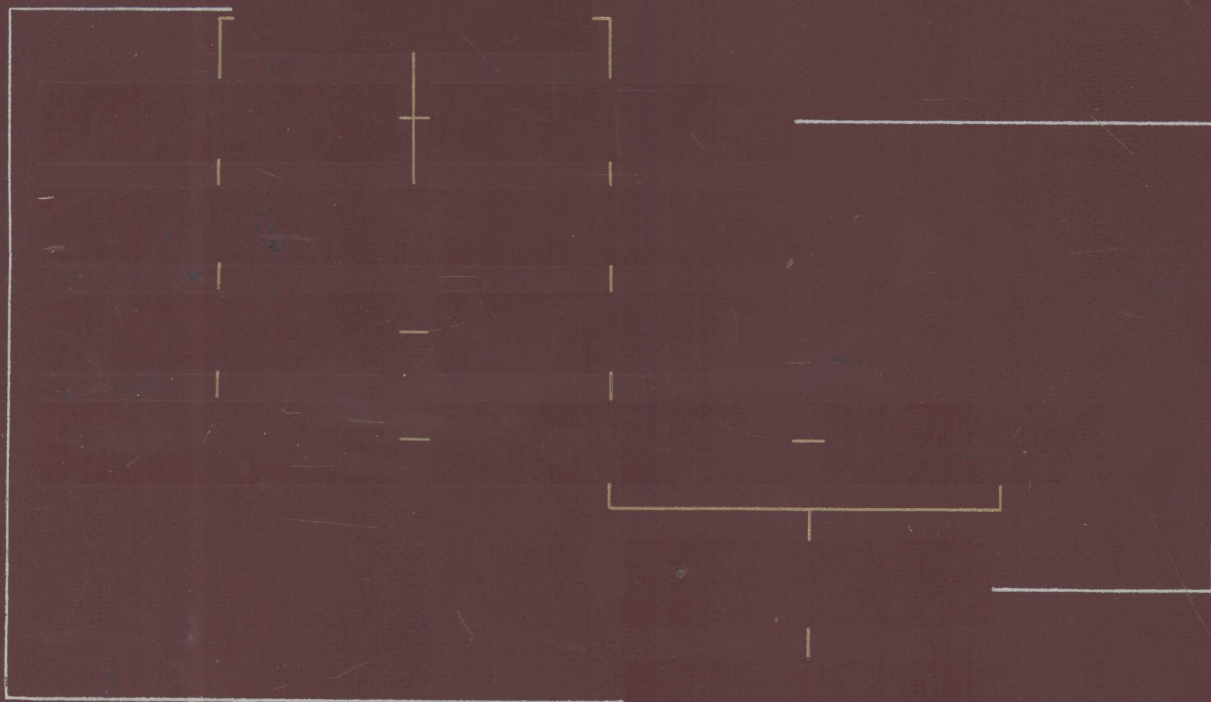


# STRATEGIC MANAGEMENT

Strategy Formulation and Implementation

Third Edition



John A. Pearce II

Richard B. Robinson, Jr.

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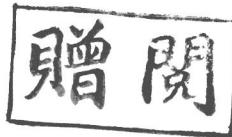
Strategy Formulation and Implementation

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University of South Carolina



1988 Third Edition



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**IRWIN**

Homewood, Illinois 60430

**To David Donham Pearce, Mark McCartney Pearce, Katherine Elizabeth Robinson, John Braden Robinson—wonderful young people and our much beloved children**



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# STRATEGIC MANAGEMENT

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**The Irwin Series in Management and The Behavioral Sciences**  
L. L. Cummings and E. Kirby Warren Consulting Editors

# PREFACE

The third edition of this book is the culmination of 10 years of diligent work on the part of many people. This preface is designed to provide you with an overview of the content of the third edition and to recognize the many contributors to it. To do this we have divided the preface into three sections. The first section is addressed to the student and is designed to give this first-time user a concise overview of the structure and content of the book. The second section is addressed to the instructor and is designed to give the person familiar with our previous editions a sense of what is new. The third section acknowledges the many contributors to this ongoing project.

## To the Student

*Strategic Management: Strategy Formulation and Implementation*, third edition, is a book designed to introduce you to the critical business skills of planning and managing strategic activities. It incorporates three teaching approaches: text, cohesion cases, and business case studies.

The text portion of this book provides you with a readable, up-to-date introduction to the management of strategy in the business enterprise. We have tried to integrate the work of strategic management theorists, practitioners, and researchers with a strong emphasis on real-world applications of strategic management concepts. To further this aim, we have included **Strategy in**

**Action** reports across 13 chapters which give current examples of the application of key concepts by well-known business firms.

The structure of the text material is guided by a comprehensive model of the strategic management process. The model will help you acquire an executive-level perspective on strategy formulation and implementation. It provides a visual display of the major components of the entire process and shows both how they are conceptually related and how they are sequenced through the process.

The major components of the model are each discussed in depth in separate chapters, thereby enabling you to acquire detailed knowledge and specific skills within a broad framework of strategic management. The use of the model is also extended to the cohesion cases and the business case studies, where you will be guided in your case analyses to pursue disciplined, systematic, and comprehensive studies of actual strategic dilemmas.

The **Cohesion Case** offers a particularly unique feature designed to aid both the student and the teacher of strategic management and business policy. We have taken a well-known, multi-industry firm—Holiday Inns, Inc.—and used it as the basis of an in-depth case study to illustrate in detail the application of the text material. To do this, we provide a cohesion case section at the end of each chapter which applies the chapter material to the company. The Holiday Inns, Inc., case offers a clear illustration of the corporate, business, and functional levels of strategy—so important to the understanding of strategic management in today's corporate environment.

The Cohesion Case offers several benefits to the reader:

It provides a continuous illustration of the interdependence of the various parts of the strategic management process by using the same enterprise throughout the chapters.

It provides a useful aid in understanding the text material when the primary emphasis in the course is to be on case studies or other nontext analysis.

It provides a useful aid in preparing for the case analysis component of the course, in the event that the instructor prefers to emphasize the conceptual material.

It offers an in-depth basis for class discussion of strategic management concepts, application, and ideas for any classroom pedagogy.

The **business case studies and industry notes** developed and chosen for this book offer you wide exposure to a systematically selected cross section of strategic management situations. All 34 cases and industry notes represent pertinent, relevant, factual, and, we hope, interesting and challenging opportunities to develop and test your skills as strategic managers. The rich diversity among these exciting cases and industry notes is described in greater detail later in this preface.

## To the Instructor

This third edition of *Strategic Management: Strategy Formulation and Implementation* provides a thoroughly revised, state-of-the-art treatment of the critical business skills of planning and managing strategic activities. We have reorganized our treatment of strategic management into 13 chapters; added critical pedagogical features; condensed the material into fewer pages; expanded the number of “real-world” examples; condensed and updated the Cohesion Case; and further incorporated the work of contemporary scholars into our coverage of strategic management. We feel confident you will find the material well organized, laden with current examples, and reflective of new contributions in the strategic management literature while retaining a structure guided by our time-tested model of the strategic management process.

We have selected 34 cases and industry notes for this edition; 30 are new, and the remaining 4 carry-overs from the second edition were unanimously selected to remain in the third edition in a nationwide poll of professors currently using this book. The cases are grouped into four sections. Nine cases introduce students to strategic management and the process of strategy formulation; nine cases place students in the role of implementing basic strategies; eight cases allow students to experience the challenges of monitoring and controlling implemented strategies; and eight cases and industry notes allow you to cover industry analysis and strategic management across an integrated set of cases and industry notes. We are very excited about the case selection for this edition—they are contemporary, interesting situations students will recognize, enjoy, and learn from.

We have revised and condensed the Cohesion Case while retaining Holiday Inns, Inc., as the company that we examine. We have been pleased with the response of both students and instructors to this innovative, pedagogical feature we pioneered in this book. While the Cohesion Case has been recognized by many as one of the unique pedagogical advances in business policy this decade, we have endeavored to add still more self-teaching aids to this edition.

We have expanded our strategic management teaching package for this edition. In our second edition, we pioneered the use of computer-assisted strategic analysis with the introduction of *Strategic Analyst* to accompany our textbook. *Strategic Analyst* allowed the student to conduct a computer-based, systematic analysis of the strategic options available to a business and do so with built-in linkages to our text. *Strategic Analyst* is still available with this third edition. We are excited about our second computer-assisted offering to accompany our third edition. Selected cases in the third edition have Lotus templates available for use by the students.

Other components of our teaching package include a totally revised and enhanced *Instructor's Manual*; a set of four-color teaching transparencies; a computerized version of our test bank; *Formulating and Implementing Com-*



*petitive Strategy*, a paperback offering text-only coverage of strategic management identical to that in this book; *Company and Industry Cases in Strategy and Policy*, and a paperback offering 28 cases and industry notes. Each of these components of our teaching package offers the instructor optimal, integrated flexibility in designing and conducting the strategic management course.

## Changes to Our Text Material

The literature and research comprising the strategic management field has been developing at a rapid pace in recent years. We have endeavored to create a third edition that incorporates major developments in this literature while keeping our focus centered on a simple, understandable framework through which students can begin to grasp the complexity of strategic management. Several text revisions or additions you should be aware of are described below:

- A new chapter has been added covering international issues and strategic management in an international setting.
- The three-chapter set on external analysis has become four chapters plus a supplement on sources of industry data. Separate chapters now cover the nature of external environments, environmental forecasting, industry analysis, and the international business setting. While the number of chapters is expanded, the material has been condensed and streamlined, affording a concise, practical treatment.
- A major new section has been added on the topic of “strategic control.” Three basic types of strategic control and ways to use them are highlighted in this material.
- Organizational culture as a central dimension of strategy implementation has received significantly greater attention in Chapter 12 of this edition. Several useful analytical concepts and techniques that aid identification and management of the strategy–culture interface are incorporated to aid the student in understanding the culture concept.
- Two useful supplements now accompany our text material. A revised guide to financial analysis is provided following Chapter 8—Internal Analysis. It provides perhaps the most thorough and easy-to-use guide to quantitative analysis of financial and operating information available in any strategic management text. A guide to industry information sources follows Chapter 5—Environmental Forecasting. It has been revised and updated for this edition. Students will find it most helpful in rapidly orienting them to where and how to get company and industry data.
- We have increased the number of **Strategy in Action Illustration Capsules** by 30 percent. The text material now contains 43 of these illustra-

tion vignettes, 35 of which are new to this edition. Each Strategy in Action provides a contemporary business example of a key chapter topic to interest the student and aid learning.

- Our popular **Cohesion Case** feature has received considerable attention this edition. We have continued the use of a well-known, multi-industry firm—Holiday Corporation (Holiday Inns, Inc.)—as an in-depth case study to illustrate in detail the application of the text material. We also continue to provide cohesion case sections at the end of each chapter, which apply chapter material to the Holiday situation. We have updated the material about Holiday Corporation, and we have streamlined and shortened its presentation, making this feature even more appealing and useful.
- Our survey of over 200 adopters and “almost adopters” of the second edition told us they wanted maximum material to aid students unsure about the case method, what they need to do in preparing a case, and maintaining a strategic point of view. We have added a major section in this edition that is solely intended to aid students in understanding case method pedagogy and to prepare them to analyze a case. The first part of this section provides a thorough, detailed description of the case method format; what to expect in each class session; and how to analyze a case, prepare it for class, and participate in class discussion. The second part offers a short case accompanied by a useful example of former students’ analysis and preparation of it. These two supplements, combined with the revised Cohesion Case illustrating each step of strategic analysis, provide the most thorough package available in any strategy textbook to ensure that students understand and benefit from the case method pedagogy.

In conclusion, we are confident you will find the text material in this third edition well organized, concise, filled with current examples, and consistent with the current theory and practice of strategic management.

### Cases in the Third Edition

We are very excited about the 34 cases and industry notes available in this edition. Thirty cases and notes are new to this edition. Four cases were retained based on the unanimous preference expressed in our survey of current adopters. We are confident you will find this case collection does an excellent job of meeting your classroom needs for several reasons:

- The collection offers a rich diversity of recognizable domestic, foreign, and international companies and industries.
- The collection presents very current situations. All the cases involve situations in the 1980s with most focusing on 1985 or later.

- Contemporary, recognizable, interest-piquing situations abound: New Coke, Pepsi and the cola wars; Federal Express's ZapMail decision; Citicorp and Merrill Lynch; Manville and A.H. Robins' product liability dilemma; Tylenol and capsule tampering; Goodyear and South Africa; People Express and the airlines; international truck competition among Mercedes Benz, Volvo, and Mack Truck; Wendy's growth and maturity; Wal-Mart's retailing success—all situations our tests have shown motivate student interest.
- The nature of the firms provides varied exposure. We have included 7 small companies in either family or rapid growth phases; 5 foreign (non-U.S.) companies; 15 companies with international operations; 6 of the top companies in America; 2 nonprofit organizations; and 4 industry sets providing 2 or more companies in competition with each other.
- Three industry notes with matching cases provide a rich basis for teaching industry analysis. With the Coke and PepsiCo cases comprising a fourth industry set, you have a variety of domestic and international industry settings at different stages of evolution and spanning manufacturing, services, and consumer products.
- This collection provides the variety instructors expect in a superior case offering. Cases are present that span the basic types of business (retail, wholesale, service, manufacturing, etc.), companies in market leadership positions, companies falling out of leadership, high-tech companies, start-up companies, chapter 11 companies, exporters, importers, and diversifying companies.
- We have also given significant attention to case length. A major effort has been made to ensure that a majority of the cases are short to medium in length. We still include several long cases, "two-day" cases, and two-part cases. The instructor's needs in this regard are further supplemented by information in the *Instructor's Manual*.

Finally, we have endeavored to ensure a collection of cases that are flexible in their course sequencing, yet able to offer exposure to distinct management challenges associated with strategy formulation, implementation, or control. Because our survey found this to be one of the key demands and concerns of strategic management professors worldwide, this case collection was developed with this need upmost in our minds. Students will see Wendy's managers formulating a new strategy for entering the competitive fast-foods industry, Mercedes Benz and Volvo reformulating their strategies in the mature and concentrated worldwide truck industry. They can study Citicorp implementing international expansion, Sharpco consolidating growth, and Merrill Lynch implementing its financial supermarket strategy. They can experience strategic control at Tylenol, Union Carbide, and Payless Cashways—and experience strategic decisions like Goodyear's choices in South Africa, Manville's chapter 11, and Coke's "New Coke."

Overall, we think you will find this case collection interesting and motivating for your students, representative and varied in the application of strategic problems and analytical applications, flexible in terms of course sequencing, and comfortably teachable.

## **Acknowledgments**

We have repeatedly benefited from the help of many people in the evolution of this book over three editions. Students, adopters, colleagues, and reviewers have provided literally hundreds of insightful comments, suggestions, and contributions that have progressively enhanced this package. We are certainly indebted to several researchers, writers, and practicing managers who have accelerated the development of the literature on strategic management. And we are likewise indebted to the talented case researchers who have produced several cases used in this book as well as the growing network of case researchers encouraging the revitalization of case research as important academic endeavor. The discipline of strategic management is eminently more teachable when current, well-written, well-researched cases are available. We encourage every opportunity to reinforce proper recognition and reward for first-class case research—it is a major avenue through which top strategic management scholars should be recognized.

The following strategic management scholars have provided the results of their case research in the creation of this exciting third edition:

Paul E. Arney, Bradley University  
 Franz X. Bea, University of Tübingen, West Germany  
 John M. Bryson, University of Minnesota  
 William K. Carter, University of Virginia  
 James J. Chrisman, University of South Carolina  
 DeAnn Chappell, University of Virginia  
 Julio DeCastro, University of South Carolina  
 J. Kim DeDee, University of Wisconsin at Oshkosh  
 David W. Gillen, Wilfrid Laurier University  
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 E. K. Valentin, Weber State College  
 Andrew H. Van de Ven, University of Minnesota  
 Robert P. Vichas, Florida Atlantic University  
 Yaakov Weber, University of Kentucky  
 Frank L. Winfrey, University of Wisconsin at Parkside

We have personally ensured that the Dean at each of their respective institutions is aware of the value their case research efforts have added to the profession's ability to teach strategic management.

The development of this book through three editions has been greatly enhanced by the generous commitment of time, energy, and ideas from the following people:

Sonny S. Ariss, University of Toledo  
 Robert Earl Bolick, Metropolitan State University  
 William E. Burr II, University of Oregon  
 E. T. Busch, Western Kentucky University  
 Richard Castaldi, San Diego State University  
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The valuable ideas, recommendations, and support of these outstanding scholars and teachers have added quality to this book.

Because we are affiliated with two separate universities, we have two sets of co-workers to thank.

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We are especially grateful to LeRoy Eakin, Jr., and his family for their generous endowment of the Eakin Endowed Chair in Strategic Management at George Mason University that Jack holds. The provisions of the Chair have enabled Jack to continue his dual involvements with this book and strategic management research.

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In using this text, we hope that you will share our enthusiasm both for the rich subject of strategic management and for the learning approach that we have taken. We value your recommendations and thoughts about our materials. Please write Jack at the School of Business Administration, George Mason University, Fairfax, Virginia 22030, or Richard at the College of Business Administration, University of South Carolina, Columbia, South Carolina 29208.

**Jack Pearce**  
**Richard Robinson**

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**John A. Pearce II, Ph.D.**, is the holder of the Eakin Endowed Chair in Strategic Management in the School of Business Administration at George Mason University (Fairfax, VA 22030, 703-323-4361) and Chairman of the school's Management Department.

Professor Pearce has published more than 100 journal articles, invited book chapters, and professional papers in outlets that include *Academy of Management Executive*, *Academy of Management Journal*, *Academy of Management Review*, *California Management Review*, *Journal of Business Venturing*, *Sloan Management Review*, and the *Strategic Management Journal*. He has served on the editorial boards of four journals, and he is currently the Consulting Editor in Strategic Management for the *Journal of Management*. Professor Pearce is also the coauthor or coeditor of 17 texts, proceedings, and supplements for publishers that include Richard D. Irwin, Inc., McGraw-Hill, Random House, and the Academy of Management.

Elected to more than a dozen offices in national and regional professional associations, Professor Pearce has served as Chairman of the Academy of Management's Entrepreneurship Division, Strategic Management and Entrepreneurship Track Chairman for the Southern Management Association, and Strategy Formulation and Implementation Track Chairman for the Decision Sciences Institute. He is also the 1989 President-elect of the Southern Management Association.

An active consultant and management trainer, Professor Pearce specializes in helping executive teams to develop and activate their firms' strategic plans.



**Richard B. Robinson, Jr., Ph.D.**, is currently Professor of Strategy and Entrepreneurship in the College of Business Administration at the University of South Carolina (Columbia, SC 29208, 803-777-5961).

Professor Robinson has published more than 100 journal articles, invited chapters, and professional papers in outlets that include the *Academy of Management Journal*, *Strategic Management Journal*, *Academy of Management Review*, *Journal of Business Venturing*, *Journal of Small Business Management*, and the *Personnel Administrator*. He is also coauthor or coeditor of 16 texts, proceedings, and supplements for publishers that include Richard D. Irwin, Inc., McGraw-Hill, Random House, and the Academy of Management.

Professor Robinson is the recipient of several awards in recognition of his work in strategic management and entrepreneurship. Sponsors of these awards include the Heizer Capital Corporation, the Academy of Management, the Center for Family Business, the National Association of Small Business Investment Companies, the Southern Business Administration Association, the Small Business Administration, the National Venture Capital Association, and Beta Gamma Sigma. He has also held offices in the Academy of Management, the Southern Management Association, and the International Council on Small Business. Professor Robinson is an active consultant in strategic management of growth-oriented ventures.