INTRODUCTION AND COURSE OBJECTIVES

Strategic management deals with decisions that fundamentally influence the direction of the organization and effective implementation of the direction chosen. Strategic management addresses the organizational structure, resources & capabilities, and strategic positioning of the organization to identify, create, capture, and sustain competitive advantage. In addition to economic value creation, management must make decisions concerning the distribution (value capture) of this value across stakeholders.

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

- Understanding how firms identify, create, capture, 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 to the problems at hand. This capstone business 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 scarce resources (including time and attention) under conditions of uncertainty and competition. This course utilizes various tools, concepts, and frameworks that enhance our ability to define and analyze strategic problems and to identify sources of competitive advantage from industry and firm-level perspectives.
This course focuses on key issues in *formulating* and *implementing* strategies to create and sustain competitive advantage. Focusing on a firm’s strengths and weaknesses, we analyze the impact of change and environmental forces on unfolding opportunities for establishing and sustaining competitive advantage. Emphasis is given to developing pragmatic and action-oriented general management skills. Importantly, extant theory within the disciplines of accounting, economics, finance, international business, marketing, political science, and organization theory have important implications for general management. The course emphasizes cases and lecture/discussion sessions.

Strategic management deals with the world of experience, which is uncertain. Therefore, within the classroom, reasonable people (with different experiences) will view effective management differently. Management involves *making* sense together, and is a creative process. Conjectures and knowledge based on personal experiences are highly valued in the conversation of this class. Creativity will be rewarded in your participation grade, individual papers, and group projects. This course also rewards the diligent worker who has the ability to listen and think critically. The final exam will test your ability to *understand* the material in the textbooks, readings, and class notes. Please note that the evaluation of your case analyses and the exams measure different skills.

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

Up until this time, most of your education within the 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 needed information 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 wants and needs of consumers as well as how to manage a company’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 capstone business course, we integrate these views together by taking the unique perspective of the *situational problems of the general manager*. The general manager's primary responsibility is to formulate the problems at hand, to diagnose the critical factors that require attention in complex business situations, and to find workable solutions to strategic and organizational problems. To address such business problems, the general manager must be capable of understanding and using knowledge from each functional area to provide a total business (systems) 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 both enabled and constrained by the economic and political conditions that prevail in an industry or country, as well as by the resources and capabilities 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 most importantly, class discussion of the 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 senior-level business cases are designed to provide you with data on real-life managerial problems, and case analysis is useful as a simulation of actual 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 cases depend on your preparation and active participation. Each of us is responsible to be fully prepared for each class, and 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 concerning strategic management. Group work is 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.

Exam

There will be an in-class (closed-book) exam to conclude the semester. This in-class exam will test both your mastery of the concepts and your ability to apply them.

EXPECTATONS AND POLICIES

Preparation: I will assume that you have read everything assigned. Please be sure to read the case carefully, as it 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 the class and will negatively impact your participation grade.

Class Participation: Most of the learning in our class will occur through discussion. Thus, we want 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: A primary 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. If you are ill, I will accept the assignment by e-mail Word attachment if it is received 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, you are allocated two excused allowances. You can use these as you wish (e.g., job interviews, family needs, health days) with no questions asked. On these occasions, 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. For each absence beyond these two, 15 points will be deducted from your individual participation grade. You may not use an excused absence on the day of the exam. 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: The class is a technology free zone; for each class that is uninterrupted by technology, $100 will be added to a pot of money for charity (chosen by the class toward the end of the course). That means that laptops, cell phones, and other electronic devices should be neither seen nor heard. Each time during the semester that a technology interrupts the class you lose points for that class, and the pot of money is reduced by 50% --- this is an example of a social contract, in which defection from the agreement harms the collective good. All mobile phones, PDAs, pagers, laptops, and other electronic devices should be turned off during class.

Suggestions: If you have special inquiries or constructive suggestions concerning the progress of the class, please feel free to talk to me. You can make an appointment by telephone or e-mail.

COURSE TEXTS AND CASES


Cases: Harvard Business Cases (BADM 544 Case Packet, which is available at the Illini Union Bookstore).

<table>
<thead>
<tr>
<th>Case</th>
<th>(#)</th>
<th>Source</th>
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<tbody>
<tr>
<td>Cola Wars Continue in 2010</td>
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<td>Harvard 9-711-462</td>
<td>Soft Drink</td>
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<td>Zara: Fast Fashion</td>
<td>(02)</td>
<td>Harvard 9-703-497</td>
<td>Fashion Apparel</td>
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<td>Mobileye: Driverless Cars</td>
<td>(03)</td>
<td>Harvard 9-715-421</td>
<td>Automobile Systems</td>
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<td>PepsiCo’s Restaurants</td>
<td>(04)</td>
<td>Harvard 9-794-078</td>
<td>Restaurant</td>
</tr>
<tr>
<td>Nucor at a Crossroads</td>
<td>(05)</td>
<td>Harvard 9-793-039</td>
<td>Steel</td>
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<tr>
<td>Haier</td>
<td>(06)</td>
<td>Harvard 9-706-401</td>
<td>Appliance</td>
</tr>
<tr>
<td>Sustainability at IKEA Group</td>
<td>(07)</td>
<td>Harvard 9-515-033</td>
<td>Furniture</td>
</tr>
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<td>LEGO</td>
<td>(08)</td>
<td>Harvard 9-613-004</td>
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<td>Comcast Corporation</td>
<td>(09)</td>
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<td>Emirates Airline</td>
<td>(10)</td>
<td>Harvard 9-714-432</td>
<td>Airline</td>
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<tr>
<td>Health City Cayman Islands</td>
<td>(11)</td>
<td>Harvard 9-714-510</td>
<td>Health Care</td>
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**COURSE REQUIREMENTS AND GRADING**

(1) *Individual case assignments (10 cases: 20 points each)* 200 points

(2) *Group Case Assignments for Nucor* 50 points

(3) *Participation* 100 points

(4) *In-class Exam* 150 points

Final Grading Scale: 500 points

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**EXPLANATION OF ASSIGNMENTS**

**(1) Individual case assignments: 200 points**

Case #1 *Coke v. Pepsi 5-Forces Industry Analysis* (20 points)

The Soft Drink Industry assignment requires an industry analysis using Porter’s 5-Forces Model. There are four parts to the assignment:

(1) For each Force, answer whether the Industry Force is low, medium, or high in intensity. Cite key evidence from the case for your answer — do not list everything, just the most important point or two that supports your answer. (14 points)

(2) Given the strengths of the other Industry Forces, is the level of price rivalry what you would expect? Why or why not? (2 points)

(3) What is the economic performance of this industry (low, medium, or high)? Is this outcome what the 5 Forces model would predict? Explain. (2 points)

(4) Think dynamically; What Force is changing the most? Is it increasing or decreasing? Provide evidence from the case for your answer. (2 points)

To encourage conciseness, there is a limit of **two pages** (single-spaced) for this assignment.
Case #2  Zara’s Value Chain  

Please provide a value chain analysis of Zara’s business model. Specifically, for each primary and secondary activity in which Zara has a substantial value-creating activity, list the key components of this activity. Identify at least one value-chain activity that is a “core competence” creating economic value for Zara.

To encourage conciseness, there is a limit of two pages (single-spaced) for this assignment.

Case #4  Pepsi Restaurants  

- Discuss the options and your recommendations for Carts of Colorado (CoC) (7 points)

- Discuss the options and your recommendations for California Pizza Kitchen (CPK) (business-level strategy) (7 points)

- Discuss whether Pepsi should continue in the restaurant business (corporate-level strategy). (6 points)

There is a limit of two pages (single-spaced) for this assignment.

Individual case write-ups for:  

- Case #3: Mobileye
- Case #6: Haier
- Case #7: Sustainability at IKEA Group
- Case #8: LEGO
- Case #9: Comcast Corporation
- Case #10: Emirates Airline
- Case #11: Health City Cayman Islands

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

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 discuss inter-relationships between factors. (10 points)

Recommendations: Suggested recommendations should follow logically from analysis. Be sure to discuss implementation issues. (05 points)
(2) **Group Case Assignment**

**Case #5  Nucor  50 points**

In this assignment, your team will advise Ken Iverson, Nucor CEO, on whether to adopt SMS's CSP process. In your 2-page (single-spaced) 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. 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% growth rate;
   - 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**  
   (15 points)

   Your recommendation provided in Part 1 depends on a set of assumptions. Identify at least three changes 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 are important and whether you consider it likely or not.

3. **Strategic analysis**  
   (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 that are currently un-modernized. Why or why not? Assume the integrated mills follow traditional DCF/NPV investment criterion. Given your answer how concerned should Nucor’s top management team be about competing against modernized integrated mills when it opens its first thin-slab technology mill, if it does so?
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 plant investments)

5. **Conclusion/Recommendation** (5 points)

In light of the (cash-flow, scenario, 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 believe that you have correctly identified the most important factors.

(3) **Participation:** 100 points

*Individual Participation.* Active participation in the class is an essential part of the learning experience. 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 in 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 making a contribution 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:** (150 points)

- The exam will be closed book and closed-note.
- Study guide questions will be provided to aid in your preparation for the exam.
CLASS SESSIONS AND ASSIGNMENTS

SESSION #1  Wednesday, January 18

‘Plans are nothing; planning is everything.”  Dwight D. Eisenhower

Assignments:  Read:  Rothaermel Chapter 1: “What is Strategy?”
Chapter 2: “Strategic Leadership: Managing the Strategy Process”

SESSION #2  Wednesday, January 25

“I was not successful as a baseball player, as it was a game of skill.”  Casey Stengel

Assignments:  Read:  Rothaermel Chapter 4: “Internal Analysis: Resources, Capabilities, and Core Competencies”
Chapter 5: “Competitive Advantage, Firm Performance, and Business Models”
  • Compare Apple’s and Blackberry’s drivers of firm profitability for 2011. Calculate some key profitability, activity, leverage, liquidity, and market ratios for Apple and Blackberry --- compare these numbers to 2012 (p.470). What recommendations would you give the CEO of Blackberry about actions that should be taken to improve performance? (pp. 469-474).

Write:  Case #1:  Cola Wars Continue 2010
  Provide an Industry (5-Forces) Analysis (see p.5 of the syllabus)

SESSION #3  Wednesday, February 1

“Connect, always connect.”  Goethe

Assignments:  Read:  Rothaermel Chapter 6: “Business Strategy, Differentiation, Cost Leadership, and Blue Oceans”
Chapter 7: “Business Strategy: Innovation and Entrepreneurship”

Write:  Case #2  Zara
  Provide a Value Chain Analysis (see p.6 of the syllabus)
SESSION #4  Wednesday, February 8

“Tis the part of a wise man to keep himself today for tomorrow, and not venture all his eggs in one basket.”  
Miguel de Cervantes

“Put all your eggs in one basket and — WATCH THAT BASKET.”  
Mark Twain

Assignments:  Read: Rothaermel Chapter 8: “Corporate Strategy: Vertical Integration and Diversification”  
Chapter 9: “Corporate Strategy: Strategic Alliances and Mergers & Acquisitions”

Write:  Case #3: Mobileye  
1-page paper (see p.6 of the syllabus)

SESSION #5  Wednesday, February 15

“He who hesitates is sometimes saved.”  James Thurber

Assignments:  Read: Power Point Sets 9b and 9c

Learning Objectives:
1. What are real options?
2. When are first-mover advantage and second-mover advantage applicable?

Write:  Case #4: Pepsi Restaurants  
2-page assignment (see p.6 of the syllabus)

SESSION #6  Wednesday, February 22

“... a manager’s authority comes from the employees. Distance yourself from your people and you distance yourself from your base of authority.”  Ken Iverson in Plain Talk (1998).

Assignments:  Read: Rothaermel Chapter 10: “Global Strategy: Competing Around the World”

Write:  Case #5  Nucor  
Group assignment (see pp. 7-8 of the syllabus)

SESSION #7  Wednesday, March 1

“... good management rests on a reconciliation of centralization and decentralization.”  
Alfred P. Sloan

Assignments:  Read: Rothaermel Chapter 11: “Organizational Design: Structure, Culture, and Control”

Write:  Case #6: Haier  
Case #7: IKEA  
1-page paper for each case (see p.6 of the syllabus)
SESSION #8       Wednesday, March 8

“The leader must know, must know that he knows, and must be able to make it abundantly clear to those around him that he knows.”  Clarence B. Randall, chairperson, Inland Steel

Assignments:  Read:  Rothermel Chapter 12: “Corporate Governance and Business Ethics”

Write:  Case #8:  LEGO

Case #9:  Comcast Corporation

1-page paper for each case (see p.6 of the syllabus)

SESSION #9       Wednesday, March 15

“No amount of sophistication is going to allay the fact that all your knowledge is about the past and all your decisions are about the future.”  Ian E. Wilson, former chairperson, General Electric

Assignments:  Write:  Case #9:  Emirates Airline

Case #10:  Health City Cayman Islands

1-page paper for each case (see p.6 of the syllabus)

SESSION #10      Wednesday, March 29

“These then are my last words to you. Be not afraid of life. Believe that life is worth living and your belief will help create that fact.”  William James

Final Exam