STRATEGIC MANAGEMENT CONCISE

A MANAGERIAL PERSPECTIVE

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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.

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 Dollar General Stores, Walt Disney Productions, and Yamaha Corporation. 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 concise 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 Two 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.edu/case/collection.

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 and former Darden colleagues who contributed cases, including Jeanne Liedtka (New York Botanical Garden, and Disney: The Arrival of Eisner and Wells), Elliott Weiss (Southwest Arilines), Bill Fulmer (Walt Disney Productions), and Jeff Barach of Tulane University (Alaska Gold Mine). Thanks also go to Darden colleagues and former Darden colleagues who contributed cases to the second edition of this text, 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-Albermarle Legal Aid Society), John Rosenblum (Copeland/Bain), Bill Fulmer (Marriott), and Paul McKinnon (Bennett Association). 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.

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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 of Entrepreneurship and Family Business 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

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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 serves as the John D. and Catherine T. MacArthur Professor 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.

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