



Hitt  
Ireland  
Hoskisson

A horizontal bar composed of five colored segments: orange, dark blue, green, dark blue, and orange.The background features a stylized globe on the left side, showing continents and a grid of latitude and longitude lines. To the right of the globe are several concentric, overlapping circles of varying shades of blue and purple, some with a dotted pattern.

# Strategic Management

Competitiveness  
and Globalization

FIFTH EDITION

Concepts and Cases

FIFTH EDITION



# Strategic Management

Competitiveness  
and Globalization

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**Strategic Management: Competitiveness and Globalization (Concepts and Cases) 5e**

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FIFTH EDITION



# Strategic Management

Competitiveness  
and Globalization

*To my young grandson, Mason. Pa Pa loves  
you*

—Michael A. Hitt

*To Mary Ann and to Rebecca and Scott,  
our children. I love each of you deeply.  
Always remember that "When you need  
me, call my name; because without you, my  
life just wouldn't be the same."*

—R. Duane Ireland

*To my loving and supportive wife, Kathy  
Hall Hoskisson, with whom life is much  
more special, and to my wonderful  
children, who are uniquely wonderful  
examples to me.*

—Robert E. Hoskisson

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## About This Book

As with the earlier editions of *Strategic Management: Competitiveness and Globalization*, we have carefully integrated “cutting edge” research with practical applications of companies competing in global markets to develop this Fifth Edition. We continue to use this approach because we strongly believe that melding research findings with managerial practices provides you, our readers, with a comprehensive, timely, and accurate explanation of how companies use the strategic management process to successfully compete in the 21st century’s dynamic and challenging competitive landscape. Our goals in preparing this edition remain as they were with the first four editions, which are to (1) introduce the strategic management process in a way that illustrates both traditional approaches and the dynamics of strategic change; (2) describe the full set of strategic management tools, techniques, and concepts as well as how firms use them to develop competitive advantages; and (3) present contemporary strategic thinking and issues affecting 21st century firms and the strategic decisions made in those companies. Thus, our major goal in preparing this fifth edition has been to present you, our readers, with a concise, complete, accurate, up-to-date, and interesting explanation of the strategic management process as it is used by firms competing in the global economy.

Using an engaging, action-oriented writing style, we have taken great care to sharpen our presentation of strategic management tools and concepts. We relied on valued feedback from adopters, students, and colleagues to carefully rewrite the chapters to make them clear and concise. Although we fully describe all relevant parts of the strategic management process, the chapters in this edition are more succinct. However, the noticeable reduction in chapter length has not come at the expense of informative practical examples. In fact, while reading the chapters, you’ll find descriptions of many different types of firms as we explore the strategic management process. These examples are current and show how firms are competing in today’s constantly changing global environment.

Supporting our commitment to provide you with a comprehensive and current exposure to strategic management in a global context are 35 new cases. Concerned with firms competing in global markets across the world, this collection of totally new cases deals with all parts of the strategic management process. The companies in the cases represent a variety of strategic management challenges and issues. A matrix on pages xx–xxi clearly illustrates for each case the type of organization, the topics discussed, and the relevant text chapters that are appropriate for its discussion.

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### New Features and Updates

Many new features and updates to this edition enhance the book’s value.

- All new chapter *Opening Cases* (13 in total).
- All new *Strategic Focus segments* (three per chapter for a total of 39).
- New *company-specific examples* illustrating each chapter’s central themes.
- *Full coverage of strategic issues that are prominent in the 21st century competitive landscape.* Chapter 13, for example, has been rewritten to focus on *Strategic Entrepreneurship*. Important in established firms as well as start-up ventures, strategic

entrepreneurship is concerned with combining opportunity seeking behavior with advantage seeking behavior. As we describe in the all-new Chapter 13, firms that learn how to use a strategic perspective to identify and exploit entrepreneurial opportunities increase their ability to outperform their rivals. In Chapter 5, we've sharpened the discussion of patterns of competition that occurs between firms as they try to outperform each other.

- *Discussion of new topics.* In this edition, we discuss the use of profit pools (see Chapter 2), activity mapping (see Chapter 4), and the use of the balanced scorecard as a means of measurement and control (see Chapter 12). These new tools are gaining importance as parts of an effective strategic management process.
- *Thirty-five full-length all-new cases* representing highly current examples of strategy in action.
- A continued emphasis on *global coverage* with more emphasis on the international context and issues, both in the chapters and the cases.
- Updated *Review Questions* at the end of each chapter.
- *Experiential exercises* at the end of each chapter. New to this edition, these exercises present real-life strategic management issues and are followed by questions. The exercises can be individual or group-based and are sophisticated, yet simple to use.
- *New full four-color design* with enhanced readability and pedagogical treatment.

These new features and updates provide a unique competitive advantage for this book. With 13 new *Opening Cases* and 39 new *Strategic Focus* segments, we offer 52 major case examples in the chapters. In addition, virtually all of the shorter examples used throughout each chapter are completely new. The 35 new full-length cases comprehensively cover an interesting mix of industries and company sizes. In addition, many strategic issues such as mergers and acquisitions, competitive rivalry and competitive dynamics, strategic entrepreneurship, cooperative strategies, especially in the form of strategic alliances, and expansion into global markets are covered in the cases.

This new edition also emphasizes a global advantage with comprehensive coverage of international concepts and issues. In addition to comprehensive coverage of international strategies in Chapter 8, references to and discussions of the international context and issues are included in every chapter. The *Opening Cases*, *Strategic Focus* segments, and individual examples in each chapter cover numerous global issues. In addition, 60 percent of the 35 full-length cases focus on international contexts and markets (e.g., Acer in Canada, Beijing Jeep Co., InterPost Prague, s.r.o., and Otis Elevator in Vietnam).

Importantly, this new edition solidifies a research advantage for our book. For example, each chapter has more than 100 references. On average, at least 60 percent of these references are new to this edition. Drawn from the business literature and academic research, the materials in these references are vital to our explanations of how firms use the strategic management process.

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## The Book's Focus

The strategic management process is our book's focus. Organizations use the strategic management process to understand competitive forces and to develop competitive advantages. The magnitude of this challenge is greater today than it has been in the past. A new competitive landscape exists in the 21<sup>st</sup> century as a result of the technological revolution (especially in e-commerce) and increasing globalization. The technological revolution has placed greater importance on innovation and the ability to rapidly introduce new goods and services to the marketplace. The global economy, one in which goods and services flow relatively freely among nations, continuously pressures firms to become more competitive. By offering either valued goods or services to



customers, competitive firms increase the probability of earning above-average returns. Thus, the strategic management process helps organizations identify *what* they want to achieve as well as *how* they will do it.

## The Strategic Management Process

Our discussion 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 (see Chapter 2) and internal environment (see Chapter 3).

## Contemporary Treatment

To explain the aforementioned important activities, we try to keep our treatments 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 competitive advantage, achieve strategic competitiveness, and earn above-average returns.

Our contemporary treatment is also shown in the chapters on the dynamics of strategic change in the complex global economy. In Chapter 5, for example, we discuss the competitive rivalry between firms and the outcomes of their competitive actions and responses. Chapter 5's discussion suggests that a firm's strategic actions are influenced by its competitors' actions and reactions. Thus, competition in the global economy is fluid, dynamic, and fast-paced. Similarly, in Chapter 7, we explain the dynamics of strategic change at the corporate level, specifically addressing the motivation and consequences of mergers, acquisitions, and restructuring (e.g., divestitures) in the global economy.

We also emphasize that the set of strategic actions known as strategy formulation and strategy implementation (see Figure 1.1) must be carefully integrated for the firm to be successful.

## Contemporary Concepts

Contemporary topics and concepts are the foundation for our in-depth analysis of strategic actions firms take to implement 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 organizational structures that are properly matched to different strategies. The vital contributions of strategic leaders are examined in Chapter 12. In the all-new Chapter 13, we describe the important relationship between the ability to find and exploit entrepreneurial opportunities through competitive advantages.

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## Key Features

Several features are included in this book to increase its value for you.

## Knowledge Objectives

Each chapter begins with clearly stated Knowledge Objectives. Their purpose is to emphasize key strategic management issues you will be able to learn about while

studying each chapter. To both facilitate and verify learning, you can revisit the Knowledge Objectives while preparing answers to the Review Questions that are presented at the end of each chapter.

## Opening Cases

An Opening Case follows the Knowledge Objectives in each chapter. The Opening Cases describe current strategic issues in modern companies such as Federal Express, Southwest Airlines, eBay, and Dell Computer Corporation, among many others. The purpose of the Opening Cases is to demonstrate how specific firms apply an individual chapter's strategic management concepts. Thus, the Opening Cases serve as a direct and often distinctive link between the theory and application of strategic management in different organizations and industries.

## Key Terms

Key Terms that are critical to understanding the strategic management process are bold-faced throughout the chapters. Definitions of the Key Terms appear in chapter margins as well as in the text. Other terms and concepts throughout the text are italicized, signifying their importance.

## Strategic Focus Segments

Three all-new Strategic Focus segments are presented in each chapter. As with the Opening Cases, the Strategic Focus segments highlight a variety of high-profile organizations, situations, and concepts. Each segment describes issues that can be addressed by applying a chapter's strategy-related concepts.

## End-of-Chapter Summaries

Closing each chapter is a Summary that revisits the concepts outlined in the Knowledge Objectives. The Summaries are presented in a bulleted format to highlight a chapter's concepts, tools, and techniques.

## Review Questions

Review Questions are directly tied to each chapter's Knowledge Objectives, prompting readers to reexamine the most important concepts in each chapter.

## Experiential Exercises

Developed by Luis Flores, Northern Illinois University, and presented at the end of the chapters, each Experiential Exercise provides an action-oriented opportunity for readers to enhance their understanding of strategic management. Materials come to life as readers use a chapter's materials to answer questions concerned with strategic management issues.

## Examples

In addition to the Opening Cases and Strategic Focus segments, each chapter is filled with real-world examples of companies in action. These examples illustrate key strategic management concepts and provide realistic applications of strategic management.

## Indices

Besides the traditional end-of-book *Subject Index* and *Name Index*, we offer a *Company Index* as well. The Company Index includes the names of the hundreds of organizations

discussed in the text. The three indices help to find where subjects are discussed, a person's name is used, and a company's actions are described.

## Full Four-Color Format

Our presentation and discussion of the strategic management process is facilitated by the 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. Exhibits and photos further enhance the presentation by giving visual insight into the workings of companies competing in the global business environment.

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## Cases

Included in this fifth edition are 35 all-new case studies that involve many different strategic issues. As shown by the cases, strategic issues surface for firms competing in high technology, manufacturing, service, consumer goods, and industrial goods industries. Importantly, given the 21st-century competitive landscape and the global economy, many of these cases represent international business concerns (e.g., Air Power in Mexico, Bang & Olufsen, British Broadcasting, Lufthansa, Beijing Jeep, PricewaterhouseCoopers, and Virgin Group). Also, we offer cases dealing with high technology firms (e.g., eBay, Dell, MetaSolv Software, Palm Economy, and Priceline.com), media/entertainment (e.g., Chicagotribune.com, Interpost Prague), and service firms (e.g., FedEx Corporation, www.Home\_Improvement.com, and Luby's Cafeterias). Some cases focus specifically on the wave of merger and acquisition activity (AmBev, Cisco, Newell Company), while others emphasize strategic issues of entrepreneurial or small- and medium-sized firms (e.g., Affymetrix, Kacey Fine Furniture, and Paradise Farm Organics). Finally, a large number of the cases include detailed perspectives and information about the characteristics of the industry in which a particular focal firm or organization competes (e.g., Boeing, Caterpillar, and Kentucky Fried Chicken).

Selected personally by the text authors, this unique case selection has been reviewed carefully. Consistent with the nature of strategic issues, the cases included in this book are multidimensional in nature. Because of this, and for readers' convenience, a matrix listing all cases and the dimensions/characteristics of each one is provided following the table of contents. Furthermore, the matrix lists each text chapter that provides the best fit for teaching that particular case. While most of the cases are concerned with well-known national and international companies, several examine the strategic challenges experienced in smaller and entrepreneurial firms.

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## Support Material\*

With this edition, we continue our commitment to present you with one of the most comprehensive and quality learning packages available for teaching strategic management. Talented and dedicated people—people who are recognized for their academic achievements and their skill as excellent strategic management teachers—prepared the supplements for this fifth edition. We worked jointly with each person to make certain that all parts of the supplement package are effectively integrated with the text's materials.

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\*Adopters: Please contact your Thomson Learning sales representative to learn more about the book's supplements or visit <http://hitt.swcollege.com>.



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## For the Instructor

### Instructor's Resource Manual with Video Guide and Transparency Masters

(ISBN: 0-324-11483-4) Les Palich, Baylor University, prepared a comprehensive *Instructor's Resource Manual*. The Manual provides instructors with a wealth of additional material and presentations that effectively complement the text. Using each chapter's Knowledge Objectives as an organizing principle, the Manual has been completely revised to integrate the best knowledge on teaching strategic management to maximize student learning. The Manual includes ideas about how to approach each chapter and how to emphasize essential principles with additional examples that can be used to explain points and to stimulate active discussions in your classrooms. Lecture outlines, detailed answers to the Review Questions at the end of each chapter, guides to the videos, additional assignments, and transparency masters are also included, along with instructions for using each chapter's Experiential Exercise. Flexible in nature, these exercises can be used in class or in other ways, such as homework or as an out-of-the-classroom assignment. The video guide provides information on length, alternative points of usage within the text, subjects to address, and discussion questions to stimulate classroom discussion. Suggested answers to these questions are also provided. The transparency masters are printed from the PowerPoint presentation files and include figures from the text and innovative adaptations.

### Test Bank

(ISBN: 0-324-11482-6) The *Test Bank* has been thoroughly revised and enhanced for this edition by Janelle B. Dozier, Ph.D., S.P.H.R., who has also added new questions for each Opening Case and Strategic Focus segment. In addition, Mason Carpenter, Nasgovitz Fellow, University of Wisconsin–Madison, has contributed a unique new set of scenario-based questions to each chapter to add an innovative problem-solving dimension to exams. All objective questions are linked to chapter Knowledge Objectives and are ranked by difficulty level, among other measures.

### ExamView™ Testing Software

(ISBN: 0-324-11487-7) All of the test questions in the printed *Test Bank* are also available in *ExamView*, a computerized format available in Windows and Macintosh versions. *ExamView* is easy-to-use test-creation software that makes it possible for instructors to easily and efficiently create, edit, store, and print exams.

### PowerPoint

(ISBN: 0-324-11485-0) R. Dennis Middlemist, Colorado State University, has prepared attractive all-new sets of *PowerPoint* slides that can be downloaded from the Web site designed to be used with this text at <http://hitt.swcollege.com>. The easily followed presentations include clear figures based on the text and innovative adaptations to illustrate the text concepts. The PowerPoint slides, available both with and without animation, are provided in two versions to allow instructors to choose the most appropriate presentation for their teaching method, whether lecture or discussion.

### Transparency Acetates

(ISBN: 0-324-17151-X) For those unable to access PowerPoint, a concise set of transparency acetates adapted from the PowerPoint presentation files is available on request. The transparency acetates include clear figures based on the text.

## Instructor's Case Notes

(ISBN: 0-324-11484-2) C. Bradley Shrader, Iowa State University, prepared all-new *Instructor's Case Notes* for this edition. The all-new case notes provide details about the cases within the framework of case analysis. The structure allows instructors to organize case discussions along common themes and concepts and also feature aspects of the cases that make them unique. The format includes a summary of the case, teaching objectives, discussion questions and answers, and case analysis, and incorporates information from teaching notes prepared by the individual case writers as well. The cases are directly related to appropriate chapters of the text, thus allowing the instructor the opportunity to use and re-use the case for discussion and to make each case an integrative exercise.

## Videos



(ISBN: 0-324-17170-6) *Management and Strategy* is a 45-minute video of short clips providing news and information about firms and current strategic management issues that are of particular relevance to students of strategic management, using the resources of Turner Learning/CNN, the world's first 24-hour all-news network. A separate multimedia integration guide, developed by Ross Stapleton-Gray, Ph.D., CISSP, chief university spokesperson on IT security issues for the University of California, accompanies the videotape and provides video descriptions, topical guides, and discussion questions for each clip.



(ISBN: 0-324-26131-4) *Entrepreneurship and Strategy* is a 45-minute video based on the remarkable resources of "Small Business School," the series on PBS stations, Worldnet, and the Web. It looks at seven firms that capitalized on their beginnings and used strategic management to grow market share and create competitive advantage. A resource guide within the *Instructor's Resource Manual* describes each segment and provides discussion questions.

(ISBN: 0-324-11488-5) *Corporate Strategy* is a 45-minute video featuring corporate strategy situations for classroom viewing. A resource guide within the *Instructor's Resource Manual* describes each segment and provides discussion questions.

## Instructor's Resource CD-ROM

(ISBN: 0-324-17686-4) Key ancillaries (Instructor's Resource Manual, Instructor's Case Notes, Test Bank, ExamView, and PowerPoint) are provided on CD-ROM, giving instructors the ultimate tool for customizing lectures and presentations.

## Simulations



(ISBN: 0-324-16867-5) *Strategic Management in the Marketplace* is a unique and adaptable Web-based simulation that has been tailored to use with our text for the strategic management course. We worked closely with Ernest Cadotte of the University of Tennessee and his colleagues at Innovative Learning Solutions, Inc. to develop this product. Designed around important strategic management tools, techniques, and concepts, the simulation is easy to administer. Visit <http://hitt.swcollege.com> to learn more.

(ISBN: 0-324-16183-2) *The Global Business Game* simulation challenges students to deal with a host of strategic issues in a global context and make decisions that will lead to the firm's success. We worked with author Joseph Wolfe to prepare the second edition of this simulation, which includes clear operational instructions that closely match topics in the text.



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## For the Student

### Infotrac College Edition



The *Infotrac College Edition* gives students access—anytime, anywhere—to an online database of full-text articles from hundreds of scholarly and popular periodicals, including *Newsweek* and *Fortune*. Fast and easy search tools help you find just what you're looking for from among tens of thousands of articles, updated daily, all at a single site. For more information or to log on, please visit <http://www.swcollege.com/infotrac/infotrac.html>. Just enter your passcode as provided on the subscription card packaged free with new copies of *Strategic Management*.

### Web Tutor™ on WebCT and WebTutor™ on Blackboard



(ISBN: 0-324-15084-9) WebTutor, developed by Craig V. VanSandt of Augustana College to complement *Strategic Management: Competitiveness and Globalization*, provides interactive reinforcement that helps you master complex concepts. Questions and answers for self-study, Internet exercises, useful links to sites relevant to your study of strategic management, InfoTrac resources, and more are included. *WebTutor's* online teaching and learning environment brings together content management, assessment, communication, and collaboration capabilities for enhancing in-class instruction or for delivering distance learning. For more information, including a demonstration, go to <http://swcollege.webtutor.com>.

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## For the Student and Instructor

### Strategic Management: Competitiveness and Globalization Website

(<http://hitt.swcollege.com>) This edition's website offers students and instructors access to a wealth of helpful material, including Instructor Resources, Student Resources, Interactive Study Center, and Interactive Quizzes, and links to Strategy Suite, eCoursepacks, and Careers in Management. Resources available on the website include continually updated case information, an Internet index with important strategy URLs, and a section on how to write a case analysis. Additional Experiential Exercises, an online glossary, and the new PowerPoint presentations are also available, as are additional Strategic Focus Applications, Discussion Questions, Ethics Questions, Internet Exercises, and Global Resources. In addition, all Strategic Focus segments from the fourth edition are offered for students and instructors to use as strategy examples, including discussion questions. These are indexed by broad subject categories. The *Strategic Management* website provides information about the authors and allows you to contact the authors and publisher.

### The Wall Street Journal



Bring the most up-to-date real-world events into your classroom through *The Wall Street Journal*. *The Wall Street Journal* is synonymous with the latest word on business, and *Strategic Management*, Fifth Edition, makes it easy for students to apply strategic management concepts to this authoritative publication through a special subscription offer. For a nominal additional cost, *Strategic Management*, Fifth Edition, can be packaged with a card entitling students to a 15-week subscription to both the print and interactive versions of *The Wall Street Journal*. Contact your South-Western/Thomson Learning sales representative for package pricing and ordering information.

## e-Coursepack

(ISBN: 0-324-25244-7) Current, interesting, and relevant articles are available to supplement each chapter of *Strategic Management* in an e-Coursepack—the result of a joint effort between the Gale Group, a world leader in e-information publishing for libraries, schools, and businesses, and South-Western. Full-length articles to complement *Strategic Management* are available 24-hours a day, over the Web, from sources such as *Fortune*, *Across the Board*, *Management Today*, and the *Sloan Management Review*. Students can also access up-to-date information of key individuals, companies, and textbook cases through predefined searches of Gale databases. For more information, contact your South-Western/Thomson Learning sales representative or call Thomson Custom Publishing at 1-800-355-9983.

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