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FORMULATION, IMPLEMENTATION, AND CONTROL OF
COMPETITIVE STRATEGY
NINTH EDITION

BusinessWeek

Formulation, Implementation, and Control of Competitive Strategy

Ninth Edition

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FORMULATION, IMPLEMENTATION, AND CONTROL OF COMPETITIVE STRATEGY

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Preface

This ninth edition of *Formulation, Implementation, and Control of Competitive Strategy* is both the culmination of work by many people and a major revision designed to accommodate the needs of strategy students in the twenty-first century. These are exciting times and they are reflected on the many new developments in this book and the accompanying McGraw-Hill supplements. This preface describes what we have done to make the ninth edition uniquely effective in preparing students for strategic decisions in tomorrow's fast-paced global business arena. It also allows us the opportunity to recognize many outstanding contributors.

The ninth edition of *Formulation, Implementation, and Control of Competitive Strategy* is divided into 11 chapters that provide a thorough, state-of-the-art treatment of the critical business skills needed to plan and manage strategic activities. Each chapter has been filled with new, current real-world examples to illustrate concepts in companies that students recognize and regularly read about in the news around the world. Strategic ramifications of topics like executive compensation, E-commerce, the Internet, entrepreneurship, ethics, continuous improvement, virtual organization, cultural diversity, outsourcing, strategic alliances, and global competition can be found across several chapters. While the text continues a solid academic connection, students will find the text material to be practical, skills oriented, and relevant to their jobs.

We are excited and honored to be selected by *BusinessWeek* as its exclusive partner among strategic management textbooks. We were thrilled to have unlimited access to the world's best business publication to create examples, illustration modules, and various cases. The result is an extensively enhanced text and cases benefiting from hundreds of contemporary examples and illustrations provided by *BusinessWeek* writers worldwide. You will see *BusinessWeek*'s impact on our discussion case feature, our Strategy in Action modules, and our website. Of course, we are also pleased with several hundred examples blended into the text material, which came from recent issues of *BusinessWeek* or www.businessweek.com.

AN OVERVIEW OF OUR TEXT MATERIAL

The ninth edition uses a model of the strategic management process as the basis for the organization of the text material. Previous adopters have identified this model as a key distinctive competence for our text because it offers a logical flow, distinct elements, and an easy-to-understand guide to strategic management. The model has been modestly refined to reflect strategic analysis at different organizational levels as well as the importance of internal analysis in the strategic management process. The model and subsequent structure provide a student-friendly approach to the study of strategic management.

The first chapter provides an overview of the strategic management process and explains what students will find as they use this book. The remaining 10 chapters cover each part of the strategic management process and techniques that aid strategic analysis, decision making, implementation, and control. The literature and research in the strategic management area have developed at a rapid pace in recent years in both the academic and business press. This ninth edition includes several upgrades designed to incorporate major developments

from both these sources. While we include cutting-edge concepts, we emphasize straightforward, logical, and simple presentation so that students can grasp these new ideas without additional reading. The following are a few of the revisions that deserve particular note:

Sarbanes-Oxley Act of 2002

Following the Enron bankruptcy and the wrongdoings of Worldcom executives, Washington lawmakers passed the Sarbanes-Oxley Act of 2002, which requires certifications for financial statements, new corporate regulations, disclosure requirements, and penalties for failure to comply. Chapter 2 provides in-depth coverage of the Act, including discussions of the provisions restricting the corporate control of executives, accounting firms, auditing committees, and attorneys. Also discussed is the change of the governance structure of American corporations, including the heightened role of corporate internal auditors who now routinely deal directly with top corporate officials.

Expanded Coverage of Social Responsibility

The ninth edition expands on its market-leading coverage of social responsibility. Principal perspectives are presented. A continuum of social responsibilities is discussed to help students differentiate among economic, legal, ethical, and discretionary social responsibilities. Arguments for and against social responsibility are explained. Numerous examples, drawn from recent headlines, appear in this section.

A New Section on Management Ethics

Central to the belief that companies should be operated in a socially responsive way for the benefit of all stakeholders is the belief that managers will behave in an ethical manner. Thus, planners often adopt a philosophical approach that can provide the basis for the consistency they seek. The utilitarian, moral rights, and social justice approaches are presented and explained in this new edition.

The Value Disciplines

A new approach to generic strategy centers on delivering superior customer value through one of three value disciplines: operational excellence, customer intimacy, or product leadership. Companies that specialize in one of these disciplines, while simultaneously meeting industry standards in the other two, gain a sustainable lead in their markets. Chapter 6 provides details on these approaches with several examples of successful company experiences.

Agency Theory

Of the recent approaches to corporate governance and strategic management, probably none has had a greater impact on managerial thinking than agency theory. While the breadth and measurement of its usefulness continue to be hotly debated, students of strategic management need to understand the role of agency in our free enterprise, capitalistic system. This edition presents agency theory in a coherent and practical manner. We believe that it arms students with a cutting-edge approach to increasing their understanding of the priorities of executive decision making and strategic control.

Resource-Based View of the Firm

One of the most significant conceptual frameworks to systematize and “measure” a firm’s strategic capabilities is the resource-based view (RBV) of the firm. The RBV has received major academic and business press attention during the last decade helping to shape its

value as a conceptual tool by adding rigor during the internal analysis and strategic analysis phases of the strategic management process. This edition provides a revised treatment of this concept in Chapter 5. We present the RBV in a logical and practical manner as a central underpinning of sound strategic analysis. Students will find several useful examples and a straightforward treatment of different types of “assets” and organizational capabilities culminating in the ability to determine when these resources create competitive advantage. They will see different ways to answer the question “what makes a resource valuable?” and be able to determine when that resource creates a competitive advantage in a systematic, disciplined, creative manner.

Value Chain Analysis

Outsourcing is becoming a standard business practice in every facet of business operations. This trend enhances the usefulness of the value chain approach in strategic analysis. We have simplified our treatment of this useful conceptual framework and added several contemporary examples to enable students to quickly incorporate the value chain perspective into their strategic thinking process.

Executive Compensation

While our text has led the field in providing a practice-oriented approach to strategic management, we have redoubled our efforts to treat topics with an emphasis on application. Our revised section on executive compensation in Chapter 9 is a clear example. You will find an extended discussion of executive bonus options that provides a comparison of the relative merits of the five most popular approaches, to include the current debate on the use, or overuse, of stock options and the need to accurately account for their true cost.

Balanced Scoreboard

A recent evolution in the motivation that underpins strategic management is reflected in the adoption of the Balanced Scoreboard approach to corporate performance evaluation. While the maximization of shareholder wealth retains the top spot in executive priorities, the guideline is now widely accepted that strategic initiatives must produce favorable outcomes over a range of stakeholder objectives. We try to help our readers gain an appreciation for this perspective in our ninth edition.

Bankruptcy

Many times revisions in this book are driven by changes in business trends. Nowhere is that more evident than in our discussion of company bankruptcy. In the 1980s bankruptcy was treated as a last option that precluded any future for the firm. In the first decade of the 2000s the view has dramatically changed. Bankruptcy has been elevated to the status of a strategic option, and executives need to be well versed in its potentials and limitations, as you will see in Chapter 6.

Strategic Analysis and Choice

We have divided the discussion of strategic analysis and choice into two chapters. Chapter 7 examines the single business setting. Chapter 8 looks at the multibusiness company and the diversification decision. We have provided extensive new coverage of the decision to diversify or not in Chapter 8. In addition to historical reviews of the portfolio and core competency approaches and their deficiencies, we include comprehensive ways to evaluate the role of the corporate parent in adding value, if any, beyond the sum of its businesses. And the con-

cept of “patching,” with its identification of “strategy as simple rules” to thrive in turbulent markets receives extensive coverage in this edition. The pages of *BusinessWeek* have helped us add numerous outstanding examples to these two chapters from business writers around the world. Samsung, Apple, Disney, Quanta, Hewlett-Packard, Delta, and Ryanair are just a few of the names students will quickly recognize in coverage that illustrates and helps them more easily understand how strategic analysis is conducted and choices made.

Strategy Implementation

Chapter 9 focuses on reward systems, short-term objectives, and empowerment mechanisms as part of strategy implementation. Doing so allows students to move quickly into strategy implementation considerations from an executive perspective. At the same time we include in this edition an appendix containing approximately ten pages discussing various functional area tactics necessary to implement business strategy. Doing so serves as a convenient review of functional courses leading up to the capstone strategy class for instructors that prefer to do so.

Structuring an Effective Organization

Chapter 10 provides a new perspective on the issue of organizational structure as a central mechanism for strategy implementation, particularly in larger companies. It explores three fundamental driving forces on contemporary organizational structure—globalization, the Internet, and speed. From this beginning, it covers research by academics and prominent business analysts to identify guidelines relevant to matching structure to strategy in the twenty-first century. Six contemporary guidelines to structuring an effective organization are explored in depth, providing students with useful conceptual tools to take into their post-graduation companies and contribute to specific structural challenges. A concise appendix is provided to Chapter 10 detailing the pros and cons of different basic organizational structures. It is included there rather than in the chapter to increase the readability and contemporary focus of the chapter material.

Organizational Leadership

Chapter 10 has added coverage of outsourcing, virtual organizations, and the recruitment/development process as key contemporary considerations in building effective management teams. How to get and keep top management talent is an issue of critical importance examined in this new edition. The role that leadership and organizational culture has played in the impressive turnaround at P&G is explored in detail in the discussion case.

Strategic Control and Continuous Improvement

Chapter 11 offers a major revision in our treatment of these topics. First, a reduced and concise treatment of four broad strategic controls used in the formulation and implementation phases of strategic management are discussed and illustrated. Second, the link between quality/continuous improvement initiatives and the strategic management process receive new, in-depth treatment in this chapter. ISO9004 and Six Sigma are examined as contemporary approaches to the continuous improvement of a company’s value chain and a mechanism to guide strategic control. The experiences of several well-known companies in adopting these tools help illustrate their value in a comprehensive strategic management commitment. Finally, the increasingly popular use of the balanced scoreboard approach is explored in this chapter because of its value in supporting strategic control and continuous improvement.

OUR STRATEGIC ALLIANCE WITH *BUSINESSWEEK*

Thanks to the leadership at McGraw-Hill and *BusinessWeek*, we have completed a strategic alliance of our own that benefits every professor and student who uses this book. Our book is *BusinessWeek*'s exclusive partner among strategic management textbooks in the collegiate market. We have long felt *BusinessWeek* to be the unquestionable leader among business periodicals for its coverage of strategic issues in businesses, industries, and economies worldwide. Personal surveys of collegiate faculty teaching strategic management confirmed our intuition: While there are many outstanding business magazines and new publications, none match the consistent quality found in *BusinessWeek* for the coverage of corporate strategies, case stories, and topics of interest to students and professors of strategic management.

Through this partnership, we get unconditional access to *BusinessWeek* material for this book and the use of their cutting-edge stories and topical coverage. From our point of view, this is a unique four-way win-win; teachers, students, authors, and *BusinessWeek* all stand to gain in many ways. The most direct way you can see the impact of the *BusinessWeek* alliance is in the discussion cases and Strategy in Action modules.

Strategy in Action Modules

Another pedagogical feature we pioneered, Strategy in Action modules, has become standard in most strategy books. Our strategic alliance with *BusinessWeek* lets us once again pioneer an innovation. We have drawn on the work of *BusinessWeek* field correspondents worldwide to fill over 60 new *BusinessWeek* Strategy in Action modules with short, hard-hitting current illustrations of key chapter topics. We are the only strategy book to have *BusinessWeek*-derived illustration modules, and we are energized by the excitement, interest, and practical illustration value our students tell us they provide.

OUR WEBSITE

A substantial website has been designed to aid your use of this book. It includes areas accessible only to instructors and areas specifically designed to assist students. The instructor section includes downloadable supplements, which keep your work area less cluttered and let you quickly obtain information. *BusinessWeek* provides access to the article archives through the instructor website. The site offers an elaborate array of linkages to company websites and other sources that you might find useful in your course preparation. The student resources section of the website provides interactive discussion groups where students and groups using the book may interact with other students around the world doing the same thing. Students are provided company and related business periodical (and other) website linkages to aid and expedite their case research and preparation efforts. Practice quizzes and tests are provided to help students prepare for tests on the text material and attempt to lower their anxiety in that regard. Access to *BusinessWeek* articles that update the cases and key illustration modules in the book are provided. We expect students will find the website useful and interesting. Please visit us at www.mhhe.com/pearce9e.

SUPPLEMENTS

Components of our teaching package include a revised, comprehensive instructor's manual, test bank, PowerPoint presentation, and a computerized test bank. These are all available to qualified adopters of the text.

Professors can also choose between two simulation games as a possible package with this text: The International Business Management Decision Simulation (McDonald/Nee-lankavil), or the Business Strategy Game (Thompson/Stappenbeck).

- The International Business Management Decision Simulation is also a Windows-based simulation that provides an international business analysis and plan simulation allowing students to create multinational business plans and compete with other student groups. Fifteen countries representing three regions of the world along with four product categories are included in the simulation. Students assess business plans by using the financial reports contained in the simulation.
- The Business Strategy Game provides an exercise to help students understand how the functional pieces of a business fit together. Students will work with the numbers, explore options, and try to unite production, marketing, finance, and human resource decisions into a coherent strategy.

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We are particularly indebted to the talented case researchers who have produced the cases used in this book, as well as to case researchers dedicated to the revitalization of case research as an important academic endeavor. First-class case research is a major avenue through which top strategic management scholars should be recognized.

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We hope that you will find our book and ancillaries all that you expect. We welcome your ideas and recommendations about our material. Please contact us at the following addresses:

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We wish you the utmost success in teaching and studying strategic management.

Jack Pearce and Richard Robinson

About the Authors

John A. Pearce II, Ph.D., holds the Endowed Chair in Strategic Management and Entrepreneurship at Villanova University. In 2004, he was the Distinguished Visiting Professor at ITAM in Mexico City. Previously, Professor Pearce was the Eakin Endowed Chair in Strategic Management at George Mason University and a State of Virginia Eminent Scholar. He received the 1994 Fulbright U.S. Professional Award, which he served at INTAN in Malaysia. Dr. Pearce has taught at Penn State University, West Virginia University, the University of Malta as the Fulbright Senior Professor in International Management, and at the University of South Carolina where he was Director of Ph.D. Programs in Strategic Management. He received a Ph.D. degree in Business Administration and Strategic Management from the Pennsylvania State University.

Professor Pearce is coauthor of 36 books and has authored more than 250 articles and refereed professional papers. The articles have appeared in journals that include *Academy of Management Executive*, *Academy of Management Journal*, *Academy of Management Review*, *Business Horizons*, *California Management Review*, *Journal of Applied Psychology*, *Journal of Business Venturing*, *Long Range Planning*, *Organizational Dynamics*, *Sloan Management Review*, and *Strategic Management Journal*. Several of these publications have resulted from Professor Pearce's work as a principal on research projects funded for more than \$2 million. He is a widely recognized expert in the field of strategic management, with special accomplishments in the areas of strategic planning and management, including strategy formulation, implementation, and control, mission statement development, environmental assessment, industry analysis, and tools for strategy evaluation and selection.

Professor Pearce is the recipient of several awards in recognition of his accomplishments in teaching, research, scholarship, and professional service, including three Outstanding Paper Awards from the Academy of Management and the 2003 Villanova University Outstanding Faculty Research Award. A frequent leader of executive development programs and an active consultant to business and industry, Dr. Pearce's client list includes domestic and multinational firms engaged in manufacturing and service industries.

Richard B. Robinson, Jr., Ph.D., is the Business Partnership Foundation Fellow in Strategic Management and Entrepreneurship in the Moore School of Business, University of South Carolina. He also serves as Director of the Faber Entrepreneurship Center at USC and Assistant Director of the Center for Manufacturing and Technology in USC's College of Engineering and Information Technology. Dr. Robinson received his Ph.D. in Business Administration from the University of Georgia. He graduated from Georgia Tech in Industrial Management.

Professor Robinson has coauthored over 30 books addressing strategic management and entrepreneurship issues that students and managers use worldwide. He has authored over 300 articles, professional papers, and case studies that have been published in major journals including the *Academy of Management Journal*, *Academy of Management Review*, *Strategic Management Journal*, *Academy of Entrepreneurship Journal*, and the *Journal of Business Venturing*.

Dr. Robinson has previously held executive positions with companies in the pulp and paper, hazardous waste, building products, lodging, and restaurant industries. He currently serves as a director or adviser to entrepreneurial companies that are global leaders in niche markets in the log home, building products, animation, and computer chip thermal management industries. Dr. Robinson also supervises over 50 student teams each year that undertake field consulting projects and internships with entrepreneurial companies worldwide.