

Contemporary Strategy Analysis

Seventh Edition

***Instructors' Guide:
AN OVERVIEW***

by

Robert M. Grant

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OBJECTIVES OF THE INSTRUCTORS' GUIDE

The purpose of this *Instructors' Guide* is to assist teachers in the use of *Contemporary Strategy Analysis* in the classroom. The *Guide* will

- Inform you of the key features of the book
- Assist you in designing your own course in strategic management
- Help you to select cases to use with the text
- Provide you with additional materials to support your teaching of strategic management, in particular a set of PowerPoint slides for each topic (i.e. each chapter of the book). These that reproduce figures from the book, summarize key points from the text, and provide additional examples to illuminate concepts and principles.

KEY FEATURES OF *CONTEMPORARY STRATEGY ANALYSIS*

Contemporary Strategy Analysis was written to introduce students to the fundamental concepts and principles of strategy, and equip students the tools they need to formulate and implement strategies that will enhance the performance of the organizations that they join.

My Goals in Writing the Book

The *Contemporary Strategy Analysis* first appeared in 1991. It was preceded by three years of research at London Business School's Center for Business Strategy during which I immersed myself in the strategy literature. This was followed by five years of teaching core strategy courses at the University of British Columbia, California Polytechnic, and UCLA during which initial teaching notes were developed into book chapters.

It was never my intention to write a strategy text. If I could have found a text I liked, I would have used it. I wanted a text that combined the intellectual challenge and dynamism that characterized this rapidly developing field with practical guidance on making strategic decisions and managing corporate development. Disheartened by reading the leading strategy texts of that time, I resolved to write my own.

The resulting first edition of *Contemporary Strategy Analysis* was grounded in the fundamental concepts and basic theories of strategic management and was strongly focused upon the determinants of profitability. However, the purpose was not to teach theory, but to use theory in order to provide answers to the strategic decisions that general managers face: What businesses should we be in? Producing which products? Serving which customers? And above all: How are we to compete in order to establish and sustain a competitive advantage over rivals? Thus, while *Contemporary Strategy Analysis* is rich in concepts and theoretical frameworks, its purpose is to offer the reader insight into the sources of superior performance and the ability to use that insight to make better strategic decisions.

The seventh edition of *Contemporary Strategy Analysis* has the same goals and orientation. What has changed is the content of the book. As the field of strategy has developed in terms of theory and empirical evidence, and as the strategic issues facing companies have changed—so the content of the book has been updated to reflect contemporary issues and new ideas.

Contemporary Strategy Analysis is not intended as “the complete instructor’s package” for strategic management courses. The book was envisioned as a core text that could be used with a wide variety of supporting materials.

A Versatile Platform for Teaching Strategy

Contemporary Strategy Analysis has been developed for use with a wide range of strategy courses including different levels of course and among students of widely different backgrounds.

Just as a good strategy is one that is adapted to the characteristics of the firm and its industry environment, so a good strategy course is one that takes account of content and goals of the program of which the strategy course is a component, the interests and characteristics of the students, and the capabilities and personality of the instructor. In addition to a comprehensive range of supporting materials for instructors and students (see below), *Contemporary Strategy Analysis* has been designed to offer *versatility* in terms of compatibility with a variety of pedagogic approaches and teaching materials.

This versatility is apparent among current users of the book. *Contemporary Strategy Analysis* has been adopted as required reading in over 200 business schools across the five continents of the world—including a number of the world’s most prestigious and renowned schools. The most striking feature of these courses is their diversity. In addition to its use in core strategy courses at MBA level, the book has been used widely and successfully at the undergraduate level and in executive programs. *Contemporary Strategy Analysis* has also been used on the in-house training courses of several management consulting firms.

Most of the courses for which *Contemporary Strategy Analysis* is the core text use case studies as the principal teaching medium. However, *Contemporary Strategy Analysis* is also used with other course formats, including strategy courses build around simulations, programmed learning, student project work, and talks by visiting

executives. Common to these different courses, and a major source of joy to myself, has been the enthusiastic response by students to the book.

How the Book is Organized

The structure and content of the book is guided by a single idea: strategy is a quest for superior performance. The principal dimension of performance is profitability (or, to be more precise, maximizing the value of the firm). While I acknowledge that firms pursue other goals and that most businesses are founded for a distinct purpose that transcends the pursuit of profit, the fundamental requirement for any business to survive and prosper is that it is profitable. This is not to say that firms should not consider the interests of customers, employees, government, society and the natural environment: prosperity over the long term requires that a firm responds to the demands from its stakeholders and from society at large.

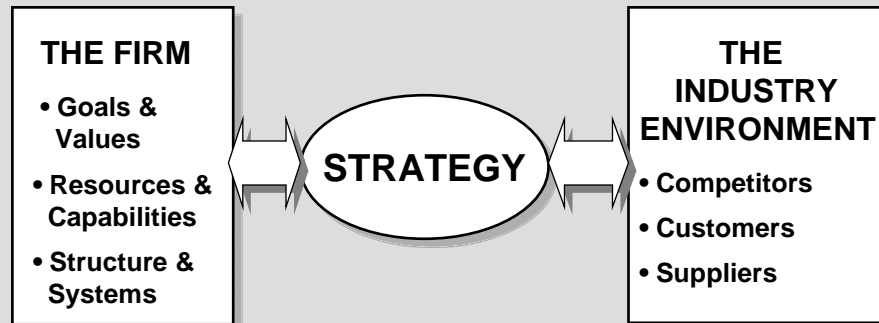
The case for focusing upon profitability (and ultimately, value maximization) is that most of the techniques of strategic analysis are directed towards identifying and accessing the sources of profit available to a firm. If, alternatively, we assume that the goal of a firm is to maximize the political influence of its CEO, or the welfare of its employees, or the world's biodiversity, there is little that the concepts and techniques of strategy analysis can offer to further these objectives.

If strategy is a quest for superior long-term profitability. It follows that there are two major inputs into strategic decisions: analysis of the external environment of the firm, and analysis of the internal environment of the firm. The external environment offers profitable opportunities; the internal characteristics of the firm determine its ability to win out over rivals in exploiting these opportunities. The central aspect of the business environment is the firm's industry environment, which is defined by the business relationships of the firm (with competitors, suppliers and customers). The internal environment of the firm comprises three major elements: *goals and values* (the primary goal, we have noted, is profitability), *resources and capabilities*, and the *organization structure and management systems* through which resources and capabilities are deployed.

Figure 1 shows these relationships. This idea of strategy forming an interface between the firm and its environment forms the organizing framework for the book. Thus, after introducing the concept of strategy (Part I and Chapter 1), Part II of the book, *Tools of Strategy Analysis*, is built around the four major inputs into strategy analysis as shown by this framework:

- Chapter 2 looks at “Goals Values and Performance”
- Chapter 3 is concerned with “Analyzing the Industry Environment” which is developed further in Chapter 4
- Chapter 5 deals with “Analyzing Resources and Capabilities” which Chapter 6 extends by considering the challenges of “Developing Resources and Capabilities”
- Chapter 7 addresses “Organization Structure and Management Systems: The Fundamentals of Strategy Implementation”

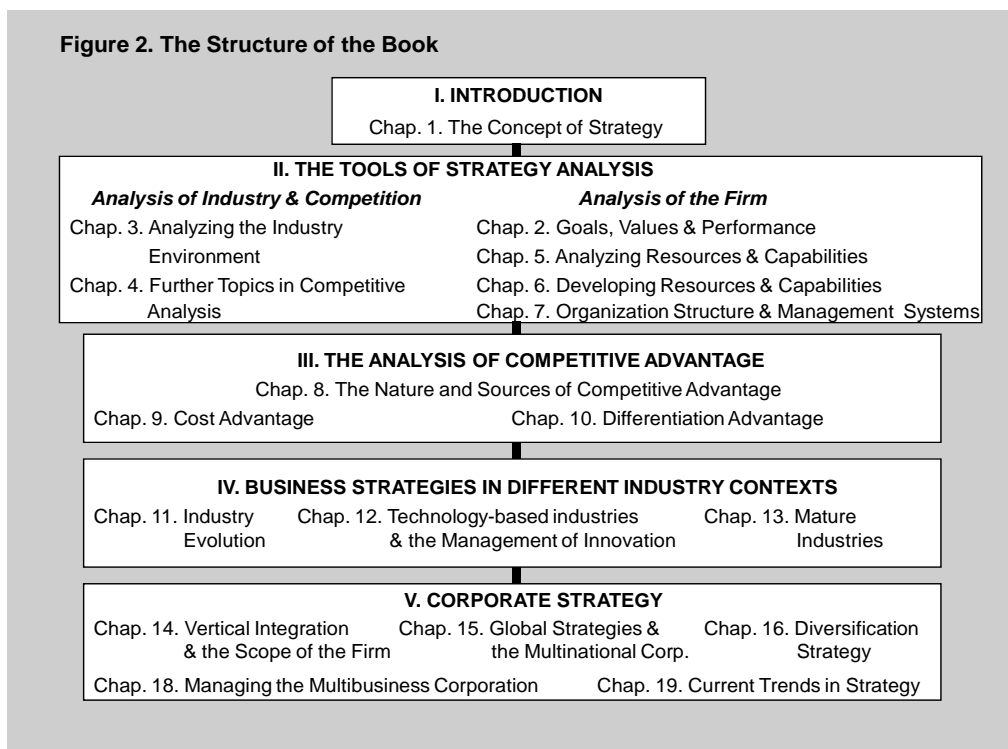
Figure 1. The Basic Framework. Strategy: the Link between the Firm and its Environment



Once students have acquired the basic tools of strategy analysis, they can develop and apply them in relation to different aspects of competitive advantage, in different business contexts, and in relation to both business and corporate strategy. Thus:

- Part III develops *The Analysis of Competitive Advantage* by integrating industry analysis and resource analysis. After establishing “The Nature and Sources of Competitive Advantage (Chapter 8), Chapter 9 explores “Cost Advantage” and Chapter 10, “Differentiation Advantage”.
- Part IV applies this analysis of competitive advantage to formulating and implementing business strategies in different industry contexts. Chapter 11 examines “Industry Evolution and Strategic Change”. Chapter 12 addresses competitive advantage in “Technology-based Industries and the Management of Innovation”. Chapter 13 addresses “Competitive Advantage in Mature Industries”
- Part V deals with corporate strategy in relation to “Vertical Integration” (Chapter 14), “Global strategies and the Multinational Corporation” (Chapter 15), and “Diversification Strategy” (Chapter 15). Chapter 17 addresses “Implementing Corporate Strategy: Managing the Multibusiness Firm”. Chapter 18 explores “Current Trends in Strategic Management” in the second decade of the 21st century.

Figure 2 shows the framework for the book.



What's New About the 7th Edition?

The structure of the 7th edition of *Contemporary Strategy Analysis* is little changed from its preceding edition. There is just one new chapter; this results from splitting Chapter 5 on resources and capabilities into two. The key changes are extensions of the book to include emerging ideas in strategy analysis and major changes in the business environment. The book is also significantly shorter than its predecessor.

Since the last edition, the overwhelmingly important development in the external environment has been the financial crisis of 2008-9. The shock to the world economy has called into question much of exiting economic and financial theory and has called into question many of the core assumptions that have underpinned conventional approaches to management. Including skepticism over shareholder value maximization as a reliable basis for managing companies, concern over the social responsibilities of companies, a reassessment of risk and its management, and doubts over approaches to strategy formulation that assume economic stability.

I argue that the recession of 2008-2010 should be viewed within the context of increasing turbulence of the business environment since 2000. The primary inference that I draw is that the new era of uncertainty and instability reinforces the importance of strategy in helping managers to steer their companies through treacherous conditions and accentuates the usefulness of the basic tools of strategy analysis. The turmoil of recent business conditions reaffirms the basic message of this book. Strategy is not about stargazing, wishful thinking, or pursuing the next big idea. Strategy is about identifying and exploiting the sources of profitability in a business. Identifying the sources of profitability requires careful and systematic analysis of industry economics and the foundations of competitive advantage. At the same time there has been the urgent need to extend our tools of strategy analysis in order to address more effectively the requirements for business success in the 21st century—in particular, the long run sustainability of the business enterprise, adaptability to turbulence and complexity, and the need to access new and more sophisticated sources of competitive advantage.

In response to these and other developments, the 7th edition of *Contemporary Strategy Analysis* features a number of additions and changes that are summarized in Table 1.

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Table 1. The 7th edition of *Contemporary Strategy Analysis: Changes from the 6th Edition*

CONTENTS OF 7 TH EDITION	PRINCIPAL CHANGES FROM 6 TH EDITION
PART I Introduction	
Chap. 1. The Concept of Strategy	Updating of examples.
PART II The Tools of Strategy Analysis	
Chap. 2. Goals, Values, and Performance	Simplification and integration of sections on the analysis of financial performance. Development of sections on Corporate Social Responsibility. Emphasis on the problems associated with the pursuit of “shareholder value maximization” and a rehabilitation of the concept.
Chap. 3. Industry Analysis: The Fundamentals	Updating of tables and examples. Increased emphasis on the use of the Porter framework to address strategic positioning.
Chap. 4. Further Topics in Industry and Competitive Analysis	More integrated discussion of competitor analysis Further discussion of dynamic aspects of industry analysis including ideas on “industry architecture” by M. Jacobides and others
Chap. 5. Analyzing Resources and Capabilities	More explicit guidance on how to apply the analysis of resources and capabilities to appraise a firm’s strengths and weaknesses and formulate its strategy
Chap. 6. Capability Development and Knowledge Management	This new chapter has been added to provide an integrated treatment of the development of resources and capabilities. It incorporates recent work on knowledge management, dynamic capabilities, and the organizational conditions conducive to capability development
Chap. 7. Organization Structure and Management Systems: The Fundamentals of Strategy Implementation	A simpler and more integrated analysis of the basic organizational tasks of managing cooperation and integration.
PART III The Analysis of Competitive Advantage	
Chap. 8. The Nature and Sources of Competitive Advantage	Incorporates recent research on the role of <i>complementarity</i> and <i>contextuality</i> in reinforcing barriers to imitation
Chap. 9. Cost Advantage	Greater emphasis on dynamic aspects of cost efficiency--including fast response to downturns in demand.
Chap. 10. Differentiation Advantage	Increased emphasis on issues of <i>identity</i>
PART IV Business Strategy Formulation and Implementation in Different Contexts	
Chap. 11. Industry Evolution and Strategic Change	Includes new material on the evolution of industry architectures and on the role of complexity and complementarity in firm inertia.
Chap. 12. Technology-based Industries & the Management of Innovation	Updated discussion of network externalities and competing for standards. Major update on how to manage innovation—including cross-functional integration and “open innovation”
Chap. 13. Competitive Advantage in Mature Industries	Chapter shortened. New material on innovation in mature firms.
PART V Corporate Strategy	
Chap. 14. Vertical Integration and the Scope of the Firm	Examples and evidence updated.
Chap. 15. Global Strategies and the	Major rewrite to reflect (a) recent changes in the global

Multinational Corporation	environment of business and (b) contributions by Ghemawat to analysis of global strategy and country differences
Chap. 16. Diversification Strategy	Chapter updated and made more concise.
Chap.17. Implementing Corporate Strategy: Managing the Multibusiness Company	Contributions from Andrew Campbell on "Parenting Advantage" framework. Major new section of mergers and acquisitions.
Chap. 18. What's New in Strategic Management?	Extensively revised to address the implications of the 2008-9 financial crash. New sections on "Managing in a Downturn," and the redesign of organizations to meet the demands of the 2 nd decade of the 21 st century.

INSTRUCTOR SUPPORT MATERIALS

Contemporary Strategy Analysis is supported by a range of resources for both instructors and students. Instructor resources are available on a password protected pages of the Wiley website. [insert link].

Cases

A key feature of this new edition is an expanded range of cases. There are now 24 accompanying cases, all of which have been specially developed for use with the text. In addition, cases from earlier editions that have not been included in the 7th edition of the casebook are available on the Wiley website.

An important objective of this *Guide* is offer advice to instructors on the choice of cases to use with the textbook. In addition to the cases that accompany *Contemporary Strategy Analysis*, instructors use the book with cases from a variety of other sources (including cases from the collections of Harvard Business School, the University of Virginia's Darden School, Stanford Business School, Insead, London Business School, IMD, IESE, Western Ontario, and the North American Case Writers' Association. The teaching note for each chapter recommends cases for that fit with the issues and concepts for that chapter. The section on "Sample Course Outlines" [insert URL here] shows the cases that have been used by different instructors at different schools.

Chapter Teaching Notes

For each chapter of the text, a teaching note provides a suggested class outline together with recommendations of case studies.

PowerPoint Slides

A set of slides is available for each chapter of the text. These slides reproduce figures from the text, summarize key points from each chapter, and illuminate key concepts and tools with applications and additional examples.

Testbank

To facilitate assessment of student comprehension, a testbank comprising True/False Questions and Multiple Choice Questions is available for each chapter. To explore and develop students' learning at a deeper level, the Short Reflective Questions are suitable either as essay questions or as topics for class discussion. I am grateful to Daniel Degraevl of California State University ...for creating the testbank.

In addition, the support materials available for students—notably the additional readings, the guide to video resources, and the suggested answers to discussion questions can also be incorporated by instructors in their course designs and used in the classroom (see below).

STUDENT SUPPORT MATERIALS

To enrich students' use of the textbook and enhance their learning, the website makes available several resources.

Suggested Answers to Self-Study Questions

Each chapter of *Contemporary Strategy Analysis* closes with a number of self-study questions which require students to apply or discuss concepts and frameworks contained in that chapter. While there questions have no "right" answers, I offer suggested answers to provide guidance.

Additional Readings

The website offers direct links to relevant articles from *Business Strategy Review*, a London Business School journal that brings comment and analysis on current strategic management issues from business leaders and management thinkers.

Video Resources

The web site offers links to video content that features senior executives and business thinkers discussing issues relevant to the chapters of the text and to the cases that accompany the text.

DESIGNING YOUR STRATEGIC MANAGEMENT COURSE

Capstone or Foundation?

Virtually every business degree programs, both MBA and undergraduate, has a required course in strategic management—though sometimes it is called: Business Policy, Business Strategy, Competitive Strategy, or Management Policy. Traditionally, strategic management has been viewed as a *capstone* course. Its role was to integrate the knowledge gained in students' prior courses in basic disciplines (economics, statistics, organization theory) and functional areas (marketing, accounting, finance, production, HRM). Over time the role of the required strategic management course changed. Increasingly strategic management became the *foundation* for further courses in business and management. The idea was that strategic management is not so much an integrator of functionally orientated courses in businesses as a basis for these courses. The choice between the role of strategic management as a capstone or a foundation is reflected in the course's positioning within the program; a capstone is positioned at the end, a foundation close to the beginning.

The positioning of your course along this spectrum is not critical to your use of this book since it is intended to provide a self-contained introduction to strategy. Students who have taken courses in economics, finance, accounting, and organizational behavior/organizational theory will find the book easier, simply because they are familiar with a number of the concepts and ideas introduced. However, the book does not presuppose any prior knowledge of these contributing disciplines. At Georgetown and at many other schools, *Contemporary Strategy Analysis* has been used successfully with students who are taking strategic management as one of their first business courses.

Using *Contemporary Strategy Analysis* with Undergraduates

Contemporary Strategy Analysis was developed initially with MBA students in mind, but right from the outset I used—and still use—the book as the foundation both for graduate and undergraduate classes in strategic management.

Several instructors have suggested to me that they perceive *Contemporary Strategy Analysis* as primarily an MBA book and “a bit advanced” for their undergraduate students. This view has surprised me. Certainly, MBA strategy and undergraduate courses in strategy have different teaching styles and objectives and need to take careful account of undergraduate students' lack of business experience. Yet, in terms of their ability to comprehend and apply the concepts and frameworks of strategy analysis, my own experience is the intellects and educational foundations of the great majority of undergraduate students allows them to gain great benefit from using *Contemporary Strategy Analysis*.

I am appalled by the notion that strategy teaching needs to be “dumbed-down” to checklists, rules, and templates for the purposes of undergraduate business courses. The basic concepts of strategy: competitive advantage, organizational capability, and indeed strategy itself, are complex. Formulating and implementing strategy in a business environment that is complex and changing is challenging. But this is the basic reality of business strategy, to pretend that it is not is a disservice to our students. Given that most undergraduate strategy courses are taught as capstone courses and most MBA strategy courses are taught as foundation courses, I believe that most undergraduates are well-equipped to deal with the conceptual and theoretical tools of strategic management.

What balance between discussion and exposition?

One of my objectives in writing *Contemporary Strategy Analysis* was to liberate me from having to spend substantial portions of class time expounding concepts and theories, thereby releasing more time for interactive class discussion—case analysis in particular. At the same time, effort needs to be devoted to generalizing issues arising from case discussions and reinforcing key learnings. Case discussion is extremely valuable for illustrating the key concepts of strategy and getting students to apply particular frameworks and techniques. However, to really grasp the power and usefulness of the tools of strategy, a single application is usually not enough. My experience is that the frameworks for analyzing industry structure (5-forces) and resources and capabilities are fairly simple, but the real learning is in their application. I find it valuable to take time (either class time or through tests and coursework), to encourage students to apply the basic frameworks and key concepts to multiple examples and real-world situations.

My own approach is to devote a week to each main major topic (e.g. industry analysis, resource analysis, diversification, etc.). Students are required to prepare the assigned case and read the relevant chapter of the textbook. The first class is devoted to class discussion of the assigned case. I use the second class of the week to generalize the issues arising from the case and to reinforce the learning with additional applications of the core concepts and frameworks. For example, when teaching industry analysis I begin with a case such as the US Airline Industry. In the second class we develop more systematically the use of the Five-Forces Framework and apply it to a number of different situations. For example: Why has the tobacco industry remained so profitable despite the fall in demand in the advanced industrial nations? Why do the oil and gas companies earn much higher returns on their upstream than their downstream investments? Why has profitability in the specialty segments of the world automobile industry (luxury cars, sports cars, SUVs, and passenger vans) declined substantially during the past ten years?

What balance between strategy formulation versus strategy implementation?

I am unhappy with the conventional separation of strategy formulation and implementation. Issues of implementation are critical in formulating sound strategies, and the development and articulation of strategy generally occurs in tandem with the process of implementation. Hence, a feature of this book is the integration of strategy formulation and implementation. The 6th edition introduces “Organization Structure and Management Systems” (which is primarily concerned with strategy implementation) among the basic tools of strategy analysis (i.e. in Part II of the book). Then, when I go on to explore competitive advantage, business strategies in different industry contexts, and corporate strategy (Parts III, IV, and V), each chapter addresses both strategy formulation and strategy implementation.

At the same time, the book's emphasis on the fundamental determinants of competitive advantage tends to place primary emphasis on issues of strategy formulation. In my classes I try to compensate for this bias by devoting special attention to issues of organizational structure, management systems, and leadership style in the case discussions. Here I encourage students to introduce ideas and concepts that they have encountered in their courses in organization behavior, human resource management, operations management, and entrepreneurship.

What ordering of topics?

The book orders the various topics in a sequence which, to me, makes good sense. The rationale is to move from the basic tools of analysis (including the concepts and techniques of shareholder value analysis, industry analysis and resource analysis) to more complex applications of these tools, including, for example, the management of technology, global strategy, and diversification strategy. At the same time, there is considerable scope for rearranging the order of topics. For example, some instructors begin their courses with the analysis of competitive advantage. The sample course outlines offer some alternative sequencing of topics.