

**University of Illinois at Urbana-Champaign  
Gies College of Business  
Department of Business Administration**

**BADM 544: STRATEGIC MANAGEMENT**

**Fall 2019**

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Click on the course link:       BADM 544

Wednesday   6:00PM – 8:50PM               3041 Business Instructional Facility

**INTRODUCTION AND COURSE OBJECTIVES**

Strategic management considers decisions that fundamentally influence the direction of the organization and effective implementation of the direction chosen. Strategic management examines the *organizational structure, resources & capabilities*, and the *strategic positioning* of the organization to identify, create, capture, and sustain competitive advantage. In addition to economic *value creation*, management also must make decisions concerning the *distribution* of this economic value.

In BADM 544, *Strategic Management*, you will develop your skills at:

- Understanding how firms gain and sustain competitive advantage;
- Analyzing strategic business situations and formulating strategy; and
- Implementing strategy and organizing the firm for strategic success.

Success depends not only on the soundness of the formulated strategy, but also on effective implementation through appropriate organizational choices. This course focuses on strategic decisions, and with both the *content* of those decisions and the *processes* by which general managers position the businesses and allocate resources under conditions of uncertainty and competition. This course utilizes various tools, concepts, and analytical frameworks that enhance our ability to define and analyze strategic problems and to identify sources of competitive advantage from both an industry and firm-level perspective.

This course focuses on key issues in *formulating* and *implementing* strategies to create and sustain competitive advantage. Emphasis is given to developing pragmatic and action-oriented general management skills. Extant theory in the fields of strategy, accounting, economics, finance, international business, marketing, political science and organization theory have important implications for general management. Thus, this course emphasizes cases and lecture/ discussions.

## **THE RELATIONSHIP OF STRATEGIC MANAGEMENT TO OTHER BUSINESS COURSES**

Up until this time, most of your education within the Gies College of Business has emphasized a specialized, functional perspective of business situations. For example, in Accountancy, you have concentrated on how to identify and produce the information necessary to manage and guide organizations effectively. In Finance, you have been concerned with how capital markets work and, in turn, affect the financing of a company's on-going operations. In Marketing, the focus has been on how to analyze, shape, and respond to the needs of consumers as well as how to manage a firm's marketing efforts. In Operations Management, the focus has been on organizing the production activities of a firm so it is able to produce quality goods and services at an attractive price. Finally, courses on Human Resource Management have been concerned with the effective development and management of a company's human assets. All of these functional disciplines play a critical role in the success of a company, *but how do they fit together?*

In this course, we integrate these views by taking the unique perspective of *the situational problems of the general manager*. The general manager's primary responsibility is to diagnose the critical factors that require attention in complex business situations and to find workable solutions to strategic and organizational problems. To solve such problems, the general manager must be capable of understanding and using knowledge from each functional area to provide a total business perspective on issues pertaining to strategic management. The general manager must analyze competitive situations within industries in order to understand the sources of the firm's competitive advantage. Strategy is enabled and constrained by economic and political conditions that prevail in an industry or country, as well as by the resources available to management.

## **TECHNIQUES FOR LEARNING STRATEGIC MANAGEMENT**

To accomplish our objectives, we will use a variety of learning techniques: lectures readings, written reports, and class discussion of case studies.

### ***Case Analysis***

Strategic thinking and analysis are best learned through practice. The capstone business cases we will examine concern real-world business situations. These cases are designed to provide data on real-life managerial problems, and are useful as simulations of managerial activity. These integrative cases provide an opportunity to both apply the concepts that we discuss in class as well as to further develop our ability to think about strategy. How much you learn from these strategic management cases depend on your preparation and active participation. *Everyone* is expected to participate effectively in each class to comment, question, and analyze.

### ***Group Work***

Discussing cases and preparing analyses outside of class helps to deepen your knowledge about strategic management. Group work will be essential for the major group project.

### ***Individual Participation***

Active participation in the class is an essential part of the learning experience. You are expected to contribute both to the case discussion and to discussion during the lecture sessions.

## **EXPECTATIONS AND POLICIES**

***Preparation:*** I will assume that you have read everything assigned. Please be sure to read the cases carefully, as they will be the basis of class discussion. It is especially valuable and appreciated when you come to class with questions about the readings. Poor preparation is a disservice to your classmates and will negatively impact your participation grade.

***Class Participation:*** Most of the learning in our class will occur through discussion. Thus, we want everyone's active participation. Meaningful participation requires having carefully read and thought about the day's material, but that is *not* sufficient. You also need to speak and while key insights are appreciated, you can also contribute by asking questions, politely disagreeing with comments, or following up on another person's comments with further insights or evidence.

***Homework:*** One purpose of homework assignments is to enhance class discussion. Thus, (hard-copy) assignments must be turned in *before class begins* on the day that they are due. You should bring a copy to class for your own reference during discussion. To ensure timely delivery of your assignment, send your assignment by e-mail Word attachment before the beginning of class on the day it is due. *There will be no credit provided for late assignments.*

***Attendance and Punctuality:*** You cannot contribute to our learning if you are not in class. At the same time, it is understood that you may have other responsibilities and priorities. To balance these considerations, everyone is allocated *an* excused allowance. However, you are still responsible for turning in your assignment *before* the class session that you will miss. Please note that I will not make arrangements for homework after the fact. Further absences will impact your participation grade. Please be on time. If lateness becomes an issue, I reserve the right to treat a class for which you are late as a missed class.

***Course Organization:*** Class assignments are shown in the schedule attached, and while subject to change, this schedule should guide your work plans. *There will be no announcements in class concerning assignments*, except those that may alter the attached schedule.

***Technology:*** All mobile phones, PDAs, pagers, laptops, and other electronic devices should be turned off during class. There will be a 10-minute technology break at the mid-point of the class session. We will have a "social contract" in which for each class that there is no technology disruption, a pot of money will grow to provide to a charity chosen by the class.

### COURSE TEXTS AND CASES

**Textbook:** Rothaermel, Frank T. (2017). Strategic Management (paperback, text only). New York, NY: McGraw Hill, Irwin. (Third edition)

**Cases:** Harvard Business Cases (T.I.S. College Bookstore, BA 544 *Packets*).

| <b>Case</b>                              | <b>(#)</b> | <b>Source</b>     | <b>Industry</b>    |
|--|------------|-------------------|--------------------|
| <b>RTE Breakfast Cereal Industry (A)</b> | (01)       | Harvard 9-795-191 | Breakfast Cereal   |
| <b>Cola Wars Continue 2010</b>           | (02)       | Harvard 9-711-462 | Soft Drink         |
| <b>Mobileye: Driverless Cars</b>         | (03)       | Harvard 9-715-421 | Automobile Systems |
| <b>Zara</b>                              | (04)       | Harvard 9-703-497 | Fashion Apparel    |
| <b>PepsiCo's Restaurants</b>             | (05)       | Harvard 9-794-078 | Restaurant         |
| <b>Haier Global Strategy</b>             | (06)       | Harvard 9-706-401 | Appliance          |
| <b>Nucor at a Crossroads</b>             | (07)       | Harvard 9-793-039 | Steel              |
| <b>Pharmaceutical Industry and Aids</b>  | (08)       | Harvard 9-712-049 | Pharmaceutical     |

## COURSE REQUIREMENTS AND GRADING

|  |                   |
|--|-------------------|
| (1) <i>Individual case assignments: 1-page each (7 cases: 20 points each):</i> | <b>140 points</b> |
| (2) <i>Group Case Assignment for Nucor</i>                                     | <b>60 points</b>  |
| (3) <i>Participation</i>   | <b>100 points</b> |
| (4) <i>In-class final exam (closed book)</i>                                   | <b>200 points</b> |
|  | <b>500 points</b> |
| <b>Final Grading Scale:</b>  | <b>500 points</b> |

| Course Points | Grade | Honor Points |
|---------------|-------|--------------|
| 490 - 500     | A +   | 4.00         |
| 465 - 489     | A     | 4.00         |
| 450 - 464     | A -   | 3.67         |
| 435 - 449     | B +   | 3.33         |
| 415 - 434     | B     | 3.00         |
| 400 - 414     | B -   | 2.67         |
| 385 - 389     | C +   | 2.33         |
| 365 - 385     | C     | 2.00         |
| 325 - 364     | C -   | 1.67         |
| Below 325     | F     | 0.00         |

## EXPLANATION OF ASSIGNMENTS

**(1) *Individual case write-up (for all assignments except Nucor):*** **(20 points each)**

Criteria for the 1-page individual case write-up:

**Problem statement:** Define the scope of the identified problem in the first paragraph of your paper. Conclude the first paragraph with the *question*, and explain why the question is important. (05 points)

**Analysis:** Analysis remains focused on addressing the question raised. Indicate the key factors that are important for answering your question, and indicate the interrelationships between factors. (10 points)

**Recommendations:** Suggested recommendations should follow logically from analysis. Be sure to discuss implementation issues and risks. (05 points)

## (2) *Group Case Assignment*

Case: *Nucor*

(60 points)

In this assignment, your team will advise Ken Iverson, Nucor CEO, on whether to adopt SMS's CSP process. In your memo to Iverson, please address the following issues:

### 1. *Cash flow analysis*

(10 points)

One key question is “*By its own investment criterion, should Nucor undertake this investment?*” That calculation is what CEO Ken Iverson is interested in at this time. Once you have answered Ken Iverson, the second key question concerns NPV (the criterion taught in your education here).

Using the Excel spreadsheet provided as a template on the Web page, calculate the cash flow that Nucor could expect if it adopted SMS's CSP process. (NB: The NPV calculations are the critical numbers to focus on.) The relevant spreadsheet is labeled “CF analysis- thin slab”. Most of the critical data are already in the spreadsheet, drawn primarily from Exhibits 12A and 12B. Please adhere to the following assumptions and conventions:

- Do not change any of the figures that have already been provided;
- Use the growth rate provided in the template for the price of steel, not the historical 6.84%
- Assume the entire \$280 million construction cost is incurred in 1986; and
- Depreciate the factory equally over 10 years (1989-1998). The spreadsheet includes 12 years, of which two are while the factory is under construction (1987 and 1988). Start in 1989, when the plant comes on line, and assume it loses all value over the next 10 years.

### 2. *Sensitivity analysis*

(20 points)

Your recommendation (provided in Part 1) depends on a set of assumptions. Identify at least five changes (one at a time and then return to the baseline assumptions) that might occur and calculate how your conclusions for Part 1 change given the change in assumption. Drawing on the case facts, explain why each of these new scenarios is important and whether you consider it likely or not. Be sure to include break-even analysis for each assumption (i.e., when the NPV = 0).

### 3. *Strategic analysis (anticipated competitor response)*

(10 points)

While SMS's thin-slab technology would offer operating advantages, the advantages are narrowed by the need to price lower than integrated mills because of the perceived lower quality of mini-mill steel. Nucor's major competitors include both modernized and un-modernized integrated mills. A leading source indicates that 40% of integrated steel capacity is in modernized plants. Exhibit 12B shows that Nucor would have large cost advantage over un-modernized integrated mills (\$225/ton versus \$300/ton for Hot Rolled) if it pioneered SMS's technology. However, the cost advantage over modernized mills is much lower. In fact, Nucor might find it difficult to compete head-on

with a modern integrated mill that decided to price very aggressively. These concerns lead to the following questions: Based upon the two “CF analysis” Excel worksheets, determine if we should expect the integrated mills to modernize their mills, which are currently un-modernized. Why or why not? Assume the integrated mills follow traditional DCF/NPV investment criterion. How concerned should Nucor’s top management team be about competing against modernized integrated mills if it opens its first thin-slab technology mill?

4. *Real options analysis* (10 points)

Consider the following strategic (real) options:

- The real option value of waiting;
- The real option value of abandoning the project; and
- The real option value of growth options (e.g., follow-on investments)

5. *Conclusion/Recommendation* (10 points)

In light of the (cashflow, sensitivity, strategic, and real-options) analysis should Nucor adopt the CSP process? Why or why not? Please do not just repeat the ideas from above. Consider issues that are not covered in the preceding analyses. For example, are there important stakeholder issues that need to be raised? Explain how your analyses and concerns either reinforce or contradict each other and why you expect you have correctly identified the most important factors.

**(3) Participation:** (100 points)

Participation in the class is an essential part of the learning experience. We will be using business capstone cases and you must be prepared to discuss these cases. Meaningful participation means making a contribution to our discussion, not merely talking, and it does not mean repeating case facts or simply agreeing with what others have already said. Our interest is not "right" or "wrong," it is whether you have made a contribution to the development of issues under study by the class, and whether you have moved the class forward. One clear way of contributing is to disagree with the comments of your classmates where needed; it is not the instructor's duty alone to decide whether a remark is of value. Failure to participate and disagree where needed penalizes you and the class in these ways:

- You lose incentive to prepare the case properly;
- You lose the chance to develop communication skills;
- You deprive all of us of your insights into the case; and
- Your ideas go unevaluated by others.

**(4) In-Class Exam:** (200 points)

Study-guide questions will be provided to aid in your preparation for the exam.

**CLASS SESSIONS AND ASSIGNMENTS****SESSION #1**      Wednesday, August 28*Assignments:***Read** Rothaermel (2017):

Chapter 3:      “External Analysis: Industry Structure, Competitive Forces, and Strategic Groups”

**SESSION #2**      Wednesday, September 4*Assignments:***Read** Rothaermel (2017):

Chapter 5:      “Competitive Advantage, Firm Performance, and Business Models

Chapter 6:      “Business Strategy: Differentiation, Cost Leadership, and Blue Oceans”

**Write:**

Case #1:      RTE Cereal: 1-page assignment

**SESSION #3**      Wednesday, September 11*Assignments:***Read** Rothaermel (2017):

Chapter 7:      “Business Strategy: Innovation and Entrepreneurship”

**Write:**

Case #2:      Cola Wars Continue: 1-page assignment

**SESSION #4**      Wednesday, September 18*Assignments:***Read** Rothaermel (2017):

Chapter 4:      “Internal Analysis: Resource, Capabilities, and Core Competencies”

**Write:**

Case #3:      Mobileye: 1-page assignment



**SESSION #5** Wednesday, September 25*Assignments:***Read** Rothaermel (2017):

Chapter 8: “Corporate Strategy: Vertical Integration and Diversification”

**Write:**

Case #4: Zara: 1-page assignment

**SESSION #6** Wednesday, October 2*Assignments:***Read** Rothaermel (2017):

Chapter 10: “Global Strategy: Competing Around the World”

Chapter 11: “Organizational Design”

**Write:**

Case #5: PepsiCo Restaurants: 1-page assignment

**SESSION #7** Wednesday, October 9*Assignments:***Read** Rothaermel (2017):

Chapter 9a: “Corporate Strategy: Strategic Alliances, Mergers and Acquisitions”

Power Point 9b: Competitive Dynamics: Real Options

Power Point 9c: Game Theory and Strategy

**Write:**

Case #6: Haier Global Strategy: 1-page assignment

**SESSION #8** Wednesday, October 16*Assignments:***Read** Rothaermel (2017):

Chapter 1: “What is Strategy?”

Chapter 12: “Corporate Governance and Business Ethics”

**Write:**Case #7: Nucor: Group assignment

**SESSION #9**                      Wednesday, October 23

*Assignments:*                      **Read** Rothaermel (2017):

Chapter 2:     “Strategic Leadership: Managing the Strategy  
Process”

**Write:**                                      Case #8:     Pharmaceutical Industry and Aids: 1-page assignment

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**SESSION #10**                      Wednesday, October 30

*Assignments:*                      **In-class (closed book) final exam.**