring it up in class. If you choose to highlight the Apple Newton example, here is a link to a three-minute video by Jeff Hawkins who was founder and CEO of Palm at the time they released the PalmPilot (<http://stanford.io/TJlmm>). Discuss how a strategy differs from a business model. How is it similar? A strategy is the ideas that managers attempt to put into practice. A business model is how the managers translate the strategy into working practices. The business model should be grounded in the strategy of the firm. A business model, however, is more “putting strategy into action.” Thus, a single strategy could exploit several different business models for the firm.

Students often come into the class confused about what is a strategy and what is not. Many areas now use the term “strategy,” and students have likely heard it in many other courses (IT strategy, Strategic HR, Marketing Strategy, and so on). It is worth spending a few minutes on this discussion, particularly on the “effectiveness” items. The classic read on this subject is Michael Porter’s (1996), “What is strategy?” *Harvard Business Review*, November–December: 61–78.

End of Chapter Discussion Question 4

Choose an industry with a clear leader, then examine the differences between the leader and one or two of the other competitors in the industry. How do the strategies differ? What has the leader done differently? Or what different things has the leader done? 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 vs. Pepsi in the soft drink (especially attractive if you are using a Cola Wars case in your course), [Barnes & Noble](#) vs. [Amazon](#) in the textbook industry, or [McDonald’s](#) vs. [Wendy’s](#) in quick service restaurants. Students will have a natural tendency to fall into the trap of basing their assessment of competitive advantage on the consumer preferences of a sample size of one (themselves). You can use this discussion to emphasize strategic management as a firm-level discipline in which all methods of measuring competitive advantage depend, at least in part, on firm profitability. You can also use this exercise to bring out the issue of the difference between a cost leadership position and low prices to the consumer to point out that low revenue cannot lead to competitive advantage unless it is matched by even lower cost and expense.

AACSB 2013 Standard 9 Financial theories, analysis, reporting, and markets

1.1 WHAT STRATEGY IS: GAINING AND SUSTAINING COMPETITIVE ADVANTAGE

What Is Competitive Advantage? [LO 1-2]

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.

Discussion Topics

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

Consider [Microsoft](#)’s recent efforts to launch the Surface tablet and to buy Nokia’s cell phone business and [Google](#)’s recent acquisition of Motorola’s cell phone business. Although Microsoft and Google still have very small market shares

compared to Apple and Samsung, how should Apple address this potential threat? We suggest splitting the class in half for this exercise and then forming small groups of 3 – 4 students. One half of the small groups will be Apple and the other half will be [Samsung](#). After the small groups have five or so minutes to discuss the issue, the class returns to normal, and through discussion, brings out the high points of each firm. The students should identify that Samsung's dependence on open software gives it less protection against these new rivals in hardware. They may also note that more robust application development ecosystems provide at least a temporary protection against Microsoft.

[Threadless](#) is an example of a firm building on its customer base through crowdsourcing to use new products and also participate in the design and vetting of popular designs. The firm invites its customers to submit designs for t-shirts. In the summer of 2010, Dell Computer announced a partnership with Threadless for designs on its laptop computers. For a small additional fee (and an extra day's delay in shipping), you can get a Threadless design etched on your new Dell laptop. Why do you think Dell is keen on offering this service? What other firms use this crowdsourcing technique to achieve competitive advantage? Where else might this type of business model show up in the future? How durable is a competitive advantage derived from crowdsourcing? Students could say Dell is keen on offering this service because it provides differentiation, and hopefully a competitive advantage. Dell is able to tap into a community of talented online designers and try to regain some market share with a younger demographic at the same time. Crowdsourcing is becoming more and more popular and widely accepted. A well-known example is Wikipedia, which has become a giant crowdsourced encyclopedia. Threadless specifically has partnered with Thermos for lunch box designs and Griffin for smartphone cases. One area where it would not be surprising to see this type of crowdsourcing is in video games. An enterprising company could ask for ideas, perhaps from many fans, to create a new game that would fit the desires of many of their customers. Students may cite Lego as a firm that is letting customers submit their own designs and then produces them as the demand is generated, or they may just provide the parts for the custom design back to the client. [AACSB 2013 Standard 9 Information technology and statistics/quantitative methods impacts on business practices to include data creation, data sharing, data analytics, data mining, data reporting, and storage between and across organizations including related ethical issues](#)

End of Chapter Group Exercise 2

Strategy Highlight 1.1

JetBlue: "Stuck in the Middle"?

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

1.1 WHAT STRATEGY IS: GAINING AND SUSTAINING COMPETITIVE ADVANTAGE

Industry and Firm Effects in Determining Competitive Advantage [LO 1-3]

Discussion Topics

Industry effects describe the underlying economic structure of the industry. Firm effects, or the actions managers take, tend to be more important in determining firm performance. Since this is a strategy class, it's good to know the decisions that managers make can have significant (good or bad) impacts on the firm. Industry and firm effects are INTERDEPENDENT. Firms can create or influence the structure of their industry. You may want to bring in some background here and mention

that if we were in the perfectly competitive environment often used in economics, strategy would not be important. In a perfectly competitive market, all the firms are identical and therefore none have superior performance relative to the rest. Perfect markets though do make the math easier for us to get through those econ courses.

Given that traditional U.S. firms such as [IBM](#) have over 70 percent of their employees and over 60 percent of their revenues outside the United States (in 2009), what is an appropriate definition of a “U.S. firm”? Is there any special consideration a firm should have for its “home country”? A “U.S. firm” typically will have its headquarters inside the U.S. So where the CEO and senior leaders are located is the “home” of the firm. Historically, where the company is incorporated and what stock market its shares are listed on have also been used to denote a home country firm. In today’s “flatter world,” the senior officers of large firms may not all be in the same country. Some traditionally U.S. firms such as Accenture, Tyco, and Ingersoll-Rand have moved their incorporation to places like Bermuda, the Cayman Islands, or Ireland, largely for tax reasons, though all still maintain their senior offices largely in the U.S. A home country in most corporations still carries significant influence in the organization, structure, and culture of the firm. However, in a global economy, the corporation must make decisions based on what is best for the variety of stakeholders. Hiring and investment decisions are made relative to the competitive environment and often only limited consideration is given to the home country ahead of other locales for investment and the growth of the firm. [AACSB 2013 Standard 9 Managing in a global context](#)

End of Chapter Discussion Question 3

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

1.2 STAKEHOLDERS AND COMPETITIVE ADVANTAGE

Black Swan Events

Discussion Topics

Companies with successful strategies generate value for society. Black swan events are highly improbable, high-impact events. Some recent black swan events have eroded the public’s trust in business as an institution. Tap into the students’ very real experience of the impacts of the recent financial crisis on society and its trust in business institutions. How has their trust in the financial system changed? What impacts might a loss of trust have on financial firms’ ability to operate? (See “[Life on Wall Street grows less risky](#),” *The Wall Street Journal*, 9/9/13.)

End of Chapter Group Exercise 1

Students in New Jersey, Louisiana, Texas, Japan, and other areas around the world that have recently experienced natural disasters will be able to relate to this topic. This exercise can be used to push students to address this problem from the perspective of a senior leader, such as a mayor, a governor, or the head of FEMA, rather than an individual person or one functional discipline. Before breaking the students into small groups for discussion, you might want to work as a large group to identify a list of critical social needs that must be met during a crisis. Then, to lead into a discussion of the role of business in society, you might want to start a discussion on how business needs during a black swan event might differ from societal needs, but may be critical to meeting societal needs. For example, businesses need backup IT systems to keep their supply chain and production operational. Without this, they may be unable to deliver vital goods, such as food or energy. [AACSB 2013 standard 9 Social responsibility, including sustainability, and ethical behavior and approaches to management](#)

End of Chapter Discussion Question 2

Strategy Highlight 1.2

BP: “Lacking business integrity”?

The BP Horizon environmental disaster shows the consequences of failure to live up to the expectations of society for corporate social responsibility. One might argue that they were effective in responding to stakeholder concerns after the fact, by setting up processes for rapid payment of claims, supporting fishing communities, and running advertisements for tourism. Others will fault their performance after the fact, arguing that the CEO at the time was too standoffish and that the firm took too long to recognize and solve the technical issues and stop the leak. You might invite students to research BP/Amoco safety incidents. They will find that one of the reasons the U.S. government was unwilling to excuse this disaster as an unavoidable accident is that BP/Amoco had a track record that included several large-scale safety incidents with fatalities. Persistent accidents argue that safety leadership and safety culture were lacking, thus breaching the public trust. If time permits, you might also open a discussion as to whether energy, food, and pharmaceutical firms that serve basic human needs should be held to a higher standard than manufacturers of less critical products, such as fashion. **AACSB 2013 Standard 9 Social responsibility, including sustainability, and ethical behavior and approaches to management**

1.2 STAKEHOLDERS AND COMPETITIVE ADVANTAGE

Stakeholders Strategy [LO 1-4]

Discussion Topics

Stakeholders are organizations, groups, and individuals who have a vested interest in the performance and survival of the firm. Stakeholder strategy is a framework that connects corporate governance, business ethics, and strategic leadership and thus helps managers think through these issues in a holistic fashion. Stakeholder theory is a theoretical framework that is concerned with how different stakeholders create and trade value.

Instructors can discuss the importance of public companies and their influence on our daily life. Students need to understand the interdependent relationships between these organizations and the average citizen. Then, discuss the importance of the public companies’ stakeholders and why companies need to take good care of them. The answer is, “It is an interdependent relationship.” Only by taking care of the stakeholders can they create a win-win, with mutually beneficial results to both companies and to society. This section sets a foundation that allows instructors to talk later about social responsibilities.

Corporations are increasing their use of social media to stay in touch with their stakeholders. They use company blogs, Twitter feeds, and Facebook postings to communicate the firm’s message in a positive way. They also have begun to pay attention to and engage with third party websites, such as Yelp and blogs written by others. This exercise on the use of blogging by large companies can be used to discuss the communication of strategies by these firms. Here is a link to the BusinessWeek article about Dell’s response to a negative customer blog that generated a flurry of other negative customer responses (<http://buswk.co/RPOWr>). Ask students to search for a large company that includes a blog on its official website. Ask them to determine: What seems to be the primary purpose of the blog that you found? Does the blog seem to be updated regularly? Does the blog allow users to post comments or questions? If so, what type of stakeholders post most of the comments and how effectively does the company respond? Students may enjoy surfing the Web for companies that make some of their favorite products. We have suggested a large firm because big and well-known firms have more of an Internet presence than newer startup ventures. Another alternative for this exercise is to look for the corporation’s Twitter postings or their Facebook fan page. We selected blogging for the exercise because that media format provides enough length for the message to be captured fairly quickly. It is also a less restrictive communication tool and provides room for a wide diversity of uses between different firms. **AACSB 2013 Standard 9 Information technology and statistics/quantitative methods impacts on business practices**

End of Chapter Ethical/Social Issues

AACSB 2013 Standard 9 Ethical understanding and reasoning (able to identify ethical issues and address the issues in a socially responsible manner) or Social responsibility, including sustainability, and ethical behavior and approaches to management

Choose one of the companies discussed in the chapter (such as [BP](#), [Target](#), [JetBlue](#), or [Apple](#)). By looking at the company's annual report on its web page or conducting an Internet search for news about the company, identify instances where the company has acted ethically or showed its interest in a key stakeholder—or where it has failed to do so. Encourage the students to draw a distinction between illegal behavior and actions that are legal, but might be considered unethical under one or more value systems.

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

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

1.2 STAKEHOLDERS AND COMPETITIVE ADVANTAGE

Stakeholder Impact Analysis [LO 1-5]

Discussion Topics

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?

In this section, the instructors will primarily discuss the five-step stakeholder impact analysis, starting from the identification of stakeholders, stakeholders' interests, opportunities and threats presented by stakeholders, the social responsibility to stakeholders, and how to address stakeholders' concerns. In other words, stakeholders represent the major structural components of our society, and thus the impact on stakeholders can be thought of as the impact on our society. 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 [Nestlé](#)'s relationships with its shareholders, its customers, and nutrition activists.

Exercise

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

1.3 AFI STRATEGY FRAMEWORK

Discussion Topics

Building strategy is the result of three broad management tasks: Analyze, Formulate, and Implement (AFI). These three areas will be addressed in the chapters as we proceed through the textbook.

You might consider using discussion of a popular movie that illustrates strategy, such as [Master and Commander](#) or [Braveheart](#). What were the keys to the hero's success? These types of examples will enable you to bring out the importance of careful analysis, a well-formulated strategy, and effective implementation. Each also offers illustrations of effective and ineffective strategic leadership. [AACSB 2013 Standard 9 Leading in organizational situations](#)

End of Chapter Discussion Question 1

Consider the brief description of [Target](#)'s stakeholder relationships and combine that information with your experience shopping in a Target store. How might Target's stakeholders (in particular, employees, customers, local communities, and suppliers) influence the manager's decisions about building competitive advantage in the analysis stage of the AFI framework? How might Target gather information from its stakeholders in order to inspire a better customer experience in the formulation stage in order to differentiate? Or in order to lower costs? Brainstorm (by jotting down as many ideas as you can think of) about how key stakeholders may affect (or be affected by) the implementation stage. We recommend dividing the class into groups of 3 – 4 for small group discussion and assigning some groups to represent each stakeholder group: customers, employees, suppliers, shareholders, and the local community. Ask them to focus on one method to gather data for analysis and one change in strategy that might be proposed. Then, focus the rest of their efforts on identifying the implementation steps for that strategy and how they might affect their assigned stakeholder group. [AACSB 2013 Standard 9 Creative thinking, Group and individual behaviors in organizations and society, and Integrating knowledge across fields](#)

1.4 IMPLICATIONS FOR STRATEGISTS

Discussion Topics

A nice 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 TERM PROJECT

The goal of this term-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.

my STRATEGY

Module 1 Initial Firm Selection and Review

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.

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

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

How do you expect this list to look five years from now? Which three to five industries do you expect to top the list, and which three to five industries will be at the bottom of the list? Why? This exercise speaks to the challenge of formulating a strategy of high uncertainty on key data. We suggest that students be challenged to choose one industry that they think will be high growth or low growth and justify their position with logic that draws on information that they do know, for example, pent up demand for housing during the recession, lower energy costs in the U.S. due to booming shale gas production, aging of the baby boom generation, or growth in digital media accessibility. AACSB 2013 Standard 9 Analytical thinking (able to analyze and frame problems) and Making sound decisions and exercising good judgment under uncertainty