

STRATEGIC MANAGEMENT

**A MANAGERIAL PERSPECTIVE
SECOND EDITION**

L.J. BOURGEOIS III

IRENE M. DUHAIME

J.L. STIMPert

STRATEGIC MANAGEMENT

A MANAGERIAL PERSPECTIVE
SECOND EDITION

L. J. BOURGEOIS, III

UNIVERSITY OF VIRGINIA

DARDEN GRADUATE SCHOOL OF BUSINESS

IRENE M. DUHAIME

GEORGIA STATE UNIVERSITY

J. L. STIMPert

COLORADO COLLEGE



The Dryden Press

HARCOURT BRACE COLLEGE PUBLISHERS

Fort Worth Philadelphia San Diego New York Orlando Austin San Antonio
Toronto Montreal London Sydney Tokyo

Publisher: George Provol
Acquisitions Editor: John R. Weimeister
Developmental Editor: Jennifer Sheetz Langer
Executive Marketing Strategist: Lisé Johnson
Project Editor: John Haakenson
Production Manager: Anne Dunigan
Art Director: Carol Kincaid
Electronic Publishing Coordinators: Kathi Embry/Ellie Moore
Permissions Editor: Adele Krause

ISBN:0-03-022373-3
Library of Congress Catalog Card Number: 98-73693

Copyright © 1999 by The Dryden Press

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording or any information storage and retrieval system, without permission in writing from the publisher.

Requests for permission to make copies in any part of the work should be mailed to: Permissions Department, Harcourt Brace & Company, 6277 Sea Harbor Drive, Orlando, Florida 32887-6777.

Address for Editorial Correspondence:
The Dryden Press
301 Commerce Street, Suite 3700
Fort Worth, Texas 76102.

Address for Orders:
The Dryden Press
6277 Sea Harbor Drive
Orlando, Florida 32887-6777
1-800-782-4479 (in Florida).

Website address:
<http://www.hbcollege.com>

The Dryden Press, Dryden, and the Dryden Press Logo are registered trademarks of Harcourt Brace & Company.

(Copyright Acknowledgements begin on page CR-1, which constitutes a continuation of this copyright page.)

Harcourt Brace College Publishers may provide complimentary instructional aids and supplements of supplement packages to those adopters qualified under our adoption policy. Please contact your sales representative for more information. If as an adopter or potential user you receive supplements you do not need, please return them to your sales representative or send them to:

Attn: Returns Department, Troy Warehouse, 465 South Lincoln Drive, Troy, MO 63379

Printed in the United States of America.

8 9 0 1 2 3 4 5 6 7 032 9 8 7 6 5 4 3 2 1

The Dryden Press
Harcourt Brace College Publishers

to Lionel and Claire – L.J.B.
to Walter and to Irene and the memory of Jim – I.M.D.
to Lesley – J.L.S.

THE DRYDEN PRESS SERIES IN MANAGEMENT

- | | | |
|--|--|---|
| Anthony, Perrewé, and Kacmar
<i>Strategic Human Resource Management</i>
Second Edition | Czinkota, Ronkainen, Moffett, and Moynihan
<i>Global Business</i>
Second Edition | <i>Cases and Exercises</i>
Sixth Edition |
| Bereman, Lengnick-Hall, Mark
<i>Compensation Decision Making: A Computer-Based Approach</i>
Second Edition | Daft
<i>Leadership</i> | Kindler and Ginsburg
<i>Strategic & Interpersonal Skill Building</i> |
| Bergmann, Scarpello, and Hills
<i>Compensation Decision Making</i>
Second Edition | Daft
<i>Management</i>
Fourth Edition | Kirkpatrick and Lewis
<i>Effective Supervision: Preparing for the 21st Century</i> |
| Boone and Kurtz
<i>Contemporary Business</i>
Ninth Edition | Daft and Marcic
<i>Understanding Management</i>
Second Edition | Kuratko and Hodgetts
<i>Entrepreneurship: A Contemporary Approach</i>
Fourth Edition |
| Bourgeois, Duhaime and Stimpert
<i>Strategic Management: A Managerial Perspective</i>
Second Edition | DeSimone and Harris
<i>Human Resource Development</i>
Second Edition | Kuratko and Welsch
<i>Entrepreneurial Strategy: Text and Cases</i> |
| Bracker, Montanari, and Morgan
<i>Cases in Strategic Management</i> | Foegen
<i>Business Plan Guidebook</i>
Revised Edition | Lengnick-Hall, Cynthia, and Hartman
<i>Experiencing Quality</i> |
| Brechner
<i>Contemporary Mathematics for Business and Consumers</i> | Gatewood and Feild
<i>Human Resource Selection</i>
Fourth Edition | Lewis
<i>10 Enterprises Simulation</i> |
| Calvasina and Barton
<i>Chopstick Company: A Business Simulation</i> | Gold
<i>Exploring Organizational Behavior: Readings, Cases, Experiences</i> | Long and Arnold
<i>The Power of Environmental Partnerships</i> |
| Costin
<i>Readings in Total Quality Management</i> | Greenhaus and Callanan
<i>Career Management</i>
Second Edition | Morgan
<i>Managing for Success</i> |
| Costin
<i>Managing in the Global Economy: The European Union</i> | Higgins and Vincze
<i>Strategic Management: Text and Cases</i>
Fifth Edition | Oddou and Derr
<i>Managing Internationally: A Personal Journey</i> |
| Costin
<i>Economic Reform in Latin America</i> | Hodgetts
<i>Modern Human Relations at Work</i>
Seventh Edition | Ryan, Eckert, and Ray
<i>Small Business: An Entrepreneur's Plan</i>
Fourth Edition |
| Costin
<i>Management Development and Training: A TQM Approach</i> | Hodgetts and Kroeck
<i>Personnel and Human Resource Management</i> | Sandburg
<i>Career Design Software</i> |
| Costin
<i>Readings in Strategy and Strategic Management</i> | Hodgetts and Kuratko
<i>Effective Small Business Management</i>
Sixth Edition | Vecchio
<i>Organizational Behavior</i>
Third Edition |
| Czinkota, Ronkainen, and Moffett
<i>International Business</i>
Fifth Edition | Holley and Jennings
<i>The Labor Relations Process</i>
Sixth Edition | Walton
<i>Corporate Encounters: Law, Ethics, and the Business Environment</i> |
| | Holt
<i>International Management: Text and Cases</i> | Weiss
<i>Business Ethics: A Stakeholder and Issues Management Approach</i>
Second Edition |
| | Jauch and Coltrin
<i>The Managerial Experience:</i> | Zikmund
<i>Business Research Methods</i>
Fifth Edition |



PREFACE

Our vision in writing this book is to offer a strategy text that will introduce students to the field of strategic management and excite them about the dynamic nature of the business world. Today's business students are tomorrow's business leaders, so it's appropriate that the most distinctive feature of the book is its emphasis on general managers. The text builds on recent developments in the management research literature and Peter Senge's book, *The Fifth Discipline*, to highlight the important role of managers in the formulation and implementation of strategy. The text's organizing framework suggests that managers' mental models — their beliefs and understandings — influence strategic decision making. The text then examines how managers' decisions and their firms' resulting strategies can lead to the development of unique resources and capabilities that can be the source of sustained competitive advantage and high performance.



WHAT'S UNIQUE ABOUT THIS BOOK

Three key themes are emphasized throughout the text and further reinforced in the cases:

- First, this book places managers at center stage by focusing on *how managerial thinking influences strategy formulation and implementation*. Because managers make the decisions that form the basis of strategies, the only way to understand and fully appreciate the strategy formulation and implementation processes is to examine the thinking that causes managers to make a particular set of decisions rather than some other set of decisions. The text draws on the latest concepts and theories from management practice and academic research to examine managerial thinking and decision making.
- The text also emphasizes *the importance of change and the need to think dynamically about strategic management*. Strategies that are effective today will almost certainly be ineffective in the future because companies do not enjoy the luxury of competing in static worlds. Demographic changes produce new customer needs and wants, while the emergence of new technologies leads to the development of new products and services, so firms' industry environments are constantly changing. One entire chapter of the text (Chapter 5) is devoted to exploring the ongoing evolution of industry environments.
- Finally, the book underscores *the importance of organizational learning*. Knowledge resides in organizations in the heads of managers and employees, in routines and standard operating procedures, and in the equipment and technologies that are employed. As the business world becomes increasingly knowledge-intensive, the ability to learn, store, retrieve, and exploit new knowledge and information will become a key source of competitive advantage. The book therefore examines how managers can mobilize the knowledge residing in employees and in organizational capabilities and processes to develop and maintain competitive advantage.

TEXT CHAPTERS DEAL WITH MANY REAL-WORLD PHENOMENA

Discussion is included on topics such as the problems associated with price competition, the use of litigation as a competitive weapon, the unique challenges of service businesses, and the limitations of boards of directors.

THE SECOND EDITION CONTAINS ELEVEN NEW CASES

These field-based cases have strengthened our coverage of global issues and not-for-profit organizations. Several cases now feature women protagonists to better reflect the diversity in today's business environments. We want to discuss a variety of business situations in diverse industries. Therefore new industries are included in this text such as publishing, botanical gardens, and financial services.

**AN OVERVIEW OF THE TEXT**

The text begins by introducing a model of strategic management that appears in all subsequent chapters. As noted above, the model highlights the importance of managers' mental models — their beliefs and understandings — and how these mental models influence strategic decision making and the development of firm-specific capabilities that can be the source of competitive advantage and high firm performance. Chapter 2 builds on research on managerial and organizational cognition, highlighting the role of general managers in strategy formulation and implementation and emphasizing the importance of expertise and flexibility in managerial thinking. The third chapter defines the concept of competitive advantage and incorporates resource-based theory to describe the processes by which firms develop and sustain competitive advantage.

The analysis of industries is the focus of Chapters 4 and 5. Chapter 4 describes SWOT Analysis and the Five Forces Model, two well-known techniques or tools for analyzing industries. Chapter 5 builds on the work of Hamel and Prahalad, Bourgeois and Eisenhardt, and D'Aveni to develop a dynamic model that explains how industries evolve over time, focusing specifically on the role played by entrepreneurs and the responses of incumbent firms' managers.

Chapter 6 is devoted to the topic of business definition or how managers position their firms in their competitive environments. The chapter builds on academic research and the popular management literature, which emphasizes the importance of organizational identity, strategic intent, vision, and purpose. Many actual business examples are presented to emphasize the importance of effective business definition and the need for continuous redefinition to respond to or anticipate changes in firms' competitive environments.

Business strategy is the central topic of Chapters 7 and 8. Chapter 7 introduces the concept of generic strategies. In addition to describing the generic strategies of cost leadership, differentiation, and focus, the chapter also addresses a number of real-world business issues, including the hazards of competing on the basis of price and, in particular, the dangers of price wars. The chapter also takes up the problem of "commoditization" or the tendency for differentiated products to lose their distinctiveness. The challenges that store-brand or generic products pose to the major consumer products companies such as Procter & Gamble are also described. Chapter 8 builds on the life cycle concept to describe the unique challenges faced by firms in emerging and mature industry environments. The chapter also compares and contrasts the challenges faced by manufacturing and service firms and focuses on the special challenges facing the managers of service firms.

Chapter 9 examines corporate strategy and diversification. The chapter describes why firms diversify and the different types of diversification strategies. The chapter focuses extensively on the synergies that corporate strategies should achieve while also describing the difficulties managers encounter as they seek to achieve synergies. The last half of the chapter examines the relationship between diversification

and performance, while also suggesting the kinds of managerial expertise that are needed to manage corporate strategy and diversification effectively.

Organizational structure is covered in Chapter 10. The chapter emphasizes that the objective of organizational structure is to effectively implement strategies. The chapter also defines organizational structure broadly to incorporate not just hierarchy and organizational forms (i.e., the organizational chart), but also to include standard operating procedures, routines, systems (especially organizational information systems), and culture. The chapter concludes by examining a range of new issues that are likely to influence how firms are organized in the future and also discusses some of the organizational innovations that many firms are currently adopting.

Chapters 11 and 12 focus on the problems of organizational responsiveness and the management of strategic change. Chapter 11 describes both boards of directors and strategic planning processes and discusses some of the controversies surrounding both management mechanisms. The chapter notes their limitations and weaknesses while also highlighting steps many managers and firms are taking to improve their effectiveness. Chapter 12 examines the challenges of organizational change and the central role managers play in “managing” the strategic change process. The chapter begins by describing some of the reasons why managers often fail to respond effectively to changes in their firms’ business environments. It concludes by suggesting some ways to make managers more responsive and more effective “change agents.”



“LEARNING” STRATEGIC MANAGEMENT

The word that best summarizes our beliefs about education and teaching is *encounter*. Encounter not only captures the importance of coming into contact with ideas, objects, and persons, but it also implies engagement or a deeper involvement that will produce some lasting impact or meaning. When we encounter ideas, we figuratively grasp them, struggle with them, and learn from them. Encounter, then, is the essence of education, and any educational experience should offer students and faculty alike the opportunity to be exposed to new ideas, concepts, theories, to struggle with them, and to learn.

Today’s business environments are incredibly dynamic, exciting, and increasingly global – qualities that make them inherently interesting and invite encounter. The pace of change in the business world guarantees that new customer needs and wants, new technologies, new products and services, and whole new companies and industries will continuously enter the competitive landscape. Furthermore, the influence of business enterprise is pervasive. No profession, no aspect of our culture, and few parts of our lives are free from the influence of business and commercial activity. Few forces in our society have the same potential for improving the quality of our personal lives and the larger communities in which we live and work.

Encounter is most likely to occur when students can apply concepts and theories to actual business problems. As a result, the chapters and cases of this book seek to bring text material to life by offering many examples to illustrate and reinforce important concepts. All chapters contain “Management Focus” capsules that describe business issues that have challenged or currently challenge managers, elaborate on companies’ specific competitive dilemmas, or introduce tools and ways of thinking that managers have employed in different business situations. All chapters

begin by identifying a set of learning objectives and each chapter concludes with a list of summary points. The text aims to be comprehensive, yet attempts to explain key points as succinctly and clearly as possible.

In keeping with this emphasis on managers, nearly all of the book's cases are based on field research, written with direct input from company executives and managers. The cases are based on well-known companies, including Marriott Corporation, Dollar General Stores, Hewlett-Packard, Walt Disney Productions, Yamaha Corporation, and Bacardi. Ten cases are enhanced by videotaped classroom presentations by or interviews with the companies' chief executives or other senior officers.

The concept of mental models, which is emphasized throughout the text, is not simply an important management concept. While the text focuses on the importance of managers' mental models and their influence on strategic decision making, the cases encourage students to focus on the development of their own mental models. Students should examine their beliefs about industry environments, the importance of business definition and positioning, how firms and businesses should compete, the appropriate size and diversity of firms, and how organizations should be structured. While the text emphasizes the importance of expertise and flexibility in managerial thinking, students are also encouraged to think about their own beliefs and understandings and the importance of adapting these beliefs and understandings as they move into, and advance through, their business careers.

In fact, we believe the best way for students to encounter and learn from the material presented in this book is to assume the role of manager. As the text introduces topics and describes concepts, frameworks, and models, students are encouraged to ask how they would respond to various business issues and problems. While reading through the chapters, apply concepts introduced in the text to contemporary business situations and use the various frameworks and models to analyze actual firms and industries and the cases included in the book.

The very fast pace of change which characterizes most business environments ensures that the future will be very different than the present, as new customer demands and technologies emerge, new products and services are developed, new firms appear on the scene, and whole new industries are created. Thus, our overall objective is not to predict the future, but — through encounter with the ideas and concepts presented in this book — to help students develop ways of thinking and learning that will make them effective business leaders throughout their careers. We eagerly await the contributions of our readers to the exciting world of business.



THE ANCILLARY PACKAGE

Instructor's manual The second edition is accompanied by a complete instructor's manual designed to provide in-depth assistance to the instructor. This guide, written by the text authors, provides teaching suggestions, outlines and overviews of the chapters, case teaching notes, and possible group projects.

Ancillary cases Four of the cases have short follow-on cases which present the students with unfolding challenges as they were encountered by the general

managers in the “A” cases. The follow-on cases are included in the Instructor’s Manual.

Test bank *Strategic Management* comes with a comprehensive test bank written by Robert Fleming of Delta State University, with multiple choice, short answer, and essay questions covering every chapter of the book.

Computerized test bank All the questions in the printed test bank are available on computer diskette in PC and Macintosh compatible forms. For PC users, Dryden offers DOS and Windows versions of the test bank.

Lecture presentation software in Microsoft PowerPoint Interactive lecture software, created by William Coon of Washington University in St. Louis, is available to assist instructors with their lecture preparation. Slides present key concepts with exhibits from the text to highlight important topics.

Darden Cases To order additional copies of cases from The Darden Case Collection, send an email to dardencases@virginia.edu or telephone 1.800.246.3367. For a complete listing of the Case Collection along with case abstracts, please visit the web site <http://www.darden.virginia.edu/case/bib/>.



ACKNOWLEDGMENTS

No intellectual effort is ever an individual product, and authorship of this textbook is certainly no exception to this rule. We have attempted to write an outstanding textbook on strategic management, but our efforts build on a solid foundation laid by our mentors and on many contributions and insights from our associates, faculty colleagues, and students. Every page of this textbook reflects their teaching and wisdom.

A special thanks is also due to our schools and professional colleagues for providing us with the time and support for writing this text. A number of individuals deserve special recognition for their contributions to this textbook. A special thanks to several Darden colleagues who contributed cases, including John Colley (Bacova Guild), Alex Horniman (Big Sky and Public Communications Department at New York Telephone), Lynn Isabella (Astral Records and Grupo Bacardi de Mexico), Bob Landel (Public Communications Department at New York Telephone), Andrea Larson (Women’s World Banking), Jeanne Liedtka (Iran Office Automation, Copeland/Bain, Charlottesville-Albemarle Legal Aid Society, New York Botanical Garden, and Disney: The Arrival of Eisner and Wells), John Rosenblum (Copeland/Bain), and Elliott Weiss (Southwest Airlines). Thanks also go to former Darden colleagues Bill Fulmer (Walt Disney Productions and Marriott) and Paul McKinnon (Bennett Association), as well as to Jeff Barach of Tulane University (Alaska Gold Mine). Thanks to Cal Tate of Darden Communications Services for his help in developing the videos that accompany this book. Mike Wasserman, a colleague at George Mason University, has been a constant supporter of this project and has provided many ideas and much enthusiasm.

We also extend a special thanks to those who reviewed this second edition of the text and offered many suggestions for improvement. We especially thank

Cynthia Lengnick-Hall, Wichita State University; Donald Bergh, Penn State University; Elizabeth Fitzgerald, Kennesaw State University; Loren Gustafson, Seattle Pacific University; Alan Hoffman, Bentley College; and Yolanda Sarason, University of New Mexico. We also appreciate the support and enthusiasm of our colleagues at The Dryden Press. John Weimeister brought us together as collaborators, Jennifer Sheetz Langer saw us through a thousand questions involved in the publication of the text, our production staff who designed and produced this text, and Lisé Johnson who developed a marketing campaign for bringing this text to the marketplace. Last, but certainly not least, we owe much to our families for their encouragement and support.

L. J. Bourgeois III
Charlottesville

Irene M. Duhaime
Atlanta

J. L. Stimpert
Colorado Springs



ABOUT THE AUTHORS

L. J. "Jay" Bourgeois III received his Ph.D. from the University of Washington in 1978, where he wrote an A.T. Kearney Award-winning dissertation about strategic decision making in firms facing volatile environments. Prior to his doctoral work, he was employed as a financial analyst in the corporate planning department of Castle & Cooke Foods, and held several assignments in the firm's Latin American operations.

Professor Bourgeois has taught at the University of Washington, the University of Pittsburgh, McGill University, and Stanford Business School, and has been teaching strategy at the University of Virginia's Darden Graduate School of Business since 1986. He has published over two dozen articles and chapters in various management journals and books. He has served on the review boards of the *Academy of Management Journal* and *Strategic Management Journal*, was associate editor of *Management Science*, and was chair of the Business Policy and Strategy Division of the Academy of Management in 1989-1990.

Professor Bourgeois teaches in several executive programs, including TEP, Darden's senior executive program, and provides strategy consulting for a variety of North and South American, European, Asian, and Australian corporations. He lives with his wife, Maggie, and their three children in Charlottesville, Virginia, where he plays jazz guitar and bikes long distances for relaxation.

Irene M. Duhaime received her Ph.D. from the University of Pittsburgh in 1981. Her dissertation on corporate divestment won the General Electric Award for Outstanding Research in Strategic Management. Before entering the doctoral program, she was responsible for cash management and short-term investments at New England Mutual Life Insurance Company and was an investment officer at Pittsburgh National Bank.

Professor Duhaime has taught at the University of Pittsburgh, the University of Illinois at Urbana-Champaign, and the University of Memphis, where she was Associate Dean for six years. She now holds the Carl R. Zwerner Chair in Family-Owned Enterprises at Georgia State University, where she teaches strategic management, family business, and entrepreneurship. Her research on diversification, acquisition, divestment, and turnaround has been published in the leading management journals, including the *Academy of Management Journal*, the *Academy of Management Review*, and *Strategic Management Journal*. Her research and teaching

interests have spanned the range from large diversified corporations to small entrepreneurial firms and family businesses. As Associate Dean at the University of Memphis, she served as judge for *The Memphis Business Journal's* Small Business and Entrepreneur of the Year awards program for three years and worked closely with the local business community.

Professor Duhaime has served in a variety of leadership roles in the Academy of Management, including Book Review Editor of the *Academy of Management Review* and chair of the Business Policy and Strategy Division in 1993-1994. She lives with her husband, Walter, in Atlanta; she enjoys music, reading, discovering new restaurants, and weekend exploration of the South Carolina beach.

J. L. "Larry" Stimpert received his B.A. in economics from Illinois Wesleyan University and his M.B.A. in finance from Columbia University. Prior to entering the academic field, he worked in the railroad industry and served in various marketing, forecasting, and economic analysis positions at the Southern Railway Company and the Norfolk Southern Corporation. Later, he worked as a manager of marketing and pricing for the Chicago and North Western Transportation Company. Professor Stimpert received his Ph.D. in business administration from the University of Illinois where he was recognized for the quality of his teaching while still a graduate student.

Professor Stimpert's research interests focus on top managers and their influence on strategic decision making and firm strategies. He has written on many strategy issues, including managerial responses to environmental change and organizational decline, business definition and organizational identity, the management of corporate strategy and diversification, company strategies following deregulation, and corporate governance. His articles have appeared in the *Academy of Management Journal*, the *Academy of Management Review*, the *Journal of Management Studies*, and the *Strategic Management Journal*, and he has also authored chapters of several edited books. He is a member of the Academy of Management and the Strategic Management Society.

Professor Stimpert currently teaches management and business courses at Colorado College. Previously, he served on the faculty and taught strategic management courses at Michigan State University. He lives with his wife, Lesley, in Colorado, where he enjoys hiking, backpacking, and skiing as well as reading and playing the piano.

CONTENTS IN BRIEF

PART 1: Concepts

CHAPTER 1: Introduction: A Model of Strategic Management, and an Overview of the Text	3
CHAPTER 2: General Managers and the Strategic Management of Business Firms	27
CHAPTER 3: An Introduction to Competitive Advantage	55
CHAPTER 4: Frameworks for the Analysis of Industry Environments	79
CHAPTER 5: A Dynamic Model of Industry Structuring	110
CHAPTER 6: Business Definition	136
CHAPTER 7: Business Strategy and Competitive Advantage	164
CHAPTER 8: Business Strategy and Competitive Advantage in Different Industry Contexts	193
CHAPTER 9: Corporate Strategy and Diversification	226
CHAPTER 10: Organizational Structure and the Implementation of Strategy	258
CHAPTER 11: Organizational Responsiveness: The Role of Board Governance and Strategic Planning	287
CHAPTER 12: The Management of Strategic Change	313

PART 2: Cases

CASE 1: The Alaskan Gold Mine, Part I	1.1
CASE 2: The Alaskan Gold Mine, Part II	2.1
CASE 3: Astral Records, Ltd., North America	3.1
CASE 4: International Colour Envelope Advisors A/S	4.1
CASE 5: Jiffy Lube International, Inc.	5.1
CASE 6: Crown Cork & Seal	6.1
CASE 7: Georgia Digital Reproductions, Inc.	7.1
CASE 8: Iran Office Automation Company	8.1
CASE 9: Southwest Airlines	9.1
CASE 10: The Bacova Guild, Ltd.	10.1
CASE 11: Women's World Banking: The Early Years	11.1
CASE 12: Copeland Corporation/Bain & Company: The Scroll Investment Decision	12.1

CASE 13: Falls River Center, Inc.	13.1
CASE 14: National Guitar Summer Workshop, Inc.	14.1
CASE 15: Marriott Corporation	15.1
CASE 16: Hewlett-Packard (Condensed)	16.1
CASE 17: New Zealand Dairy Board	17.1
CASE 18: Disney Productions: The Walt Years	18.1
CASE 19: Amer Group, Ltd.	19.1
CASE 20: Arvin Industries, Inc.	20.1
CASE 21: Yamaha Corporation and the Electronic-Musical-Instruments Industry	21.1
CASE 22: MacGregor Golf Company	22.1
CASE 23: Grupo Bacardi de Mexico, S.A.	23.1
CASE 24: Bennett Association (A)	24.1
CASE 25: Charlottesville-Albemarle Legal Aid Society	25.1
CASE 26: Louisisana-Pacific Corporation	26.1
CASE 27: Strategic Planning at the New York Botanical Garden (A)	27.1
CASE 28: Strategic Planning at the New York Botanical Garden (B)	28.1
CASE 29: Dollar General Corporation (A) Abridged	29.1
CASE 30: Big Sky, Inc.: The Magasco Paper Mill (A)	30.1
CASE 31: The Public Communications Department at New York Telephone	31.1
CASE 32: OSIM Corporation (A)	32.1
CASE 33: Peninsular Insurance (A)	33.1
CASE 34: Dollar General Corporation (B)	34.1
CASE 35: The Walt Disney Company: The Arrival of Eisner and Wells	35.1
CASE 36: Big Sky, Inc.: The Magasco Paper Mill (B)	36.1
CASE 37: Rodale Press (A)	37.1
CASE 38: Rodale Press (B)	38.1
CREDITS	CR-1
INDEX	I-1

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION: A MODEL OF STRATEGIC MANAGEMENT, AND AN OVERVIEW OF THE TEXT 3

Chapter Objectives 3

The Competitive Landscape of the Last Decade of the Twentieth Century 3

The competitive landscape is characterized by a rapid rate of change. 4

The traditional boundaries around markets, nations, and companies are being redrawn. 5

Societies are becoming more fragmented. 6

Companies must now be very responsive to institutional investors. 8

Products and services are increasingly knowledge-intensive. 8

A shift has occurred in the relative importance of "fixed" versus "human" capital. 9

Consequences and implications. 9

The Field of Strategy: A Unique Focus on the Management of Firms and Businesses 10

Strategy: A Pattern In a Stream of Decisions 11

"Unrealized strategies" and the "emergent" nature of business strategies 12

Some illustrations 14

What Makes Strategic Management "Strategic"? 16

Managerial Thinking: A New Perspective on Strategic Management 17

A Model of Strategic Management: The Mental Models and Strategic

Decisions That Will Be Studied in This Text 18

Three Key Themes 22

Managers and managerial thinking 22

Change and the need to think dynamically about strategic management 22

The importance of organizational learning 22

A Look Ahead 22

Conclusion 24

Key Points 25

CHAPTER 2: GENERAL MANAGERS AND THE STRATEGIC MANAGEMENT OF BUSINESS FIRMS 27

Chapter Objectives 27

Characteristics of Managerial Decision Making 27

The Role of Managerial Thinking and Decision Making 29

The Nature and Types of Mental Models 31

The Sources of Managerial Thinking 32

Experience and trial-and-error learning 32

Imitation 33

Creativity 34

Problems Associated with Managerial Thinking 35

Incompleteness and inaccuracies 35

Timeliness and the difficulty associated with altering mental models 35

Social psychological factors: Groupthink and escalation 37

Cognitive biases 37

The Qualities of Effective Leaders and the Importance of Flexible Thinking 39

Practical Usefulness of Understanding the Concept of Mental Models 43

Conclusion 44

Key Points 45

APPENDIX 46

Mapping Mental Models to Understand Strategic Decision Making 46

The Word Count Technique 46

Illustration 1 47

Illustration 2 49

Analysis of Cause-and-Effect Relationships 49

Conclusion 52

CHAPTER 3: AN INTRODUCTION TO COMPETITIVE ADVANTAGE 55

Chapter Objectives 55

What Is Competitive Advantage? 56

How is firm performance assessed? 57

Competitive advantage: The importance of firm-specific factors and capabilities 60

Criteria That Determine Whether Resources and Capabilities Can Provide Firms with Competitive Advantage 61

The asymmetric nature of competitive advantage 61

The challenge of defending against imitation 62

Ways to slow down or prevent imitation 62

How Firms Develop Competitive Advantage: The Accumulation of Unique Capabilities 63

Time 64

Building on past success 64

Interconnectedness of capabilities 65

Investment 65

Causal ambiguity 65

How Firms Develop Competitive Advantage: Some Specific Routes Based On Our Model of Strategic Management 67

Business definition and positioning 67

Business strategy 70

Corporate strategy 70

Organizational structure 71

The Distinction between Content and Process 71

Value Chain Analysis as a Way to Evaluate Organizational Processes 73

The Importance of Socially Complex Resources 74

Conclusion 75

Key Points 76

CHAPTER 4: FRAMEWORKS FOR THE ANALYSIS OF INDUSTRY ENVIRONMENTS 79

Chapter Objectives 79

Why Analyze an Industry's Environment? 79

How Much Does Industry Matter? 81

SWOT Analysis 84

The Five Forces Model 87

The threat of new entry 88

The threat of substitute products 95

The power of suppliers 95

The power of buyers 96

Rivalry 97

Application of the Five Forces Model	98
Steel: A five force conspiracy	99
The pharmaceutical industry: The best of all possible industry worlds?	102
Limitations of the Five Forces Model	105
Key Points	107

CHAPTER 5: A DYNAMIC MODEL OF INDUSTRY STRUCTURING 110

Chapter Objectives	110
The Building Blocks of a Dynamic Theory of Industry Structuring	111
The changing dimensions of industries	112
Industry norms	115
Cognitive limitations	117
First-mover advantages	119
The likely outcome: The strategic retreat and decline of incumbent firms	120
Patterns in the Evolution of Industries	121
The attack of new rivals	121
Asleep at the switch: Patterns in the response of incumbent firms' managers	125
Using the Dynamic Model for Industry Analysis	126
Implications: Some Specific Recommendations for Managers	128
Conclusion	131
Key Points	132

CHAPTER 6: BUSINESS DEFINITION 136

Chapter Objectives	136
What Is Business Definition?	136
Characteristics of the Business Definition Process	139
Business Definition and Competitive Advantage	142
Business definition "positions" a firm or a business in its competitive space or industry environment.	142
Business definition helps to focus management attention on the firm's key objectives, the firm's most significant strategic issues, and the firm's most important rivals.	144
Business definition influences other strategic decisions.	145
Business definition provides meaning and can be very motivational.	146
Some Illustrations of Effective Business Definitions	146
General Motors in 1921	146
The Cooper Tire and Rubber Company	148
Characteristics of effective business definitions	148
The Need for Continuous Redefinition: Some Illustrations and Challenges	149
Eastman Kodak Company and the changing photography market	150
Seagram and Sons	151
Redefinition at Steinway and Sons	156
Redefinition at two apparel retailing companies	156
Gallo's efforts to recast itself in the varietal wine segment	157
Monsanto	158
The challenges associated with redefinition	158
Managers and Their Role in Business Definition	160
Key Points	161