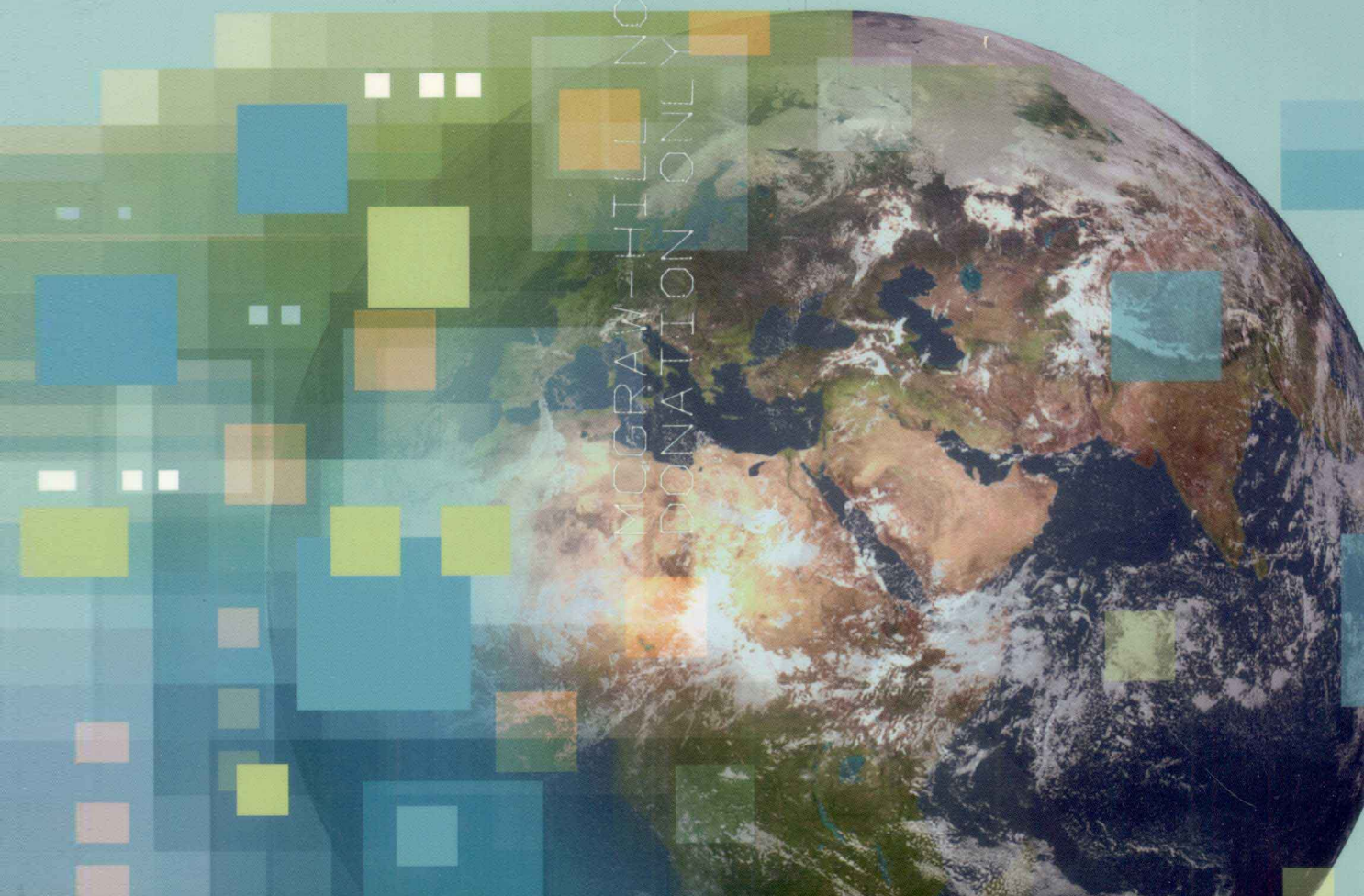


STRATEGY

Core Concepts
Analytical Tools
Readings

Second Edition



McGraw-Hill NOT FOR RESALE
DONATION ONLY 1675AD07

Thompson | Gamble | Strickland

www.mhhe.com/thompson2e

STRATEGY

Core Concepts, Analytical Tools, Readings

Second Edition

Arthur A. Thompson, Jr.
University of Alabama

John E. Gamble
University of South Alabama

A. J. Strickland III
University of Alabama



Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco St. Louis
Bangkok Bogotá Caracas Kuala Lumpur Lisbon London Madrid Mexico City
Milan Montreal New Delhi Santiago Seoul Singapore Sydney Taipei Toronto



STRATEGY: CORE CONCEPTS, ANALYTICAL TOOLS, READINGS

Published by McGraw-Hill/Irwin, a business unit of The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, NY, 10020. Copyright © 2006, 2004 by The McGraw-Hill Companies, Inc. All rights reserved. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written consent of The McGraw-Hill Companies, Inc., including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

Some ancillaries, including electronic and print components, may not be available to customers outside the United States.

This book is printed on acid-free paper.

2 3 4 5 6 7 8 9 0 DOW/DOW 0 9 8 7 6 5

ISBN 0-07-299946-2

Editorial director: *John E. Biernat*
 Executive editor: *John Weimeister*
 Managing developmental editor: *Laura Hurst Spell*
 Senior marketing manager: *Lisa Nicks*
 Media producer: *Benjamin Curless*
 Project manager: *Harvey Yep*
 Senior production supervisor: *Rose Hepburn*
 Lead designer: *Matthew Baldwin*
 Photo research coordinator: *Lori Kramer*
 Media project manager: *Joyce J. Chappetto*
 Supplement producer: *Gina F. DiMartino*
 Developer, Media technology: *Brian Nacik*
 Cover design: *Kiera Pohl*
 Interior design: *Kiera Pohl*
 Typeface: *10.5/12 Times New Roman*
 Compositor: *Cenveo*
 Printer: *R. R. Donnelley*

Photo Credits *For Chapter Openers:*

page 2, © Images.com/CORBIS; page 38, © Images.com/CORBIS; page 82, © Images.com/CORBIS;
 page 112, © Images.com/CORBIS; page 158, © Royalty Free/CORBIS/MHHE;
 page 190, © Images.com/CORBIS; page 238, © Royalty Free/CORBIS/MHHE;
 page 272, © Images.com/CORBIS; page 316, © Ed Bock/Corbis

Library of Congress Cataloging-in-Publication Data

Thompson, Arthur A., 1940–

Strategy: core concepts, analytical tools, readings / Arthur A. Thompson, John E.

Gamble, A.J. Strickland.—2nd ed.

p. cm.

Includes index.

ISBN 0-07-299946-2 (alk. paper)

1. Strategic planning. 2. Management. 3. Strategic planning—Case studies. 4.

Management—Case studies. I. Gamble, John (John E.) II. Strickland, A.J. (Alonzo J.) III.

Title.

HD30.28.T537 2006

658.4'012—dc22

2005041647

To our families and especially our wives:
Hasseline, Debra, and Kitty

About the Authors

Arthur A. Thompson, Jr., earned his BS and PhD degrees in economics from the University of Tennessee in 1961 and 1965, respectively; spent three years on the economics faculty at Virginia Tech; and served on the faculty of the University of Alabama's College of Commerce and Business Administration for 24 years. In 1974 and again in 1982, Dr. Thompson spent semester-long sabbaticals as a visiting scholar at the Harvard Business School.

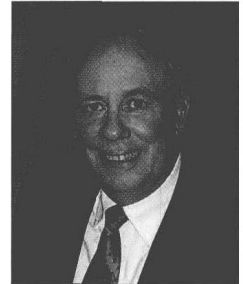
His areas of specialization are business strategy, competition and market analysis, and the economics of business enterprises. He has published over 30 articles in some 25 different professional and trade publications and has authored or coauthored five textbooks and four computer-based simulation exercises.

Dr. Thompson is a frequent speaker and consultant on the strategic issues confronting the electric utility industry, particularly as concerns the challenges posed by industry restructuring, reregulation, competition, and customers' freedom of choice. He spends much of his off-campus time giving presentations to electric utility groups and conducting management development programs for electric utility executives all over the world.

Dr. Thompson and his wife of 44 years have two daughters, two grandchildren, and a Yorkshire terrier.

John E. Gamble is currently Associate Dean and Professor of Management in the Mitchell College of Business at The University of South Alabama. His teaching specialty at USA is strategic management and he also conducts a course in strategic management in Germany through a collaborative MBA program sponsored by the University of Applied Sciences in Ludwigshafen/Worms, the State of Rhineland Westphalia, and the University of South Alabama.

Dr. Gamble's research interests center on strategic issues in entrepreneurial, health care, and manufacturing settings. His work has been published in such scholarly journals as *Journal of Business Venturing*, *Journal of Labor Research*, *Health Care Management Review*, and *Journal of Occupational and Organizational Psychology*. He is the author or co-author of more than 30 case studies published in various strategic management and strategic marketing texts. He has done consulting on industry and market analysis and strategy formulation and implementation issues with clients in public utilities, technology, non-profit, and entrepreneurial businesses.



Professor Gamble received his Ph.D. in management from the University of Alabama in 1995. Dr. Gamble also has a Bachelor of Science degree and a Master of Arts degree from The University of Alabama.



Dr. A. J. (Lonnie) Strickland, a native of North Georgia, attended the University of Georgia, where he received a bachelor of science degree in math and physics in 1965. Afterward he entered the Georgia Institute of Technology, where he received a master of science in industrial management. He earned a PhD in business administration from Georgia State University in 1969. He currently holds the title of Professor of Strategic Management in the Graduate School of Business at the University of Alabama.

Dr. Strickland's experience in consulting and executive development is in the strategic management area, with a concentration in industry and competitive analysis. He has developed strategic planning systems for such firms as the Southern Company, BellSouth, South Center Bell, American Telephone and Telegraph, Gulf States Paper, Carraway Methodist Medical Center, Delco Remy, Mark IV Industries, Amoco Oil Company, USA Group, General Motors, and Kimberly Clark Corporation (Medical Products). He is a very popular speaker on the subject of implementing strategic change and serves on several corporate boards.

He has served as director of marketing for BellSouth, where he had responsibility for \$1 billion in revenues and \$300 million in profits.

In the international arena, Dr. Strickland has done extensive work in Europe, the Middle East, Central America, Malaysia, Australia, and Africa. In France he developed a management simulation of corporate decision making that enables management to test various strategic alternatives.

In the area of research, he is the author of 15 books and texts. His management simulations, Tempomatic IV and Micromatic, were pioneering innovations that enjoyed prominent market success for two decades.

Recent awards for Dr. Strickland include the Outstanding Professor Award from the Graduate School of Business and the Outstanding Commitment to Teaching Award from the University of Alabama, in which he takes particular pride. He is a member of various honor leadership societies: Mortar Board, Order of Omega, Beta Gamma Sigma, Omicron Delta Kappa, and Jasons. He is a past national president of Pi Kappa Phi social fraternity.

The objective of this text is to effectively and interestingly cover what every senior-level or MBA student needs to know about crafting and executing business strategies. It features a *streamlined* and *substantive* presentation of core concepts and analytical techniques and a collection of 14 relatively short and quite current readings that amplify important topics in managing a company's strategy-making, strategy-executing process. This book is particularly suited for courses where the instructor wishes to provide students with a foundation in the core concepts and analytical tools of strategic management before having them tackle a customized set of cases and/or a simulation exercise.

We have covered the main elements of strategic thinking and strategic analysis in nine manageable chapters (348 pages), striving for a presentation that is appropriately rigorous but that also can be readily digested by students and comfortably covered in a single term. Skirting the temptation to incorporate too many topics and include too much detail (in a 12- to 16-chapter presentation) results, we think, in three very positive benefits for adopters and students: (1) It creates more leeway for case assignments and a select number of readings. (2) It provides more time for including a substantive, stimulating simulation exercise as a core element of the course—a simulation not only is a pedagogically powerful way for students to learn about strategy but also introduces a welcome degree of added excitement and instructional variety into the course. (3) It helps make the course workload less intimidating or overwhelming for students.

Like most authors of second editions, we are confident that the content of this edition represents a solid improvement over the first edition. It includes an all-new and very timely chapter entitled Strategy, Ethics, and Social Responsibility, a more streamlined two-chapter treatment of strategy execution (down from three chapters), and a raft of improvements and updates of all the chapter presentations. Although the book is shorter than most leading texts, you'll find that the nine chapters cover the principles of crafting and executing strategy with plenty of depth and substance. There's a straightforward, integrated flow from one chapter to the next. The writing style aims squarely at making the discipline of business strategy relevant and professionally interesting to students.

A Text with On-Target Content

In our view, for a senior-level/MBA strategy text to qualify as having on-target content, it must:

- Explain core concepts in language that students can grasp and provide examples of their relevance and use by actual companies.
- Take care to thoroughly describe the tools of strategic analysis, how they are used, and where they fit into the managerial process of crafting and executing strategy.

- Be up-to-date and comprehensive, with solid coverage of the landmark changes in competitive markets and company strategies being driven by globalization and Internet technology.
- Focus squarely on what every student needs to know about crafting, implementing, and executing business strategies in today's market environments.

The 9 text chapters and the 14 supplemental readings (which can be assigned in whole or part) do all these things without posing a formidable number of pages for instructors to cover and students to absorb in one semester. Chapter discussions cut straight to the chase. Our explanations of core concepts and analytical tools are covered in enough depth to make them understandable and usable, the rationale being that a shallow explanation carries little punch and has almost no instructional value. All the chapters are flush with convincing examples of strategy in action, and we made a point of choosing current examples that students can easily relate to. We have striven to incorporate all relevant state-of-the-art research pertinent to a first course in strategy.

Organization, Content, and Features of the Text Chapters

The inclusion of the all-new chapter on strategy, ethics, and social responsibility and the combining of the former three-chapter presentation on the managerial aspects of executing strategy into two chapters give this edition a different texture and feel. We think this new chapter will (1) better alert students to the role and importance of incorporating business ethics and social responsibility into decision-making and (2) address the accreditation requirements of the AACSB, which mandate that business ethics be visibly and thoroughly embedded in the core curriculum. In addition to making these two highly visible changes, we have thoroughly overhauled the opening chapter, which introduces the concept of strategy and the managerial process of crafting and executing strategy; added a host of current examples and new Company Spotlights; and embellished and refined the presentation of numerous topics and concepts throughout the chapters.

No other text comes close to matching our coverage of the resource-based theory of the firm and business ethics. The resource-based view of the firm is *prominently* and *comprehensively* integrated into our coverage of crafting both single-business and multibusiness strategies. Chapters 2, 3, 4, 5, and 6 emphasize that a company's strategy must be matched both to its external market circumstances and to its internal resources and competitive capabilities. Moreover, Chapters 8 and 9 have a strong resource-based perspective that makes it unequivocally clear how and why the tasks of assembling intellectual capital and building core competencies and competitive capabilities are absolutely critical to successful strategy execution and operating excellence. The all-new, 34-page Chapter 7 contains a very meaty and comprehensive treatment of business ethics and socially responsible behavior as it applies to crafting and executing company strategies.

As always, we have endeavored to highlight the latest developments in the theory and practice of strategic management and to keep the chapter presentations solidly in the mainstream of contemporary strategic thinking. You'll find up-to-date coverage of the continuing march of industries and companies to wider globalization, the growing scope and strategic importance of collaborative alliances, the spread of high-velocity change to more industries and company environments, and the way implementation of Internet technology applications in countries all across the world is driving fundamental changes in both strategy and internal operations.

The following rundown summarizes the noteworthy chapter features and topical emphasis in this edition:

- Chapter 1 continues to focus squarely on the central questions of “what is strategy and why is it important?” It introduces and defines a host of core concepts—strategy, business model, strategic visions and business missions, strategic versus financial objectives, strategic plans, strategic intent, strategy crafting, and strategy execution. Clear distinction is made between a company’s strategy and its business model. A section on strategic visions and mission statements hammers home the importance of clear direction setting and a motivating strategic vision; there’s an accompanying discussion of how core values and ethics tie in to a company’s vision and business purpose. Emphasis is placed on why companies have to rapidly adapt strategy to newly unfolding market conditions and why strategy life cycles are often short.

Following Henry Mintzberg’s pioneering research, we stress how and why a company’s strategy emerges from (1) the deliberate and purposeful actions of management and (2) as-needed reactions to unanticipated developments and fresh competitive pressures. There’s a section underscoring that a company’s strategic plan is a collection of strategies devised by different managers at different levels in the organizational hierarchy. We’ve taken pains to explain why *all managers are on a company’s strategy-making, strategy-implementing team*, why every manager is well advised to make the concepts and techniques of strategic management a basic part of his or her toolkit, and why the best companies want their personnel to be true “students of the business.” The chapter concludes with a substantially expanded section on corporate governance and a discussion of why *good strategy-making + good strategy execution = good management*.

The role of this first chapter is to give readers a solid grasp of what the term *strategy* means, pique their interest, and convince them that the ins and outs of crafting and executing a winning strategy are things every business student should know. We intend this chapter to be a perfect accompaniment for the instructor’s first one or two lectures on what the course is all about and why it matters.

- Chapter 2 sets forth the now-familiar analytical tools and concepts of industry and competitive analysis and demonstrates the importance of tailoring strategy to fit the circumstances of a company’s industry and competitive environment. The standout feature of this chapter is a presentation of Michael E. Porter’s “five forces model of competition” that we think is the clearest, most straightforward discussion of this model in any text in the field. Globalization and Internet technology are treated as potent driving forces capable of reshaping industry competition—their roles as change agents have become factors that most companies in most industries must reckon with in forging winning strategies.
- Chapter 3 establishes the importance of doing solid company situation analysis as a basis for matching strategy to organizational resources, competencies, and competitive capabilities. The roles of core competencies and organizational resources and capabilities in creating customer value and helping build competitive advantage are *center stage* in the discussions of company resource strengths and weaknesses. SWOT analysis is cast as a simple, easy-to-use way to assess a company’s resources and overall situation. There is solid coverage of the now-standard tools of value chain analysis, benchmarking, and competitive strength assessments—all of which, we believe, provide insight into a company’s relative cost position and market standing vis-à-vis rivals. There’s solid coverage of how company implementation of

Internet technology applications is altering company and industry value chains and the performance of specific value chain activities.

- Chapter 4 deals with a company's quest for competitive advantage—the options for crafting a strategy that simultaneously holds good prospects for competitive advantage while also being well suited both to industry and competitive conditions and to its own resources and competitive circumstances. While the chapter is framed around the five generic competitive strategies—low-cost leadership, differentiation, best-cost provider, focused differentiation, and focused low cost—you'll also find important sections on what use to make of strategic alliances and collaborative partnerships, what use to make of mergers and acquisitions in strengthening the company's competitiveness, when to integrate backward or forward into more stages of the industry value chain, the merits of outsourcing certain value chain activities to outside specialists, whether and when to employ offensive and defensive moves, and the different types of Web site strategies that companies can employ to position themselves in the marketplace.
- Chapter 5 explores a company's strategy options for expanding beyond its domestic boundary and competing in the markets of either a few or a great many countries—options ranging from an export strategy to licensing and franchising to multicountry strategies to global strategies to heavy reliance on strategic alliances and joint ventures. Four strategic issues unique to competing multinationally are given special attention: (1) whether to customize the company's offerings in each different country market to match the tastes and preferences of local buyers or whether to offer a mostly standardized product worldwide; (2) whether to employ essentially the same basic competitive strategy in the markets of all countries where the company operates or whether to modify the company's competitive approach country by country as may be needed to fit the specific market conditions and competitive circumstances it encounters; (3) locating production facilities, distribution centers, and customer service operations to maximum competitive advantage; and (4) efficient cross-border transfer of a company's resource strengths and capabilities to build competitive advantage. There's also coverage of the concepts of profit sanctuaries and cross-market subsidization, the special problems associated with entry into the markets of emerging countries, and strategies that local companies in such emerging countries as India, China, Brazil, and Mexico can use to defend against the invasion of opportunity-seeking, resource-rich global giants.
- Our rather meaty treatment of diversification strategies for multibusiness enterprises in Chapter 6 begins by laying out the various paths for becoming diversified, explains how a company can use diversification to create or compound competitive advantage for its business units, and examines the strategic options an already-diversified company has to improve its overall performance. In the middle part of the chapter, the analytical spotlight is on the techniques and procedures for assessing the strategic attractiveness of a diversified company's business portfolio—the relative attractiveness of the various businesses the company has diversified into, a multiindustry company's competitive strength in each of its lines of business, and the *strategic fits* and *resource fits* among a diversified company's different businesses. The chapter concludes with a brief survey of a company's four main postdiversification strategy alternatives: (1) broadening the diversification base, (2) divesting some businesses and retrenching to a narrower diversification base, (3) restructuring the makeup of the company's business lineup, and (4) engaging in multinational diversification.

- Our all-new Chapter 7, “Strategy, Ethics, and Social Responsibility,” zeroes in on whether and why a company’s strategy should pass the test of moral scrutiny. Students usually acknowledge that a company and its personnel have a legal duty to obey the law and play by the rules of fair competition. But today’s students seem to be much less clear on (1) whether a company has a *duty* to operate according to ethical standards and (2) whether a company has a *duty* or *obligation* to contribute to the betterment of society independent of the needs and preferences of the customers it serves. Is it in the best interests of shareholders for a company to operate ethically and/or to operate in a socially responsible manner? There is substantive discussion of what linkage, if any, there should be between a company’s efforts to craft and execute a winning strategy and its duties to (1) conduct its activities in an ethical manner and (2) demonstrate socially responsible behavior by being a committed corporate citizen and attending to the needs of nonowner stakeholders—employees, the communities in which it operates, the disadvantaged, and society as a whole. The chapter reflects the very latest in the literature. The opening section of the chapter addresses whether ethical standards are universal (as maintained by the school of ethical universalism) or dependent on local norms and situational circumstances (as maintained by the school of ethical relativism) or a combination of both (as maintained by integrative social contracts theory). Following this is a section on the three categories of managerial morality (moral, immoral, and amoral), a section on the drivers of unethical strategies and shady business behavior, a section on the approaches to managing a company’s ethical conduct, a section on linking a company’s strategy to its ethical principles and core values, a section on the concept of a “social responsibility strategy,” and sections that explore the business case for ethical and socially responsible behavior. The chapter gives students some serious ideas to chew on and, hopefully, will make them far more ethically conscious. It has been written as a stand-alone chapter that can be assigned in the early, middle, or late part of the course.
- The two-chapter module on executing strategy (Chapters 8 and 9) is anchored around a solid, compelling conceptual framework: (1) building the resource strengths and organizational capabilities needed to execute the strategy in competent fashion; (2) allocating ample resources to strategy-critical activities; (3) ensuring that policies and procedures facilitate rather than impede strategy execution; (4) instituting best practices and pushing for continuous improvement in how value chain activities are performed; (5) installing information and operating systems that enable company personnel to better carry out their strategic roles proficiently; (6) tying rewards and incentives directly to the achievement of performance targets and good strategy execution; (7) shaping the work environment and corporate culture to fit the strategy; and (8) exerting the internal leadership needed to drive execution forward. The recurring theme of these two chapters is that implementing and executing strategy entails figuring out the specific actions, behaviors, and conditions that are needed for a smooth strategy-supportive operation and then following through to get things done and deliver results—the goal here is to ensure that students understand that the strategy-implementing/strategy-executing phase is a make-things-happen and make-them-happen-right kind of managerial exercise.

Our top priority has been to ensure that the nine chapters of text hit the bull’s-eye with respect to content and represent the best thinking of both academics and practitioners. But, at the same time, we’ve gone the extra mile to stay on message with clear, crisp

explanations laced with enough relevant examples and Company Spotlights to make the presentation convincing, pertinent, and worthwhile to readers preparing for careers in management and business. We have gone all out to create chapter discussions and compile a readings lineup capable of persuading students that the discipline of strategy merits their rapt attention.

The Collection of Readings

In selecting a set of readings to accompany the chapter presentations, we opted for readings that (1) were current (most appeared in 2004), (2) extended the chapter coverage and expanded on a topic of strategic importance, and (3) were quite readable and relatively short. At the same time, we endeavored to be highly selective, deciding that a small number of on-target readings was a better fit with the teaching/learning objectives of a first course in strategy than a more sweeping collection of readings. The readings are drawn from the *Harvard Business Review*, the *Academy of Management Executive*, the *Business Strategy Review*, *Strategy & Leadership*, *TQM Magazine*, and the *Ivey Business Journal*.

Aside from providing an introductory look at the literature of strategic management, the readings offer nice variety. For instance, Constantos Markides' article, "What Is Strategy and How Do You Know If You Have One?" expands on the various notions of what strategy is, the conflicting definitions that exist, and the reason why strategy is mainly about making some very difficult decisions on a few parameters. Mark Lipton's essay, "Walking the Talk (Really!): Why Visions Fail," describes why it is important for company executives to move beyond articulating a vision and actually push company personnel to weave the vision into the fabric of how the company conducts its operations. Gary Latham's article, "The Motivational Benefits of Goal-Setting," explains why setting stretch goals has such a positive effect on organizations.

The next four articles complement the coverage in Chapters 2 through 5. The *HBR* article by Anita McGahan, "How Industries Change," describes the various trajectories that industries follow and explains why taking the patterns of change into account can make a company's investments in innovation be more likely to pay off. The article by George Stalk and Rob Lachenauer, "Five Killer Strategies for Trouncing the Competition," is must reading and will open eyes about how companies play competitive hardball in the marketplace. The Markides and Geroski article, "Racing to Be Second: Conquering the Industries of the Future," provides excellent insight into first-mover disadvantages and fast-follower advantages. The timely reading "Outsourcing Strategies: Opportunities and Risks" provides useful perspectives on when outsourcing makes strategic sense and when it doesn't.

Zook's article on growth via diversification discusses why pursuing strategic fits in adjacent businesses usually is most advantageous. We chose this reading to accompany the coverage in Chapter 6.

Bruch and Ghoshal's intriguing article, "Management Is the Art of Doing and Getting Done," emphasizes the critical nature of effective strategy execution and purposeful action taking by managers. There are timely articles on the pros and cons of six sigma initiatives and on linking the achievement of objectives to the payment of monetary incentives, plus a very provocative article by Sidney Finkelstein: "The Seven Habits of Spectacularly Unsuccessful Executives." The last reading concerns corporate social responsibility and delves into why good people sometimes behave badly in organizations—you can assign the reading in conjunction with either Chapter 7 or the strategic leadership section of Chapter 9. The last reading by Jeffrey Sonnenfeld is a

very thoughtful article on corporate governance; it can be used to complement the governance section in Chapter 1 or the strategic leadership section in Chapter 9.

Two Accompanying Online, Fully Automated Simulation Exercises—*GLO-BUS* and *The Business Strategy Game*

GLO-BUS: Developing Winning Competitive Strategies and *The Business Strategy Game* (the online eighth edition)—two strategy-related simulations that are available online and that feature automatic processing of student decisions—are being marketed by the publisher as companion supplements for use with this and other texts in the field. *The Business Strategy Game* is the world's leading strategy simulation, having been played by well over 350,000 students at universities throughout the world. *GLO-BUS*, a somewhat less complicated online simulation that was introduced in fall 2003, has been played by over 10,000 students at more than 100 universities worldwide and is equally suitable for courses in business strategy. All activity for *GLO-BUS* occurs at www.glo-bus.com and all activity for *The Business Strategy Game* takes place at www.bsg-online.com. The industry setting for *GLO-BUS* is the global digital camera industry, and the setting for *The Business Strategy Game* is the global athletic footwear industry—see Table 1 for a comparison of the two simulations.

Both simulations have attractive operating and administrative characteristics that make them a breeze to utilize in giving students valuable practice in thinking strategically and applying basic strategy concepts and analytical tools:

- *Time requirements for instructors to administer the simulations are minimal.* Instructors must go through Industry Set-up and specify a decision schedule and desired scoring weights (which can be altered later). Setting up the simulation for the course is done online and takes about 10 to 15 minutes. Once set-up is completed, no other administrative actions are required beyond moving participants to a different team (should the need arise) and monitoring the progress of the simulation (to whatever extent desired). Instructors who wish to do so can track happenings in the simulation by printing copies of the Industry and Company reports (done online), change selected costs and rates to introduce different operating conditions (players are automatically notified of any changes if instructors so choose), and serve as a consultant to troubled companies.
- *There's no software for students or administrators to download and no disks to fool with.* When participants log on to the Web site, the needed programming and company data are automatically transferred into Excel on the user's PC for the duration of the session and then automatically saved and uploaded back to the server on exit. All work must be done online, and the speed for participants using dial-up modems is quite satisfactory.
- *Participant's guides for both simulations are available at the Web site*—students can read either guide on their monitors or print out a copy, as they prefer. The Participant's Guide for *GLO-BUS* is 25 pages, and the Participant's Guide for *The Business Strategy Game* is 33 pages.
- *There are extensive built-in help screens* explaining (1) each decision entry, (2) the information on each page of the Industry Reports, and (3) the numbers presented in the Company Reports. The Help screens allow company comanagers to figure

Table 1 A COMPARISON OF *GLO-BUS* AND *THE BUSINESS STRATEGY GAME*

	<i>GLO-BUS</i>	<i>The Business Strategy Game</i>
Industry setting	Digital camera industry	Athletic footwear industry
Market scope	Worldwide. Production occurs at a single plant in Taiwan and sales are made to retailers in 4 regions: North America, Latin America, Europe-Africa, and Asia Pacific.	Worldwide. Both production and sales activities can be pursued in North America, Latin America, Europe-Africa, and Asia Pacific.
Number of market segments	A total of 8—4 geographic segments for entry-level cameras and 4 geographic segments for multifeatured cameras.	A total of 12—4 geographic segments each for branded footwear sales to retailers, for online footwear sales direct to consumers, and for private-label sales to multistore retailers.
Number of decision variables	<ul style="list-style-type: none"> ■ Character and performance of the camera line (10 decisions) ■ Production operations and worker compensation (15 decisions) ■ Pricing and marketing (15 decisions in 4 geographic regions) ■ Financing of company operations (4 decisions) 	<ul style="list-style-type: none"> ■ Production operations and worker compensation (16 decisions each plant, with a maximum of 4 plants) ■ Shipping (up to 8 decisions each plant) ■ Pricing and marketing (13 decisions in 4 geographic regions) ■ Financing of company operations (5 decisions)
Competitive variables used to determine market share (All sales and market share differences are the result of differing competitive efforts among rival companies.)	<ul style="list-style-type: none"> ■ Price ■ Performance/quality rating ■ Number of quarterly sales promotions ■ Length of promotions in weeks ■ Promotional discounts ■ Advertising ■ Number of camera models ■ Size of dealer network ■ Warranty period ■ Technical support 	<ul style="list-style-type: none"> ■ Price ■ Number of models/styles ■ Styling/quality rating ■ Advertising ■ Size of retailer network ■ Celebrity endorsements ■ Delivery time ■ Retailer support ■ Mail-in rebates ■ Shipping charges (Internet sales only)
Time frame of decisions	One year, with an option to update as many as 8 of the 44 decisions quarterly.	One year.
Strategy options (Which options deliver the best performance hinges on the interaction and competitive strength of the strategies employed by rival companies—not on “silver bullet” decision combinations that players are challenged to discover.)	Companies can pursue competitive advantage based on (1) low-cost or differentiation, (2) competing globally or in select segments, and (3) using largely the same strategy across all regions or strategies that are tailored to conditions in each market segment.	Companies have the widest possible strategy-making latitude—striving for competitive advantage based on (1) low-cost or differentiation, (2) competing globally or in select segments, and (3) using largely the same strategy across all regions or strategies that are tailored to conditions in each market segment.

Table 1 (CONCLUDED)

	<i>GLO-BUS</i>	<i>The Business Strategy Game</i>
Degree of complexity	<ul style="list-style-type: none"> ■ <i>GLO-BUS</i> Basic (easy to moderate) ■ <i>GLO-BUS</i> Plus (easy to moderate) ■ <i>GLO-BUS</i> Total (medium) <p>Less complex than BSG because all production is in a single plant, there are no finished-goods inventories (newly assembled cameras are built to order and shipped directly to retailers), and sales forecasting is simpler.</p>	<p>More complex than <i>GLO-BUS</i> because companies can operate up to 4 plants, there are 12 market segments (as compared to 8 in <i>GLO-BUS</i>), finished-goods inventories have to be managed at 4 distribution centers, and players have to develop a sales forecast based on their competitive strategy and the expected competitive efforts of rivals.</p>
Time required to make a complete decision	<p>About 1.5 hours per decision (once players gain familiarity with software and reports). <i>GLO-BUS</i> Plus requires about 10 minutes more than <i>GLO-BUS</i> Basic per decision, and <i>GLO-BUS</i> Total can entail up to 30 minutes additional time per decision.</p>	<p>1.75 to 2.25 hours per decision (once players gain familiarity with software and reports).</p>

things out for themselves, thereby curbing the need for students to always run to the instructor with questions about how things work.

- *The results of each decision are processed automatically* on the simulation’s server and are available to all participants *within one hour after the decision deadline* specified by the instructor or game administrator—typically the results are available 15 to 20 minutes after the decision deadline. The servers dedicated to hosting the two simulations have appropriate backup capability and are maintained by a prominent web-hosting service that guarantees 99.9 percent reliability on a 24/7 basis.
- *Participants and instructors are notified via e-mail when the results are ready*; the e-mail contains highlights of the results.
- *Decision schedules are determined by the instructor* (done online and automatically communicated to all players). Decisions can be made once per week, twice per week, or even twice daily, depending on how instructors want to conduct the exercise. One popular decision schedule involves 1 or 2 practice decisions, 6 to 10 regular decisions, and decisions made once a week across the whole term. A second popular schedule is 1 or 2 practice decisions, 6 to 8 regular decisions, and bi-weekly decisions, all made during the last four or five weeks of the course (when it can be assumed that students have pretty much digested the contents of Chapters 1 to 5, gotten somewhat comfortable with what is involved in crafting strategy for a single-business company situation, and have prepared several assigned cases).
- *Instructors have the flexibility to prescribe 0, 1, or 2 practice decisions and from 3 to 10 regular decisions.*

- *Company teams can be composed of 1 to 5 players each, and the number of teams in a single industry can range from 4 to 12.* If your class size is too large for a single industry, then it is a simple matter to create two or more industries for a single class section. You'll find that having more than one industry per class presents no significant change in administrative requirements, because everything is processed automatically and all company and individual performances are automatically recorded in your online grade book. Thus it turns out not to be an extra administrative burden to divide a large class into two or more industries.
- *Following each decision, participants are provided with a complete set of reports*—a six-page Industry Report, a one-page Competitive Intelligence report for each geographic region that includes strategic group maps and bulleted lists of competitive strengths and weaknesses, and a set of Company Reports (income statement, balance sheet, cash flow statement, and assorted production, marketing, and cost statistics).
- *Two open-book multiple-choice tests of 20 questions* (optional, but strongly recommended) *are included as part of each of the two simulations.* The quizzes are taken online and automatically graded, with scores reported instantaneously to participants and automatically recorded in the instructor's electronic grade book. Quiz 1 has a time limit of 45 minutes and covers contents of the Participant's Guide. Quiz 2 has a time limit of 75 minutes and checks whether players understand what the numbers in the company reports mean and how they are calculated. Students are automatically provided with three sample questions for each test.
- *At the end of the simulation exercises, there are peer evaluations that instructors can have students complete.* The peer evaluations are optional but strongly recommended; they are completed online and automatically recorded in the instructor's electronic grade book. Results can be reviewed by clicking on each comanager's peer scores in the grade book.

Simulations now have a track record as a proven and very effective vehicle for giving students valuable practice in being active strategic thinkers, reading the signs of industry change, reacting to the moves of competitors, evaluating strengths and weaknesses in their company's competitive position, and deciding what to do to improve a company's financial performance.

Why Simulations Are Widely Used in Capstone Strategy Courses

All three coauthors of this book are avid, longtime simulation users. Our own experiences over the years, together with numerous discussions with colleagues around the world, have convinced us that competition-based simulation games are *the single most powerful pedagogical device for hammering home the core concepts and analytical techniques that constitute the discipline of business and competitive strategy.* We see three big reasons why simulations are rapidly growing in popularity and have earned a place in so many of today's strategy courses:

- Both *GLO-BUS* and *The Business Strategy Game* have been carefully designed to connect directly to the chapter material and give students the experience of putting what they read in the chapters into play. Company co-managers have to wrestle with charting a long-term direction for their company, setting strategic and financial

objectives, and crafting strategies that produce good results and perhaps lead to competitive advantage. In crafting and executing a strategy, they can choose from a wide array of the strategic options discussed in the text chapters and they can practice using the tools of strategic analysis. In both *GLO-BUS* and *The Business Strategy Game*, students are provided with strategic group maps and lists of competitive strengths and weaknesses, as well as an assortment of cost benchmarks and comparative financial statistics, allowing them to diagnose their company's market standing vis-à-vis rivals and decide on a course of action to improve it. Moreover, simulations provide instructors with opportunity after opportunity to draw upon the industry and company circumstances in the simulation for examples to use in lectures on the text chapters—examples that all students in the class can relate to because of their personal experience in running their companies.

- The market and competitive dynamics of an industry simulation—which make the simulation a “live case” in which class members are active managerial participants—give students valuable practice in thinking strategically and in making responsible, results-oriented decisions. Company comanagers can pursue a competitive advantage keyed to low cost/low price or to top-notch features and styling or to more value for the money. They can try to gain an edge over rivals with more advertising or wider product selection. They can focus on one or two geographic regions or strive for geographic balance. They can pursue essentially the same strategy worldwide or craft slightly or very different strategies for the Europe-Africa, Asia-Pacific, Latin America, and North America markets. Almost any well-conceived, well-executed competitive approach is capable of succeeding *provided it is not overpowered by the strategies of competitors or defeated by the presence of too many copycat strategies that dilute its effectiveness*. In other words, which company strategies end up delivering the best performance hinges on the interaction and competitive strength of the strategies employed by rival companies—not on “silver bullet” decision combinations that players are challenged to discover. Since, in a simulation, students have to live with all the decisions they make and the results they produce, they experience firsthand what is involved in crafting and executing a strategy that delivers good results—*it is this understanding that is the essence of a course in business strategy*.
- Based on the classroom experiences of hundreds of instructors and the mushrooming use of simulations in strategy courses worldwide, incorporating a simulation as a centerpiece turns strategy courses into a livelier, richer, more powerful learning experience. A realistic, substantive, “learn by doing” simulation like *GLO-BUS* or *The Business Strategy Game* sparks a highly desirable degree of student excitement about the subject matter of crafting and executing strategy. More and more professors who teach strategy courses are finding that simulations are every bit as pedagogically effective as case analysis as the prime vehicle for showing students how to make use of core concepts and analytical techniques.

There are two other reasons why a simulation is a good exercise to include as an integral and featured part of the course:

- A well-conceived simulation adds an enormous amount of student interest and excitement—a head-to-head competitive battle for market share and industry leadership is certain to stir students' competitive juices and emotionally involve them in the subject matter. Most students will enjoy the exercise, recognize its practical