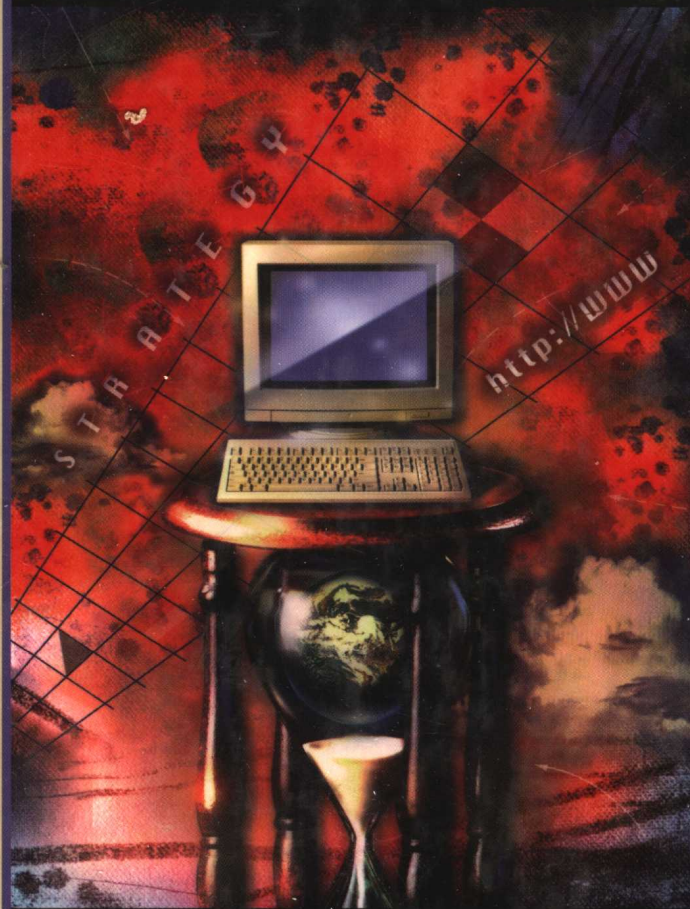


# STRATEGIC MANAGEMENT

*Competitiveness  
and Globalization*



*2nd Edition*

**MICHAEL A. HITT**  
**R. DUANE IRELAND**  
**ROBERT E. HOSKISSON**

# Strategic Management

**Competitiveness and Globalization**

*Second Edition*

**Michael A. Hitt**

*Texas A&M University*

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*Baylor University*

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# Strategic Management

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### ■ Dedication

To Frankie, Shawn, Angie, and Tamara. Thanks for everything; I love you.

To Mary Ann, Rebecca, and Scott Ireland: My family that continues to shower its husband and father with never-ending love and support.

To Kathy and my children, Dale, Becky, Angela, Joseph, and Matthew, as well as Robyn and Luke Garner for your support. I appreciate all that was sacrificed to allow me the time to co-author this book.



## Preface

The second edition of *Strategic Management: Competitiveness and Globalization* presents several new features and revisions that enhance the value of our best-selling first edition of the textbook. For instance, all chapter opening cases and Strategic Focus segments (three per chapter), both of which were popular features of the first edition, are new in this second edition. The content of each chapter has been updated with the latest research and rewritten to ensure that it is presented in a reader-friendly manner. Additionally, a new chapter on cooperative strategies has been developed. Included in this new chapter are discussions of strategic alliances and joint ventures, cooperative relationships that firms are now using frequently to enhance their performance.

Thirty-seven cases are presented in this second edition. Of these cases, 32 are new to this edition. Given the increasing use of the Internet, Internet addresses are provided for each of the companies discussed in the cases (except in a few instances where the organizations do not have information available on the Net). A set of Internet exercises is included at the end of each chapter to make effective use of this informational tool. Finally, an appendix is included that explains how to use the Internet.

Our purpose in preparing this revised edition was to make the book an even better learning mechanism and a highly effective instructional tool, along with providing a complete, accurate, and up-to-date explanation of the strategic management process.

### ■ Introduction

The strategic management process helps organizations identify *what* they intend to achieve and *how* they will accomplish valued outcomes. The magnitude of this challenge is greater today than it has been historically. A new competitive landscape is developing as a result of the technological revolution and increasing globalization. The technological revolution has placed increased importance on firm innovation and the ability to introduce new goods and services to the marketplace rapidly. The global economy—an economy in which goods and services flow freely among nations—pressures firms continuously to become more competitive. By offering goods or services of value to customers, competitive firms increase the probability of earning above-average returns.

The strategic management process is the focus of this book. Described in Chapter 1, organizations (both for-profit companies and not-for-profit agencies) use the strategic management process to understand competitive forces and to develop competitive advantages systematically and consistently.

This book is intended for use primarily in strategic management and business policy courses. The materials presented in the 13 chapters have been researched thoroughly. Both the academic, scholarly literature and the business, practitioner literature were studied and then integrated to design, write, and revise this book. The academic literature provided the foundation to develop an accurate, yet meaningful description of the strategic management process. The business

practitioner literature yielded a rich base of current domestic and global examples that is used to show how the concepts, tools, and techniques of the strategic management process are applied in different types of organizations.

Top-level managers are responsible for effectively developing and using the strategic management process in their organizations. Because they bear this responsibility, the work of top-level managers is considered in greater detail in this book than is the work of middle- and first-level managers.

## ■ Strategic Management Process

Our treatment of the strategic management process is both *traditional* and *contemporary*. In maintaining tradition, we examine important materials that have historically been a part of understanding strategic management. For example, we thoroughly examine how to analyze a firm's external environment and internal environment as a part of the strategic management process. However, in explaining these important activities, in Chapters 2 and 3, respectively, our treatments are contemporary. In Chapter 3, for example, we emphasize the importance of identifying and determining the value-creating potential of a firm's resources, capabilities, and core competencies. The strategic actions taken as a result of understanding a firm's resources, capabilities, and core competencies have a direct link with the company's ability to establish a sustainable competitive advantage, achieve strategic competitiveness, and earn above-average returns.

Our contemporary treatment of the strategic management process is also exemplified in the chapters on the dynamics of strategic change in the complex global economy. In Chapter 5, for example, we discuss how the dynamics of competition between firms affect the outcomes achieved by individual companies. This chapter's discussion is grounded in the reality that in most industries, the strategic actions taken by a firm are influenced by a series of competitive actions and responses initiated by competitors. Thus, competition in the global economy is fluid, dynamic, and significantly influences a firm's performance. Similarly, in Chapter 7, we address the dynamics of strategic change at the corporate level, specifically addressing the motivation and consequences of mergers, acquisitions, and restructuring divestitures in the global economy.

We also emphasize that the total set of strategic actions known as *strategy formulation* and *strategy implementation* (see Figure 1.1 in Chapter 1) must be integrated carefully if a firm is to achieve strategic competitiveness and earn above-average returns. Thus, a full reading of this book shows that strategic competitiveness is achieved and above-average returns are earned only when firms use implementation tools and actions that are consistent with the nature of different business-level (Chapter 4), corporate-level (Chapter 6), acquisition (Chapter 7), international (Chapter 8), and cooperative (Chapter 9) strategies that firms have chosen.

Contemporary topics and concepts are the foundation for our in-depth analysis of strategic actions firms take to implement their chosen strategies. In Chapter 10, for example, we describe how different corporate governance mechanisms (e.g., boards of directors, institutional owners, executive compensation, etc.) affect strategy implementation. Chapter 11 explains how firms gain a competitive advantage by effectively using structures to implement business-level



and corporate-level strategies. The vital contributions of strategic leaders are discussed in Chapter 12. Chapter 13 addresses the important topic of corporate entrepreneurship and innovation through internal corporate venturing, strategic alliances, and external acquisition or venture capital investments. Through integration of the traditional and contemporary topics, readers of this book should be able to fully understand the strategic management process and how to use it successfully in an organizational setting.

A number of contemporary topics and issues are examined in the book as well. These include total quality management (TQM), stakeholder analyses, core competencies, speed of decision making, transnational strategy, strategic refocusing (downsizing, downscoping), and the importance of ethics.

### ■ Key Features of This Text

To increase the value of this book for readers, several features are included, each of which is described below.

**Learning Objectives** Each chapter begins with clearly stated learning objectives. These objectives inform readers of key points they should master from each chapter. To both facilitate and verify learning, students can revisit each chapter's learning objectives by preparing answers to the review questions appearing at the end of each chapter.

**Opening Cases** Following the learning objectives, each chapter begins with an opening case. These cases describe current actions taken by well-known companies including Ford Motor Company, AT&T, Texas Instruments, Hitachi, Rubbermaid, Oy Nokia, American Express, PepsiCo, and Procter & Gamble. The purpose of these cases is to demonstrate how a specific firm applies the strategic management concepts that are examined in the chapter. Thus, the opening cases provide a link between the theory and application of the strategic management process in different organizations.

**Key Terms** Key terms—those that are critical to understanding the strategic management process—are boldfaced throughout the book. Definitions of these key terms appear in chapter margins as well as in the text.

**Strategic Focus Segments** Three Strategic Focus segments are presented in each chapter. As with the opening case, the Strategic Focus segments showcase organizations with which most readers are familiar. These segments provide additional applications of the concepts highlighted in each chapter. Each Strategic Focus describes how a company has applied a particular part of the strategic management process in the pursuit of strategic competitiveness. For instance, Procter & Gamble's successful entry and competition in Chinese markets is explained in a Strategic Focus in Chapter 1, demonstrating the importance of competitiveness in a global economy. The importance of analyzing and adapting to the external environment is shown by the changes Louis Gerstner has made in IBM's strategy as explained in a Strategic Focus in Chapter 2. A Strategic Focus in Chapter 3 describes how The Gap applies its core competencies to a new concept, Old Navy Stores, to achieve a competitive advantage. Time Warner's



acquisition of Turner Broadcasting to achieve synergy is explained in a Strategic Focus in Chapter 6. Sony's use of strategic alliances to enter international markets is emphasized in a Chapter 8 Strategic Focus segment. Sematech is one of the more successful research consortia in the United States as discussed in a Strategic Focus in Chapter 9. Finally, the entrepreneurial activity of Chrysler Corporation, the Skunkworks at Rockwell, and the innovative approaches implemented by Brinker International Inc. have all been successful as exemplified in a Chapter 13 Strategic Focus. These examples and others make the concepts in each chapter come alive for the reader and facilitate reality-based learning.

**End-of-Chapter Summaries** Each chapter ends with a summary that is related to the learning objectives. These summaries are presented in a bulleted format to highlight concepts, tools, and techniques examined in each chapter.

**Review Questions** As mentioned earlier, review questions are largely tied to the learning objectives. As such, students are prompted to focus on the specific learning objectives of each chapter.

**Application Discussion Questions** Following the review questions at the end of each chapter is a set of application discussion questions. These questions challenge readers to apply the strategic management process highlighted in the chapter. These questions are intended to stimulate thoughtful classroom discussions and to help students develop critical thinking skills. Lively debates should emerge as students discuss potential applications.

**Ethics Questions** While competing in a global economy, firms continuously face ethical challenges and dilemmas. At the end of each chapter, readers are presented with a set of questions about ethical issues that require careful thought and analysis. Preparing answers to these questions helps students confront many of the ethical issues facing those responsible for designing and using effectively a firm's strategic management process. Discussing these difficult issues in class heightens one's awareness of the ethical challenges encountered by modern organizations.

**Internet Exercises** The Internet is becoming a popular source of information and a valuable learning tool. As such, a set of Internet exercises, developed by Paul Miesing of the University of Albany, SUNY is included at the end of each chapter. Each set of exercises is designed so the student can use the Internet to apply or further develop concepts presented in the chapter. A general guide to the use of the Internet is presented in the Appendix to the book.

**Examples** Besides the opening cases and Strategic Focus segments, the chapters contain many other real-world examples. For instance, AB Volvo's fight for survival by being innovative is discussed in Chapter 13. Chapter 8 explains the international strategy of a number of firms such as Komatsu, Ford, Samsung, and Ispat International, among others. Grounded in descriptions of actual organizations' actions, these examples are used to illustrate key strategic management concepts and to make examining the strategic management process more real and interesting.

Besides the traditional end of book subject and name indices, a company index is provided. This index includes the names of all organizations discussed in the text for easier accessibility.

**Strategic Competitiveness and Globalization** The title of this book highlights the importance of strategic competitiveness and globalization to our examination of the strategic management process. The strategic management process is critical to an organization's success. As described in Chapter 1, strategic competitiveness is achieved when a firm develops and exploits a sustained competitive advantage. Attaining such an advantage results in the earning of above-average returns; that is, returns that exceed those an investor could expect from other investments with similar amounts of risk. For example, Rubbermaid developed and sustained a competitive advantage over time because of its significant emphasis on innovation even though it operates in a low-technology industry. Although it has experienced some problems recently because of its pricing strategies, its innovation (introducing sometimes as many as 300 to 400 new products annually) has helped it to remain one of the top firms in the United States in reputation (see Chapters 2 and 3).

Also critical to the approach used in this text is the fact that all firms face increasing global competition. Firms no longer operate in relatively safe domestic markets as U.S. auto firms have discovered. In the past, many companies, including most in the United States, produced large quantities of standardized products. Today, firms typically compete in a global economy that is complex, highly uncertain, and unpredictable. To a greater degree than was the case in a primarily domestic economy, the global economy rewards effective performers, whereas poor performers are forced to restructure significantly to enhance their strategic competitiveness. As noted earlier, increasing globalization and the technological revolution have produced a new competitive landscape. The new competitive landscape presents a challenging and complex environment for firms, but one that also has opportunities.

Success in the new competitive landscape requires specific capabilities, including the abilities to (1) use scarce resources wisely to maintain the lowest possible costs, (2) constantly anticipate frequent changes in customers' preferences, (3) adapt to rapid technological changes, (4) identify, emphasize, and effectively manage what a firm does better than its competitors, (5) continuously structure a firm's operations so objectives can be achieved more efficiently, and (6) successfully manage and gain commitments from a culturally diverse workforce.

The importance of developing and using these capabilities in the new competitive landscape of the twenty-first century should not be underestimated. In the opinion of General Electric's chairman, Jack Welch, firms that cannot sell a top-quality product at the world's lowest price will soon be out of business.<sup>1</sup> Welch's opinion challenges firms to understand the nature of the new competitive landscape and its direct and indirect effects on their operations. In some instances, firms compete directly with global competitors. For companies competing only with domestic competitors (evidence suggests that the number of these firms continues to decline), the effect of globalization is witnessed in terms of competitive standards. Indirectly, then, the competitive landscape forces all companies—even those focused on a domestic market—to compete in terms of the world's highest standards.

**Full Four-Color Format** Our presentation and discussion of the strategic management process is facilitated by use of a full four-color format. This format provides the foundation for an interesting and visually appealing treatment of all parts of the strategic management process. Also included is a series of photo-

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<sup>1</sup>Jack Welch's lessons for success, 1993, *Fortune*, January 25, 86–93.

graphs accompanied by captions integrated with the text material to help students understand the concepts.

**Cases** The text includes 37 case studies that represent a variety of business and organizational situations and corporate- and business-level strategic issues. For example, there are cases representing manufacturing, service, consumer goods, and industrial goods industries. Furthermore, many of the cases include an international perspective. Also, cases with high technology, entertainment, and utility firms are represented. Some cases focus specifically on social or ethical issues, whereas others emphasize strategic issues of entrepreneurial or small- and medium-sized firms. Finally, a significant number of the cases also provide an effective perspective on the industry examined.

The cases have been reviewed carefully and selected personally by the authors. Our goal was to choose cases that were well written and focused on clear and important strategic management issues. In addition, the cases represent a variety of industries and strategic issues and provide a rich learning experience for those performing case analyses. The cases are multidimensional and, for the readers' convenience, a matrix listing all 37 cases and the dimensions/characteristics of each one is provided following the table of contents. Although most of these cases are concerned with well-known national and multinational companies, several depict the strategic challenges involved in smaller and entrepreneurial firms (e.g., Kitchen Made Pies, The Hue-Man Experience Bookstore). Given the global economy emphasized in this book, more than 50 percent of the cases include an international perspective. Additionally, given that by the year 2000 approximately 50 percent of all businesses will be owned and operated by women, several cases are included that examine firms with women CEOs/owners or entrepreneurs such as Liz Claiborne and Susan's Special Lawns. There are also cases of special interest or topics (e.g., Arizona Public Service Company, The Body Shop, Matsushita Industrial de Baja California, Daimler Benz, and Dow Corning and the Silicone Breast Implant Controversy). Additionally, while most cases focus on profit-oriented companies, we also have cases on nonprofit organizations (e.g., The Greensboro Housing Authority). In summary, the cases represent a wide variety of important and challenging strategic issues and provide an exciting setting for case analyses and presentations.

## ■ Support Materials

The instructor support package is an innovative response to the growing demand for creative and effective teaching methodologies. The comprehensive set of supplements prepared to accompany this edition of our book is designed to provide an integrated resource package for all faculty adopting this text. The materials used will depend on the faculty member's interest areas, class size, equipment availability, and teaching experience. All supplements not prepared by the authors have been reviewed by them for consistency and accuracy with the text's materials.

## ■ For the Instructor

**Annotated Instructor's Edition** An *Annotated Instructor's Edition* has been prepared by Robert D. Nixon of Tulane University. The annotations, based on current events experienced by organizations that are familiar to students, provide



a number of suggestions to encourage and facilitate class discussion of important concepts from the book. The annotations also include additional company examples that may be used to enlighten students further about a particular topic. In addition, most chapter opening cases are accompanied by at least one URL so that further information related to the featured company can be researched using the World Wide Web.

**Instructor's Manual** A comprehensive *Instructor's Manual* has been prepared by Richard A. Menger of St. Mary's University. The instructor's manual provides teaching notes and suggested answers to review questions for each chapter. The teaching notes incorporate boxed discussion summaries or highlights of each opening case, Strategic Focus segment, table, and figure appearing in the text. Teaching suggestions are included to provide strategies for integrating various text features in a lecture format. In addition, a new section on Information Technology for Strategic Management, prepared by Paul Miesing of the University of Albany, SUNY, has been added. This section provides suggestions for incorporating the Internet exercises from each chapter into the course, at least one URL for each Strategic Focus, a Listserv exercise, and a Usenet exercise.

**Instructor's Case Notes** Samuel M. DeMarie of the University of Nevada at Las Vegas prepared the *Case Notes* that accompany the text. Each note highlights the details of the case within the framework of case analysis presented in the text. The authors have selected cases that represent a myriad of strategy topics and company types. The structure of these case notes allows instructors to organize case discussions along common themes and concepts. For example, each case note details the firm's capabilities and resources, its industry and competitive environment (if applicable), and key factors for success in the industry.

The case notes also feature aspects of the cases that make them unique. Each case is analyzed within its particular time frame, and most include an updating epilogue. Professor DeMarie has also provided summary tables of all the figures and exhibits in each case. Instructors will know the information available to students for preparing a case.

**Test Bank** The *Test Bank*, prepared by Debora J. Gilliard of Metropolitan State College of Denver, has been thoroughly revised and expanded for this edition. The test bank contains more than 1,000 multiple choice, true/false, and essay questions. Each question has been coded according to Bloom's taxonomy, a widely known testing and measurement device used to classify questions according to level (easy, medium, or hard) and type (application, recall, or comprehension). A text page reference for the answer to each test question has been added to the test bank.

**WESTEST™ Computerized Testing Software** WESTEST™ allows instructors to create, edit, store, and print exams. The system is menu driven with a desktop format to make the program quick and easy to use. WESTEST™ is available in Macintosh, IBM, and IBM-compatible Windows® and MS-DOS® versions. Instructors can also have tests created and printed by calling West's Call-In-Testing Service.

**West's Classroom Management Software** West's Classroom Management Software enables instructors to keep track of student performance using a spread-

sheet format. This program allows for easy entry of student information (name, ID number, social security number, etc.) and assignment data. The instructor can customize grading parameters by changing grading criteria or determining assignment weighting.

**PowerPoint® Presentation Files** Jay Dial of Texas A&M University has developed more than 500 PowerPoint® slides for this text. These slides feature figures from the text, lecture outlines, and innovative adaptations to enhance classroom presentation. These files are available on disk in PowerPoint® 4.0.

**Transparency Acetates** The full color transparency acetates include important figures from the text and additional transparencies from the PowerPoint® Presentation Files. Over 75 transparency acetates are included in the set.

**Transparency Masters** More than 200 transparency masters are printed from the PowerPoint® Presentation Files and include figures from the text and innovative adaptations to enhance classroom presentation.

**West's CD-ROM Product Manager** West's CD-ROM Product Manager provides a simple way to install WESTEST™ microcomputer testing software with the complete test bank, West's Classroom Management Software, and the PowerPoint® Presentation Files for this text. Using this CD-ROM and its installer, you can immediately access and use all of these valuable resources.

**Strategic Management Online** Strategic Management Online includes updates to the text and exercises as well as new links and additional Internet exercises. This online service is available to qualified adopters through West's home page on the Internet at <http://www.westpub.com/Educate>.

**Videos** An extensive updated video package is available that includes three to five video segments per chapter. The videos feature real companies and real cases, not company promotions.

**Video Guide** A video guide has been developed by Joseph F. Michlitsch of Southern Illinois University at Edwardsville to accompany the video package and provide information on length, alternative points of usage within the text, highlights to address, and some discussion questions to stimulate classroom discussion.

## ■ For the Student

**Office Profit, SA** For those adopters who want computer software support for case analysis, we are pleased to offer Office Profit, SA Business Analysis Software developed by CFI ProServices, Halcyon Division. The menu-driven Office Profit software is a powerful tool that allows students to calculate any or all of the following:

1. comparison to industry standards;
2. financial ratios;
3. a firm's breakeven point;

4. bankruptcy predictor;
5. cash market value of the firm;
6. cash flow analysis;
7. operating ratio; and
8. operating capital requirements.

The financial data from the following text cases have been loaded on disk for use with the Office Profit software:

- Case 2. Arizona Public Service Company and the Electric Utility Industry
- Case 3. AT&T: A Strategic Restructuring for the Twenty-First Century
- Case 9. Cap Gemni Sogeti
- Case 13. Eastman Kodak Company: A New Image
- Case 15. Glaxo PLC: Medicine, Management, and Mergers
- Case 16. Goodyear: The Gault Years
- Case 18. Harley-Davidson, Inc.
- Case 19. The Hue-Man Experience Bookstore
- Case 23. Liz Claiborne, 1993: Troubled Times for the Woman's Retail Giant
- Case 27. Novell: Expanding the Network
- Case 29. Polaroid and the Family-Imaging Market

**Insights: Readings in Strategic Management, Second Edition** Prepared by Timothy B. Palmer of Louisiana State University, *Insights* has been revised for this edition and includes multiple selections from academic and popular business periodicals such as the *Academy of Management Executive*, the *Wall Street Journal*, *Forbes*, and *Fortune*.

**Student Note-Taking Guide** The *Student Note-Taking Guide*, prepared by Jay Dial of Texas A&M University, addresses the frustration of professors who find that students spend most of their time during lectures frantically copying material from the overheads. The *Student Note-Taking Guide* contains reduced images of the PowerPoint® Presentation Files with space for lecture notes on each page.

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## ■ Final Comments

Organizations face exciting and dynamic competitive challenges as the 1990s come to a close and the twenty-first century appears on the horizon. These challenges—and effective responses to them—are explored in this second edition of *Strategic Management: Competitiveness and Globalization*. The strategic management process offers valuable insights for those committed to successfully leading and managing organizations in the 1990s and beyond. We hope you will enjoy the exposure to the strategic management process provided by this book. In addition, we wish you success in your careers and future endeavors.

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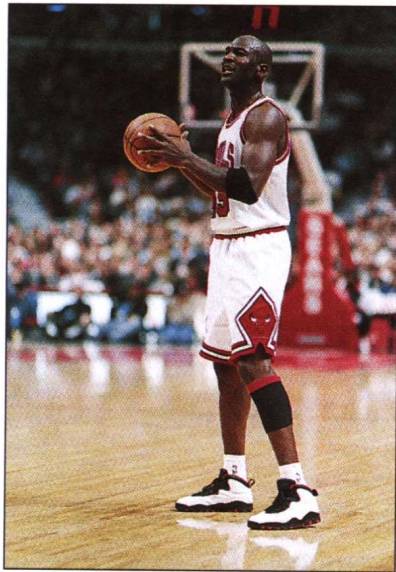
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