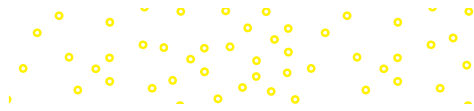


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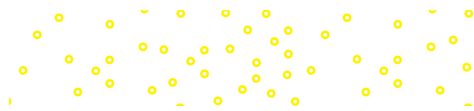


FRANK T. ROTHARMEL



Strategic Management









FIFTH EDITION

Strategic Management



Frank T. Rothaermel

Georgia Institute of Technology



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STRATEGIC MANAGEMENT, FIFTH EDITION

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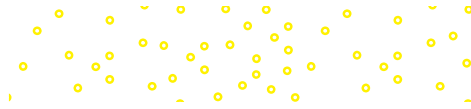
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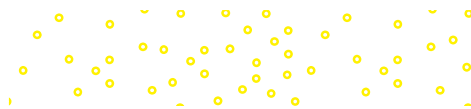
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DEDICATION

To my eternal family for their love, support, and sacrifice: Kelleyn, Harris, Winston, Roman, Adelaide, Avery, and Ivy.

—Frank T. Rothaermel



CONTENTS IN BRIEF

PART ONE / ANALYSIS 2

- CHAPTER 1** What Is Strategy? 4
- CHAPTER 2** Strategic Leadership: Managing the Strategy Process 32
- CHAPTER 3** External Analysis: Industry Structure, Competitive Forces, and Strategic Groups 72
- CHAPTER 4** Internal Analysis: Resources, Capabilities, and Core Competencies 116
- CHAPTER 5** Competitive Advantage, Firm Performance, and Business Models 154

PART TWO / FORMULATION 190

- CHAPTER 6** Business Strategy: Differentiation, Cost Leadership, and Blue Oceans 192
- CHAPTER 7** Business Strategy: Innovation, Entrepreneurship, and Platforms 230
- CHAPTER 8** Corporate Strategy: Vertical Integration and Diversification 276
- CHAPTER 9** Corporate Strategy: Strategic Alliances, Mergers and Acquisitions 320
- CHAPTER 10** Global Strategy: Competing Around the World 350

PART THREE / IMPLEMENTATION 388

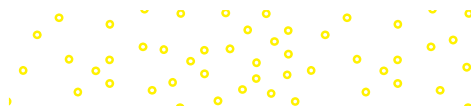
- CHAPTER 11** Organizational Design: Structure, Culture, and Control 390
- CHAPTER 12** Corporate Governance and Business Ethics 432

PART FOUR / MINICASES 459

HOW TO CONDUCT A CASE ANALYSIS 460

PART FIVE / FULL-LENGTH CASES

Twelve full-length cases are included in Connect. A total of 22 full-length cases are available through McGraw-Hill Create: www.mcgrawhillcreate.com/rothaermel















MINICASES & FULL-LENGTH CASES

MINICASES /

- 1 Apple: What's Next? 471
- 2 Starbucks CEO Kevin Johnson: "I'm not Howard Schultz" 475
- 3 BlackBerry's Rise and Fall 480
- 4 Nike's Core Competency: The Risky Business of Creating Heroes 482
- 5 Business Model Innovation: How Dollar Shave Club Disrupted Gillette 487
- 6 How JCPenney Sailed into a Red Ocean 489
- 7 Platform Strategy: How PayPal Solved the Chicken-or-Egg Problem 492
- 8 GE: Corporate Strategy Gone Wrong 495
- 9 Disney: Building Billion-Dollar Franchises 499
- 10 Hollywood Goes Global 503
- 11 Yahoo: From Internet Darling to Fire Sale 508
- 12 Uber: Ethically Most Challenged Tech Company? 511

FULL-LENGTH CASES /

The twelve cases included in Connect are noted below. All cases are available through McGraw-Hill Create: www.mcgrawhillcreate.com/rothaerme1

- | | |
|--|---|
| 1 Airbnb, Inc. *  connect | 12 Walmart, Inc. |
| 2 Kickstarter >> + | 13 Tesla, Inc. >>  connect |
| 3 Facebook, Inc. >>  connect | 14 Netflix, Inc.  connect |
| 4 SpaceX >> + | 15 Amazon.com, Inc. >>  connect |
| 5 Delta Air Lines, Inc. | 16 Apple, Inc. >>  connect |
| 6 The Movie Exhibition Industry >> + | 17 The Walt Disney Company >>  connect |
| 7 Starbucks Corporation  connect | 18 UPS in India |
| 8 The Vanguard Group *  connect | 19 Alphabet's Google |
| 9 Better World Books and the Triple Bottom Line | 20 Merck & Co., Inc. |
| 10 McDonald's Corporation >>  connect | 21 Nike, Inc. *  connect |
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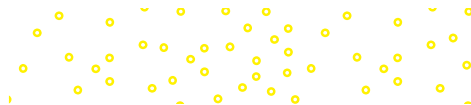
CHAPTERCASES & STRATEGY HIGHLIGHTS

CHAPTERCASES /

- 1 Tesla's Secret Strategy 5
- 2 Leadership Crisis at Facebook? 33
- 3 Airbnb: Disrupting the Hotel Industry 73
- 4 Five Guys' Core Competency: "Make the Best Burger, Don't Worry about Cost" 117
- 5 The Quest for Competitive Advantage: Apple vs. Microsoft 155
- 6 JetBlue Airways: En Route to a New Blue Ocean? 193
- 7 Netflix: Disrupting the TV Industry 231
- 8 Amazon's Corporate Strategy 277
- 9 Little Lyft Gets Big Alliance Partners and Beats Uber in Going Public 321
- 10 IKEA: The World's Most Profitable Retailer 351
- 11 "A" Is for Alphabet and "G" Is for Google 391
- 12 Theranos: Bad Blood 433

STRATEGY HIGHLIGHTS /

- 1.1 Does Twitter Have a Strategy? 9
- 1.2 Merck's Stakeholder Strategy 20
- 2.1 Teach for America: How Wendy Kopp Inspires Future Leaders 41
- 2.2 Starbucks CEO: "It's Not What We Do" 54
- 3.1 Blockbuster's Bust 79
- 3.2 From League of Legends to Fortnite: The Rise of e-Sports 103
- 4.1 Dr. Dre's Core Competency: Coolness Factor 122
- 4.2 Applying VRIO: The Rise and Fall of Groupon 133
- 5.1 PepsiCo's Indra Nooyi: Performance with Purpose 175
- 5.2 Threadless: Leveraging Crowdsourcing to Design Cool T-Shirts 178
- 6.1 Dr. Shetty: "The Henry Ford of Heart Surgery" 210
- 6.2 Cirque du Soleil: Finding a New Blue Ocean? 219
- 7.1 Standards Battle: Which Automotive Technology Will Win? 244
- 7.2 Wikipedia: Disrupting the Encyclopedia Business 261
- 8.1 The Equity Alliance between Coca-Cola and Monster: A Troubled Engagement? 288
- 8.2 P&G's Diversification Strategy: Turning the Tide? 306
- 9.1 How Tesla Used Alliances Strategically 327
- 9.2 Kraft Heinz: From Hostile Takeovers as Specialty to Eating Humble Pie 338
- 10.1 Does GM's Future Lie in China? 360
- 10.2 Walmart Retreats from Germany, and Lidl Invades the United States 363
- 11.1 Zappos: Of Happiness and Holacracy 407
- 11.2 Sony vs. Apple: Whatever Happened to Sony? 414
- 12.1 HP's Boardroom Drama and Divorce 444
- 12.2 VW's Dieselgate: School of Hard NOx 449



CONTENTS

PART ONE / ANALYSIS 2

CHAPTER 1

WHAT IS STRATEGY? 4

CHAPTERCASE 1 / Part I

Tesla's Secret Strategy 5

1.1 What Strategy Is: Gaining and Sustaining Competitive Advantage 6

Crafting a Good Strategy at Tesla 7

What Is Competitive Advantage? 10

1.2 Stakeholder Strategy and Competitive Advantage 13

Value Creation 13

Stakeholder Strategy 14

Stakeholder Impact Analysis 15

1.3 The Analysis, Formulation, Implementation (AFI) Strategy Framework 21

Key Topics and Questions of the AFI Strategy Framework 22

1.4 Implications for Strategic Leaders 23

CHAPTERCASE 1 / Part II 24

CHAPTER 2

STRATEGIC LEADERSHIP: MANAGING THE STRATEGY PROCESS 32

CHAPTERCASE 2 / Part I

Leadership Crisis at Facebook? 33

2.1 Strategic Leadership 34

What Do Strategic Leaders Do? 35

How Do You Become a Strategic Leader? 35

The Strategy Process across Levels: Corporate, Business, and Functional Managers 37

2.2 Vision, Mission, and Values 40

Vision 40

Mission 45

Values 46

2.3 The Strategic Management Process 47

Top-Down Strategic Planning 47

Scenario Planning 48

Strategy as Planned Emergence: Top-Down and Bottom-Up 51

2.4 Strategic Decision Making 57

Two Distinct Modes of Decision Making 58

Cognitive Biases and Decision Making 58

How to Improve Strategic Decision Making 62

2.5 Implications for Strategic Leaders 63

CHAPTERCASE 2 / Part II 64

CHAPTER 3

EXTERNAL ANALYSIS: INDUSTRY STRUCTURE, COMPETITIVE FORCES, AND STRATEGIC GROUPS 72

CHAPTERCASE 3 / Part I

Airbnb: Disrupting the Hotel Industry 73

3.1 The PESTEL Framework 74

Political Factors 75

Economic Factors 76

Sociocultural Factors 78

Technological Factors 78

Ecological Factors 80

Legal Factors 80

3.2 Industry Structure and Firm Strategy: The Five Forces Model 81

Industry vs. Firm Effects in Determining Firm Performance 81

Competition in the Five Forces Model 82

The Threat of Entry 84

The Power of Suppliers 87

The Power of Buyers 88

The Threat of Substitutes 89

Rivalry among Existing Competitors 90

Applying the Five Forces Model to the U.S. Airline Industry 96

A Sixth Force: The Strategic Role of Complements 98

3.3 Changes over Time: Entry Choices and Industry Dynamics 99

Entry Choices 99

Industry Dynamics 102

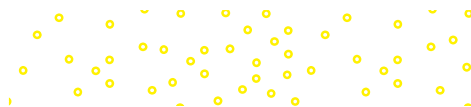
3.4 Performance Differences within the Same Industry: Strategic Groups 105

The Strategic Group Model 106

Mobility Barriers 107

3.5 Implications for Strategic Leaders 108

CHAPTERCASE 3 / Part II 109



X CONTENTS

CHAPTER 4

INTERNAL ANALYSIS: RESOURCES, CAPABILITIES,
AND CORE COMPETENCIES 116

CHAPTERCASE 4 / Part I

Five Guys' Core Competency: "Make the Best Burger,
Don't Worry about Cost" 117

4.1 From External to Internal Analysis 119

4.2 Core Competencies 120

Resources and Capabilities 124

4.3 The Resource-Based View 126

Resource Heterogeneity and Resource Immobility 127

The VRIO Framework 128

*Isolating Mechanisms: How to Sustain a Competitive
Advantage* 132

4.4 The Dynamic Capabilities Perspective 137

Core Rigidities 137

Dynamic Capabilities 138

Resource Stocks and Resource Flows 139

4.5 The Value Chain and Strategic Activity
Systems 140

The Value Chain 140

Strategic Activity Systems 143

4.6 Implications for Strategic Leaders 146

*Using SWOT Analysis to Generate Insights from External
and Internal Analysis* 146

CHAPTERCASE 4 / Part II 148**CHAPTER 5**

COMPETITIVE ADVANTAGE, FIRM PERFORMANCE,
AND BUSINESS MODELS 154

CHAPTERCASE 5 / Part I

The Quest for Competitive Advantage: Apple
vs. Microsoft 155

5.1 Competitive Advantage and Firm
Performance 156

Accounting Profitability 156

Shareholder Value Creation 163

Economic Value Creation 165

The Balanced Scorecard 171

The Triple Bottom Line 174

5.2 Business Models: Putting Strategy into
Action 177

*The Why, What, Who, and How of Business Models
Framework* 177

Popular Business Models 180

Dynamic Nature of Business Models 182

5.3 Implications for Strategic Leaders 183

CHAPTERCASE 5 / Part II 184**PART TWO / FORMULATION 190****CHAPTER 6**

BUSINESS STRATEGY: DIFFERENTIATION,
COST LEADERSHIP, AND BLUE OCEANS 192

CHAPTERCASE 6 / Part I

JetBlue Airways: En Route to a New Blue Ocean? 193

6.1 Business-Level Strategy: How to Compete for
Advantage 195

Strategic Position 196

Generic Business Strategies 196

6.2 Differentiation Strategy: Understanding
Value Drivers 198

Product Features 201

Customer Service 201

Complements 201

6.3 Cost-Leadership Strategy: Understanding
Cost Drivers 202

Cost of Input Factors 204

Economies of Scale 204

Learning Curve 207

Experience Curve 211

6.4 Business-Level Strategy and the Five Forces:
Benefits and Risks 212

Differentiation Strategy: Benefits and Risks 212

Cost-Leadership Strategy: Benefits and Risks 214

6.5 Blue Ocean Strategy: Combining Differentiation
and Cost Leadership 215

Value Innovation 216

Blue Ocean Strategy Gone Bad: "Stuck in the Middle" 218

6.6 Implications for Strategic Leaders 222

CHAPTERCASE 6 / Part II 222

CHAPTER 7

BUSINESS STRATEGY: INNOVATION,
ENTREPRENEURSHIP, AND PLATFORMS 230

CHAPTERCASE 7 / Part I

Netflix: Disrupting the TV Industry 231

7.1 Competition Driven by Innovation 232

Netflix's Continued Innovation 233

The Speed of Innovation 233

The Innovation Process 234

7.2 Strategic and Social Entrepreneurship 237**7.3 Innovation and the Industry Life Cycle 240**

Introduction Stage 241

Growth Stage 243

Shakeout Stage 247

Maturity Stage 247

Decline Stage 248

Crossing the Chasm 249

7.4 Types of Innovation 255

Incremental vs. Radical Innovation 256

Architectural vs. Disruptive Innovation 258

7.5 Platform Strategy 263

The Platform vs. Pipeline Business Models 263

The Platform Ecosystem 264

7.6 Implications for Strategic Leaders 268**CHAPTERCASE 7 / Part II 269****CHAPTER 8**

CORPORATE STRATEGY: VERTICAL INTEGRATION
AND DIVERSIFICATION 276

CHAPTERCASE 8 / Part I

Amazon's Corporate Strategy 277

8.1 What Is Corporate Strategy? 280

Why Firms Need to Grow 280

Three Dimensions of Corporate Strategy 281

8.2 The Boundaries of the Firm 283

Firms vs. Markets: Make or Buy? 284

Alternatives on the Make-or-Buy Continuum 287

8.3 Vertical Integration along the Industry

Value Chain 291

Types of Vertical Integration 292

Benefits and Risks of Vertical Integration 294

When Does Vertical Integration Make Sense? 297

Alternatives to Vertical Integration 297

**8.4 Corporate Diversification: Expanding Beyond a
Single Market 299**

Types of Corporate Diversification 301

*Leveraging Core Competencies for Corporate
Diversification 303*

Corporate Diversification and Firm Performance 308

8.5 Implications for Strategic Leaders 311**CHAPTERCASE 8 / Part II 312****CHAPTER 9**

CORPORATE STRATEGY: STRATEGIC ALLIANCES,
MERGERS AND ACQUISITIONS 320

CHAPTERCASE 9 / Part I

Little Lyft Gets Big Alliance Partners and Beats Uber in
Going Public 321

9.1 How Firms Achieve Growth 323

The Build-Borrow-or-Buy Framework 323

9.2 Strategic Alliances 326

Why Do Firms Enter Strategic Alliances? 326

Governing Strategic Alliances 330

Alliance Management Capability 332

9.3 Mergers and Acquisitions 335

Why Do Firms Merge with Competitors? 335

Why Do Firms Acquire Other Firms? 337

M&A and Competitive Advantage 340

9.4 Implications for Strategic Leaders 341**CHAPTERCASE 9 / Part II 342****CHAPTER 10**

GLOBAL STRATEGY: COMPETING AROUND
THE WORLD 350

CHAPTERCASE 10 / Part I

IKEA: The World's Most Profitable Retailer 351

10.1 What Is Globalization? 353

Stages of Globalization 355

State of Globalization 357

10.2 Going Global: Why? 358

Advantages of Going Global 358

Disadvantages of Going Global 362

10.3 Going Global: Where and How? 365

*Where in the World to Compete? The CAGE Distance
Framework 365*

How Do MNEs Enter Foreign Markets? 369

xii CONTENTS

10.4 Cost Reductions vs. Local Responsiveness: The Integration-Responsiveness Framework 370

International Strategy 371*Multidomestic Strategy* 372*Global-Standardization Strategy* 372*Transnational Strategy* 373

10.5 National Competitive Advantage: World Leadership in Specific Industries 375

Porter's Diamond Framework 376

10.6 Implications for Strategic Leaders 379

CHAPTERCASE 10 / Part II 380

PART THREE / IMPLEMENTATION 388

CHAPTER 11

ORGANIZATIONAL DESIGN: STRUCTURE, CULTURE, AND CONTROL 390

CHAPTERCASE 11 / Part I

“A” Is for Alphabet and “G” Is for Google 391

11.1 Organizational Design and Competitive Advantage 393

Organizational Inertia: The Failure of Established Firms 395*Organizational Structure* 397*Mechanistic vs. Organic Organizations* 398

11.2 Strategy and Structure 400

Simple Structure 401*Functional Structure* 401*Multidivisional Structure* 404*Matrix Structure* 408

11.3 Organizing for Innovation 412

11.4 Organizational Culture: Values, Norms, and Artifacts 416

Where Do Organizational Cultures Come From? 419*How Does Organizational Culture Change?* 419*Organizational Culture and Competitive Advantage* 420

11.5 Strategic Control-and-Reward Systems 422

Input Controls 423*Output Controls* 423

11.6 Implications for Strategic Leaders 424

CHAPTERCASE 11 / Part II 425

CHAPTER 12

CORPORATE GOVERNANCE AND BUSINESS ETHICS 432

CHAPTERCASE 12 / Part I

Theranos: Bad Blood 433

12.1 The Shared Value Creation Framework 435

Public Stock Companies and Shareholder Capitalism 435*Creating Shared Value* 437

12.2 Corporate Governance 438

Agency Theory 440*The Board of Directors* 441*Other Governance Mechanisms* 443

12.3 Strategy and Business Ethics 448

Bad Apples vs. Bad Barrels 450

12.4 Implications for Strategic Leaders 451

CHAPTERCASE 12 / Part II 452

PART FOUR / MINICASES 459

HOW TO CONDUCT A CASE ANALYSIS 460

PART FIVE / FULL-LENGTH CASES

Twelve full-length cases are included in Connect. A total of 22 full-length cases are available through McGraw-Hill Create: www.mcgrawhillcreate.com/rothaermel

Company Index 517

Name Index 523

Subject Index 531

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Frank T. Rothaermel

Georgia Institute of Technology

Frank T. Rothaermel, PhD, a Professor of Strategy & Innovation, holds the Russell and Nancy McDonough Chair in the Scheller College of Business at the Georgia Institute of Technology (GT) and is an Alfred P. Sloan Industry Studies Fellow. He received a National Science Foundation (NSF) CAREER award, which “offers the National Science Foundation’s most prestigious awards in support of ... those teacher-scholars who most effectively integrate research and education” (NSF CAREER Award description).

Frank’s research interests lie in the areas of strategy, innovation, and entrepreneurship. Frank has published over 35 articles in leading academic journals such as the *Strategic Management Journal*, *Organization Science*, *Academy of Management Journal*, *Academy of Management Review*, and elsewhere. Based on having published papers in the top 1 percent based on citations, *Thomson Reuters* identified Frank as one of the “world’s most influential scientific minds.” He is listed among the top-100 scholars based on impact over more than a decade in both economics and business. *Bloomberg Businessweek* named Frank one of Georgia Tech’s Prominent Faculty in its national survey of business schools. The Kauffman Foundation views Frank as one of the world’s 75 thought leaders in entrepreneurship and innovation.

Frank has received several recognitions for his research, including the Sloan Industry Studies Best Paper Award, the Academy of Management Newman Award, the Strategic Management Society Conference Best Paper Prize, the DRUID Conference Best Paper Award, the Israel Strategy Conference Best Paper Prize, and he is the inaugural recipient of the Byars Faculty Excellence Award. Frank currently serves or has served on the editorial boards of the *Strategic Management Journal*, *Organization Science*, *Academy of Management Journal*, *Academy of Management Review*, and *Strategic Organization*.

Frank regularly translates his research findings for wider audiences in articles in the *MIT Sloan Management Review*, *The Wall Street Journal*, *Forbes*, and elsewhere. To inform his research Frank has conducted extensive fieldwork and executive training with leading corporations such as Amgen, Daimler, Eli Lilly, Equifax, GE Energy, GE Healthcare, Hyundai Heavy Industries (South Korea), Kimberly-Clark, Microsoft, McKesson, NCR, Turner (TBS), UPS, among others.

Frank has a wide range of executive education experience, including teaching in programs at GE Management Development Institute (Crotonville, New York), Georgia Institute of Technology, Georgetown University, ICN Business School (France), Politecnico di Milano (Italy), St. Gallen University (Switzerland), and the University of Washington. He received numerous teaching awards for excellence in the classroom including the GT-wide Georgia Power Professor of Excellence award.

When launched in 2012, Frank’s *Strategic Management* text received the McGraw-Hill 1st Edition of the Year Award in Business & Economics. In 2018, the 4th edition of the text received McGraw-Hill’s Product of the Year Award in Business & Economics. Frank’s *Strategic Management* text has been translated into Greek, Korean, Mandarin, and Spanish. Sixteen of his case studies are Most Popular among the cases distributed by Harvard Business Publishing.

Frank held visiting professorships at EBS University of Business and Law (Germany), Singapore Management University (Tommie Goh Professorship), and the University of St. Gallen (Switzerland). He is a member of the American Economic Association, Academy of Management, and the Strategic Management Society.

Frank holds a PhD degree in strategic management from the University of Washington; an MBA from the Marriott School of Management at Brigham Young University; and is Diplom-Volkswirt (M.Sc. equivalent) in economics from the University of Duisburg-Essen, Germany. Frank completed training in the case teaching method at the Harvard Business School.



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PREFACE

The market for strategy texts can be broadly separated into two overarching categories: traditional application-based and research-based. Traditional application-based strategy books represent the first-generation texts with first editions published in the 1980s. The research-based strategy books represent the second-generation texts with first editions published in the 1990s. I wrote this text to address a needed new category—a third generation of strategy content that *combines* into one the student-accessible, application-oriented frameworks of the first-generation texts with the research-based frameworks of the second-generation texts. The market response to this unique approach to teaching and studying strategy continues to be overwhelmingly enthusiastic.

To facilitate an enjoyable and refreshing reading experience that enhances student learning and retention, I *synthesize* and *integrate* strategy frameworks, empirical research, and practical applications with current real-world examples. This approach and emphasis on real-world examples offers students a learning experience that uniquely combines rigor and relevance. As John Medina of the University of Washington’s School of Medicine and life-long researcher on how the mind organizes information explains:

How does one communicate meaning in such a fashion that learning is improved? A simple trick involves the liberal use of relevant real-world examples, thus peppering main learning points with meaningful experiences. . . . Numerous studies show this works. . . . The greater the number of examples . . . the more likely the students were to remember the information. It’s best to use real-world situations familiar to the learner. . . . Examples work because they take advantage of the brain’s natural predilection for pattern matching. Information is more readily processed if it can be immediately associated with information already present in the brain. We compare the two inputs, looking for similarities and differences as we encode the new information. Providing examples is the cognitive equivalent of adding more handles to the door. [The more handles one creates at the moment of learning, the more likely the information can be accessed at a later date.] Providing examples makes the information more elaborative, more complex, better encoded, and therefore better learned.*

Strategic Management brings conceptual frameworks to life via examples that cover products and services from companies with which students are familiar, such as Facebook, Amazon, Google, Tesla, Starbucks, Apple, McDonald’s, Nike, Disney, Airbnb, and Uber. Liberal use of such examples aids in making strategy relevant to students’ lives and helps them internalize strategy concepts and frameworks. Integrating current examples with modern strategy thinking, I prepare students with the foundation they need to understand how companies gain and sustain competitive advantage. I also develop students’ skills to become successful leaders capable of making well-reasoned strategic decisions in a turbulent 21st century.

I’m pleased to introduce the new 5th edition of *Strategic Management*. My distinctive approach to teaching strategy not only offers students a unique learning experience that combines theory and practice, but also provides tight linkages between concepts and cases. In this new 5th edition, I build upon the unique strengths of this product, and continue to add improvements based upon hundreds of insightful reviews and important feedback from professors, students, and working professionals. The hallmark features of this text continue to be:

- *Student engagement* via practical and relevant application of strategy concepts using a holistic **Analysis, Formulation, and Implementation (AFI) Strategy Framework**.
- *Synthesis and integration* of empirical research and practical applications combined with relevant strategy material to focus on “*What is important?*” for the student and “*Why is it important?*”

*Medina, J. (2014). *Brain Rules: 12 Principles for Surviving and Thriving at Work, Home, and School*. (Seattle: Pear Press), 139–140.

- *Strong emphasis on diversity and inclusion* by featuring a wide range of strategic leaders from different backgrounds and fields, not just in business, but also in entertainment, professional sports, and so forth.
- *Coverage of a wide array of organizations*, including for-profit public (Fortune 100) companies, private firms (including startups), as well as nonprofit organizations. All of them need a good strategy!
- *Global perspective*, with a focus on competing around the world, featuring many leading companies from Asia, Europe, and Latin America, as well as North America. I was fortunate to study, live, and work across the globe, and I attempt to bring this cosmopolitan perspective to bear in this text.
- *Direct personal applications* of strategy concepts to careers and lives to help internalize the content (including the popular **myStrategy** modules at the end of each chapter).
- *Industry-leading digital delivery option* (**Create**), *adaptive learning system* (**SmartBook**), and *online assignment and assessment system* (**Connect**).
- Standalone module on **How to Conduct a Case Analysis**.
- *High-quality Cases*, well integrated with text chapters and standardized, *high-quality and detailed teaching notes*; there are three types of cases that come with this text:
 - **12 ChapterCases** begin and end each chapter, framing the chapter topic and content.
 - **12 MiniCases** in Part 4 of the book, with one MiniCase tailored specifically to each chapter with accompanying discussion questions. All of the cases are based on original research, provide dynamic opportunities for students to apply strategy concepts by assigning them in conjunction with specific chapters, and can be used in a variety of ways (as individual assignments, group work, and in class).
 - **22 full-length Cases**, authored or co-authored by Frank T. Rothaermel specifically to accompany this text; 12 of these cases are included complimentary in **5e Connect**.

I have taken great pride in authoring all the case materials that accompany this text. This additional touch is a differentiating feature from other offerings on the market and allows for strict quality control and seamless integration with chapter content. All case materials come with sets of questions to stimulate class discussion and provide guidance for written assignments. High-quality case teaching notes that more fully integrate content and cases are available to instructors in the **Connect Library**.

In addition to these in-text cases, McGraw-Hill's custom-publishing Create program offers all of the cases and teaching notes accompanying the current as well as prior editions (www.mcgrawhillcreate.com/rothaermel).

What's New in the Fifth Edition?

I have revised and updated the new edition in the following ways, many of which were inspired by conversations and feedback from the many users and reviewers of the prior editions.

OVERVIEW OF MAJOR CHANGES IN 5E

- Section "Stakeholder Strategy and Competitive Advantage" now in Chapter 1.
- Section "Vision, Mission, and Values" now in Chapter 2.
- New section "Strategic Decision Making" in Chapter 2.
- New section "From External to Internal Analysis" in Chapter 4.

- Three new **ChapterCases**: Five Guys (Chapter 4), Alphabet and Google (Chapter 11), and Theranos (Chapter 12); all other ChapterCases revised and updated.
- All new or updated and revised **Strategy Highlights** (two per chapter).
- Revised and updated module on **How to Conduct a Case Analysis**.
- Five new **MiniCases** (Uber, PayPal, JCPenney, GE, and BlackBerry), featuring not only success stories but also failures; all other MiniCases revised and updated. One MiniCase per chapter, tightly integrated with learning objectives. Detailed and high-quality teaching notes are available in the Connect Library.
- Three new **full-length Cases** (Airbnb, Nike, and The Vanguard Group); all other cases including most popular ones such as Amazon, Apple, Best Buy, Facebook, McDonald's, and Tesla, among others, are revised and updated. Detailed and updated case teaching notes, as well as financial data for these cases, are available in the Connect Library.

IN DETAIL

CHAPTER 1

- Revised and updated ChapterCase: “Tesla’s Secret Strategy”
- New Strategy Highlight: “Does Twitter have a Strategy?”
- New Strategy Highlight: “Merck’s Stakeholder Strategy”
- Improved chapter flow through moving the updated section “Stakeholder Strategy and Competitive Advantage” into Chapter 1 (from Chapter 2)

CHAPTER 2

- Revised and updated ChapterCase: “Leadership Crisis at Facebook?”
- New section: “Strategic Decision Making”
- New exhibit: “Two Distinct Modes of Decision Making”
- New exhibit: “How to Use a Devil’s Advocate to Improve Strategic Decision Making”
- New Strategy Highlight: “Teach for America: How Wendy Kopp Inspires Future Leaders”
- Improved chapter flow through moving the updated section “Vision, Mission, and Values” into Chapter 2 (from Chapter 1)

CHAPTER 3

- Revised and updated ChapterCase: “Airbnb: Disrupting the Hotel Industry”
- New Strategy Highlight: “Blockbuster’s Bust”
- New Strategy Highlight: “From League of Legends to Fortnite: The Rise of e-Sports”

CHAPTER 4

- New ChapterCase: “Five Guys’ Core Competency: ‘Make the Best Burger, Don’t Worry about Cost’”
- New section: “From External to Internal Analysis”
- New Strategy Highlight: “Dr. Dre’s Core Competency: Coolness Factor”

CHAPTER 5

- Revised and updated ChapterCase: “The Quest for Competitive Advantage: Apple vs. Microsoft”
- New Strategy Highlight: “PepsiCo’s Indra Nooyi: Performance with a Purpose”

CHAPTER 6

- Revised and updated ChapterCase: “JetBlue Airways: En Route to a New Blue Ocean?”
- New Strategy Highlight: “Cirque du Soleil: Finding a New Blue Ocean?”

CHAPTER 7

- Revised and updated ChapterCase: “Netflix: Disrupting the TV Industry”
- New Strategy Highlight: “Wikipedia: Disrupting the Encyclopedia Business”

CHAPTER 8

- Revised and updated ChapterCase: “Amazon’s Corporate Strategy”
- New Strategy Highlight: “P&G Diversification Strategy: Turning the Tide?”

CHAPTER 9

- Revised and updated ChapterCase: “Little Lyft Gets Big Alliance Partners and Beats Uber in Going Public”

CHAPTER 10

- Revised and updated ChapterCase: “IKEA: The World’s Most Profitable Retailer”
- New Strategy Highlight “Does GM’s future lie in China?”

CHAPTER 11

- New ChapterCase: “‘A’ is for Alphabet and ‘G’ is for Google”
- New exhibit: “Formal and Informal Building Blocks of Organizational Design”
- New Strategy Highlight: “Zappos: Of Happiness and Holacracy”

CHAPTER 12

- New ChapterCase: “Theranos: Bad Blood”
- New Strategy Highlight: “HP’s Board Room Drama and Divorce”
- New Strategy Highlight: “VW’s Dieselgate: School of Hard NOx”

MINICASES

- 12 MiniCases, one for each chapter; each MiniCase is closely tied to the chapter’s learning objectives and includes discussion questions and detailed teaching notes.
- Five new MiniCases: Uber, PayPal, JCPenney, GE, and BlackBerry
- The most popular MiniCases from the prior editions have been updated and revised.

FULL-LENGTH CASES

- Three new full-length cases (Airbnb, Nike, and The Vanguard Group); all other cases, including most popular ones such as Amazon, Apple, Best Buy, Facebook, McDonald's, and Tesla, are updated and revised.
- Detailed and updated case teaching notes as well as financial data for these cases are available for instructors in the Connect Library.

CONNECT

- **12 full-length Cases are now included—complimentary—for students in 5e Connect.** Detailed case teaching notes are available in the Connect Library. All full-length cases included in 5e Connect were authored by Frank T. Rothaermel.

Connect, McGraw-Hill's online assignment and assessment system, offers a wealth of content for both students and instructors. Assignable activities include the following:

- **SmartBook**, one of the first fully adaptive and individualized study tools, provides students with a personalized learning experience, giving them the opportunity to practice and challenge their understanding of core strategy concepts. It allows the instructor to set up all assignments prior to the semester, to have them auto-released on preset dates, and to receive auto-graded progress reports for each student and the entire class. Students love SmartBook because they learn at their own pace, and it helps them to study more efficiently by delivering an interactive reading experience through adaptive highlighting and review.
- **Application Exercises** (such as Whiteboard Animation video cases, MiniCase case analyses, click-and-drag activities, and new case exercises for all 12 full-length cases that are available in Connect) require students to apply key concepts, thereby closing the knowing and doing gap, while providing instant feedback for the student and progress tracking for the instructor.

INSTRUCTOR RESOURCES

The **Instructor Resources** located in **Connect** provide the following teaching tools, all of which have been tested and updated with this edition:

- The **Teacher's Resource Manual (TRM)** includes thorough coverage of each chapter, as well as guidance for integrating **Connect**—all in a single resource. Included in this newly combined TRM, which retains favorite features of the previous edition's Instructor's Manual, is the appropriate level of theory, framework, recent application, additional company examples not found in the textbook, teaching tips, PowerPoint references, critical discussion topics, and answers to end-of-chapter exercises.
- The **PowerPoint (PPT)** slide decks, available in an accessible version for individuals with visual impairment, provide comprehensive lecture notes, video links, and additional company examples not found in the textbook. Options include instructor media-enhanced slides as well as notes with outside application examples. All slides can be edited by individual instructors to suit their needs.
- The **Test Bank** includes 100 to 150 questions per chapter, in a range of formats and with a greater-than-usual number of comprehension, critical-thinking, and application or scenario-based questions. Each question is tagged to learning objectives, Bloom's Taxonomy levels, and AACSB compliance requirements. Many questions are new and written especially for this new edition.

- The **Video Guide** includes video links that relate to concepts from chapters. The video links include sources such as Big Think, Stanford University's Entrepreneurship Corner, The McKinsey Quarterly, ABC, BBC, CBS, CNN, ITN/Reuters, MSNBC, NBC, PBS, and YouTube.

CREATE

- **Create**, McGraw-Hill's custom-publishing tool, is where you access additional full-length cases (and Teaching Notes) beyond those included complimentary in Connect that accompany *Strategic Management* (<http://www.mcgrawhillcreate.com/Rothaermel>). You can create customized course packages in print and/or digital form at a competitive price point.
- Through Create, you will be able to select from all author-written cases as well instructor-written cases that match specifically with the new 5th edition. Create also contains cases from Harvard, Ivey Darden, NACRA, and much more! You can assemble your own course, selecting the chapters, cases (multiple formats), and readings that will work best for you, or choose from several ready-to-go, author-recommended complete course solutions, which include chapters, cases, and readings, preloaded in Create. Among the preloaded solutions, you'll find options for undergraduate, MBA, accelerated, and other strategy courses.

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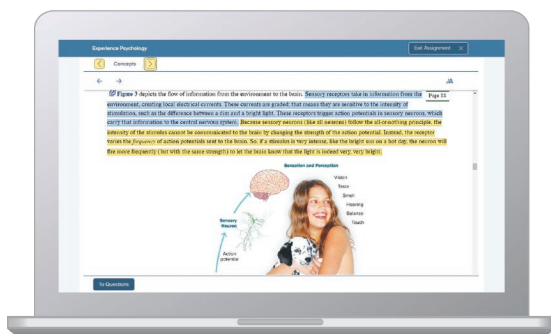


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PART

1

Analysis

- CHAPTER 1** What Is Strategy? 4
- CHAPTER 2** Strategic Leadership: Managing the Strategy Process 32
- CHAPTER 3** External Analysis: Industry Structure, Competitive Forces, and Strategic Groups 72
- CHAPTER 4** Internal Analysis: Resources, Capabilities, and Core Competencies 116
- CHAPTER 5** Competitive Advantage, Firm Performance, and Business Models 154