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# STRATEGIC MANAGEMENT

Lloyd L. Byars

*Professor of Management and Director of Undergraduate Programs  
School of Management  
Georgia Institute of Technology*

Leslie W. Rue

*Professor of Management and holder of the  
Carl R. Zwerner Chair of Family Owned Enterprises  
College of Business Administration  
Georgia State University*

Shaker A. Zahra

*Professor of Management  
College of Business Administration  
Georgia State University*

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The importance of strategic management for organizational success is now well acknowledged in the literature. Strategic vision and action are necessary to enhance a company's competitive superiority, achieve superior performance, and improve its value. *Strategic Management* introduces, explains, and analyzes the activities needed to develop, select, implement, and evaluate a firm's competitive strategy. This book focuses on both the content of a firm's strategy and the process by which this strategy is developed and executed.

In writing *Strategic Management*, we have attempted to offer a fresh, current, and succinct but comprehensive treatment of the strategic management process. Throughout the book, we have attempted to clarify concepts and theories by using examples drawn from U.S. and foreign companies, manufacturing and service companies, and profit-seeking and not-for-profit organizations. We have also given special attention to small companies and high-technology firms. Each chapter contains several Strategy-In-Action inserts, which present real-life examples of the challenges associated with transforming strategic vision into reality. These examples illustrate both the complexity and currency of the strategic issues which executives must address. The Strategy-In-Action inserts also highlight the need for thoughtful managerial analysis to achieve competitive superiority in today's marketplace.

We have also made the book easily accessible to students by presenting learning objectives, explaining and defining major terms and concepts, using illustrative examples, providing end-of-chapter summaries, and including review questions. For each chapter, we have also included experiential exercises that offer practical applications of the material.

Five factors distinguish this book from others in the market: (1) It presents a systematic treatment of both the content and process aspects of the strategic management process. We believe that both strategic content and process are needed to achieve organizational success. (2) This book offers an expanded treatment of global strategy issues, a topic of immense importance today. Rather than focusing only on describing the global strategic options available to executives, we have

given considerable attention to the context of these decisions. We have discussed the process of internationalization in depth, thereby setting the stage for making effective strategic choices; (3) The text includes a comprehensive treatment of industry and competitive analysis and the ethical issues associated with this process. Here, too, we have discussed the process aspects of industry and competitive analysis and the different roles various units within an organization play in this regard; (4) We give special attention to the role of strategic controls in organizational learning and renewal. (5) *Strategic Management* highlights the growing role of high technology in restoring U.S. competitiveness and in achieving global leadership.

*Strategic Management* consists of six basic sections. The first section presents an overview of the strategic management process. Setting the stage for our discussion, Chapter 1 presents a model of the strategic management process and key factors involved in this process.

The second section covers issues relating to strategy formulation. Chapter 2 examines the external analysis process. This is the phase in which a firm examines its macro environment and its industry to determine its opportunities and threats. Chapter 3 offers a comprehensive treatment of industry and competitive analysis and the use of data generated from this phase in sharpening the firm's competitive advantage. Chapter 4 discusses the internal analysis process. This is the phase in which the firm identifies its strengths and weaknesses, and evaluates its competitive advantage and the sources of that advantage. Chapter 5 analyzes the process by which strategic alternatives are developed and evaluated. It also discusses different strategic options available to the company. Chapter 6 discusses global strategy, explaining the different global strategic options and the factors that influence those options. Chapter 7 presents the different approaches executives might use to select their organization's strategy.

The third section addresses strategy implementation. Therefore, Chapter 8 examines issues relating to strategy implementation. Chapter 9 focuses on tactical issues associated with strategy execution.

The fourth section discusses strategy evaluation and applications of the strategic management process. Chapter 10 focuses on the process of strategic control and its implications for revising the firm's strategy and enhancing organizational learning and renewal. Finally, Chapter 11 focuses on the strategic management process in high technology organizations. Special attention is given to the link between technology and strategy and how this link can create a competitive advantage.

The fifth section of *Strategic Management* offers three appendixes to assist a student of strategic management. The first appendix offers detailed guidelines for preparing effective case analyses. The second appendix is concerned with understanding basic financial analyses and understanding the financial aspects of strategic choices. The final appendix explains how to conduct an industry analysis. Each of these appendixes has been classroom tested. We urge students to read these learning aids before undertaking case analyses.



The sixth, and final, section of the book includes 36 cases, which have been chosen to represent diverse industries and different-sized organizations, as well as profit and not-for-profit organizations.

Several instructional aids accompany this text. The instructor's manual, prepared by Ram Subramanian of Grand Valley State University, includes teaching notes, a chalkboard overview, and a SWOT Analysis for each case, as well as four additional cases, teaching notes for skill-building exercises, and approximately 1000 test questions. Test questions are also available on disk via Irwin's test-generation software. Students can conduct financial analysis, industry comparison, and comprehensive operating data evaluation for many of the book's cases using Halcyon's fisCAL<sup>®</sup> software. Customized Powerpoint presentation software, color acetates, and transparency masters round out the teaching package.

We would like to acknowledge the valuable advice and insightful suggestions we have received from our reviewers. Their supportive and helpful comments have improved the book in significant ways.

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This book is dedicated to our wives: Linda Byars, Penny Rue, and Patricia Zahra.

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# INTRODUCTION TO THE STRATEGIC MANAGEMENT PROCESS

**I**

# 1 STRATEGIC MANAGEMENT: AN OVERVIEW

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## Chapter Learning Objectives

After studying this chapter, you should be able to:

- Define strategic management.
- Discuss the three phases of the strategic management process.
- Define guiding philosophy, purpose, mission, objectives, and strategy.
- Explain three philosophical approaches that form the basis of ethical principles.
- Describe a code of ethics.
- Explain the reason for organizational policies.
- Differentiate between long- and short-range objectives.
- Discuss corporate, business, and functional strategies.
- Explain what a strategic business unit is.

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## Chapter Outline

Strategic Management Process	Mission and Stakeholders
Determining the Organization's	Changing the Mission
Guiding Philosophy	Establishing Organizational Objectives
Role of Ethics in Developing	Selecting a Strategy
Guiding Philosophies of	Identifying a Strategy
Organizations	Hierarchy of Strategies
Codes of Ethics	Strategic Business Units
Developing Organizational Policies	Model of the Strategic Management
from the Guiding Philosophy	Process
Defining the Organization's Purpose	Making Strategic Decisions
Defining the Organization's Mission	Strategic Management and
Mission Content and Format	Organizational Success
Mission and Management	

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Some organizations grow to be extremely large and profitable, while others go bankrupt. Some organizations diversify into many new business activities, while others do not. Each year *Fortune* magazine lists America's largest companies by sales volume. As can be seen from Figure 1-1, some companies, such as Hewlett-Packard, were not on the list in 1970. Others, such as U.S. Steel, were on the list in 1970 but not in 1993.

The greatest challenge for a successful organization is change. Many good ideas about what products and services should be offered, how they should be produced and delivered, and which customers would find them most useful have

**FIGURE 1-1 Top 25 Companies as Ranked by Sales Volume**

1970	1980	1990	1993
General Motors	Exxon	General Motors	General Motors
Standard Oil (N.J.)	Mobil	Exxon	Ford Motor
Ford Motor	General Motors	Ford Motor	Exxon
General Electric	Texaco	Int'l Business Machines	Int'l Business Machines
Int'l Business Machines	Standard Oil of California	Mobil	General Electric
Mobil Oil	Ford Motor	General Electric	Mobil
Chrysler	Gulf Oil	Philip Morris	Philip Morris
Int'l Tel. & Tel.	Int'l Business Machines	Texaco	Chrysler
Texaco	Standard Oil (Ind.)	E.I. Du Pont De Memours	Texaco
Western Electric	General Electric	Chevron	E.I. Du Pont De Memours
Gulf Oil	Atlantic Richfield	Chrysler	Chevron
U.S. Steel	Shell Oil	Amoco	Procter & Gamble
Westinghouse Electric	Int'l Telephone & Telegraph	Boeing	Amoco
Standard Oil of California	Conoco	Shell Oil	Boeing
Ling-Temco-Vought	E.I. du Pont de Nemours	Procter & Gamble	Pepsico
Standard Oil (Ind.)	Phillips Petroleum	Occidental Petroleum	Conagra
Boeing	Tenneco	United Technologies	Shell Oil
E. I. du Pont de Nemours	Sun	Dow Chemicals	United Technologies
Shell Oil	U.S. Steel	USX	Hewlett-Packard
General Telephone & Electronics	Occidental Petroleum	Eastman Kodak	Eastman Kodak
RCA	United Technologies	Atlantic Richfield	Dow Chemicals
Goodyear Tire & Rubber	Western Electric	Xerox	Atlantic Richfield
Swift	Standard Oil	Pepsico	Motorola
Union Carbide	Procter & Gamble	McDonnell Douglas	USX
Procter & Gamble	Dow Chemical	Conagra	JUR Nabisco Holdings

Sources: *Fortune*, May 1971, p. 172; May 4, 1981, p. 324; April 22, 1991, p. 286; April 18, 1994, p. 220.



suddenly become obsolete in the face of change. For example, consider the impact that the personal computer has had on the demand for typewriters. Change also challenges managers. Many find themselves unable to cope with an environment or an organization that has become substantially different from the one in which they received their training and gained their early experience. Other managers find that they are unable to transfer their skills to a new assignment in a different industry. A growing company, a new assignment, and changing customer needs or technology are frequently encountered in a manager's career.

Organizations are beset by change, and the casualties are well documented:

- International competition has decimated certain sectors of the American electronics industry and the American watch industry, and it has severely weakened the steel industry.
- Negative publicity in the tobacco industry has caused the major tobacco companies to look for ways to diversify.
- Door to door sales companies (such as Avon and Fuller Brush) have been adversely affected by the increases in the percentage of females entering the work force.
- Changing age distribution in the population has sent soft drink, beer, and baby products companies scrambling to diversify, often with costly mistakes.
- The U.S. automotive industry was hard hit in the mid and late 1970s because it was not geared to the production of fuel-efficient cars.
- Deregulation in the airline, trucking, and banking industries has caused major shake-ups and realignments in each of these industries.

All threatening changes are not external. The loss of key people, for example, introduces a number of internal problems for an organization.

It is not surprising that the concept of "strategy," which provides a way to deal with change, was developed in military settings. Rapid change and its accompanying uncertainty and complexity are probably at their maximum in times of war. A strategy gives direction to diverse activities, even though the conditions under which those activities are carried out are rapidly changing. As the conditions under which businesses and not-for-profit organizations operate become increasingly competitive, as the range of responses becomes more constrained, and as the survival stakes become higher, strategy becomes increasingly relevant to sound management.

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## Dealing with Change: Strategy and Strategic Management

As organizations of all sizes adopt the strategic management process, it is important for all managers to understand both the concept and the process. When used in the context of the organization as a whole, *strategy* describes the way that the organization will pursue its goals, given the threats and opportunities in the envi-

ronment and the resources and capabilities of the organization. As suggested by this definition, three factors that have a significant influence on strategy are the external environment, the internal resources, and the goals that are being pursued. In essence, an organization's strategy provides a basic understanding of how the organization will compete. *Strategic management* is the process by which top management determines the long-run direction and performance of the organization by ensuring that careful formulation, effective implementation, and continuous evaluation of the strategy takes place.

When starting a new business, the determination of strategy is obviously critical. Decisions must be made concerning what products and services to offer, what markets to pursue, and how the products and services will compete. Keeping the strategy current is no less critical for an ongoing organization. When fundamental changes in the environment, the internal situation, or the goals of the organization occur, it may be necessary to change the strategy itself. The strategic management process must be in place to ensure continuous reevaluation of these key elements to determine whether changes are needed.

Napoleon Bonaparte developed a successful strategy for conquering Europe. He used his large but mostly unprofessional army to overwhelm better-trained but less-committed foes. He used artillery skillfully, joined battles so the terrain would aid his cause, and attempted to outnumber the enemy forces 2 to 1. The approach worked well in the European environment, but Russia and Spain were very different settings. In both disastrous campaigns, Napoleon was unable to get the quick, decisive battles his strategy required, and the protracted campaigns led to his ultimate defeat.

Napoleon was a great strategist but did not practice strategic management. He failed to evaluate the appropriateness of his strategy when the environmental determinant changed. The difference between having a strategy and practicing strategic management can be the difference between success and failure. Many organizations are successful with their original concept of how they will deliver a product or service to their chosen market. However, when changes occur that make the original concept outmoded, they sometimes fail to adjust their concept of competition to the new situation.

An orderly approach to change improves the odds of good performance in both large and small organizations. The practice of strategic management ensures a continuous assessment of internal and external changes and an adjustment of competitive approach on the basis of that assessment. Strategy in Action 1-1 describes how Avon Products successfully implemented a new strategy to keep pace with its changing environment.

Strategic management is equally applicable to public, private, not-for-profit, and religious organizations. Strategic management concepts are as useful to a local restaurant, a small office supplies firm, or a college football team as to giant corporations, such as Coca-Cola, IBM, or General Motors. Strategic management also applies to universities, the Mayo Clinic, the Baptist church, Kiwanis International, the U.S. Department of Defense, the Ford Foundation, sororities, and the NAACP. An attempt is made in this book to show the applicability of strategic management to all types of organizations.

## Strategy in Action 1-1

### Avon Implements New Strategy

When James E. Preston was promoted to the presidency of Avon Products, Inc., in 1988, the company had become the laughing stock of Wall Street and was not expected to survive the next five years. While trying to sell the healthcare companies acquired by Avon during previous diversifications, Preston was faced with four major takeover attempts. Preston, therefore, had to work quickly to revitalize the company.

Preston's strategy focused on the company becoming a primary resource for women. However, before this goal could be accomplished, Avon had to update its image so it would appeal to and be more accessible to the women of the 1990s.

In 1993, after conducting a \$1 million research study, Avon launched its first major ad campaign since 1988. The "Women are Beautiful" campaign featured models with whom women could easily relate and focused attention on the fact that Avon products could now be ordered through the mail, by phone or fax, or through the traditional sales representatives.

Avon also now has three small stores in the United States where consumers can talk to a sales

representative and purchase Avon products. In an effort to further meet the needs of the women of the 90s, the company offers seminars on stress, household management, abuse, and breast cancer.

Preston (now chairman of the board and CEO) and the board of directors also implemented a pay-for-performance plan throughout the company that improved productivity, boosted morale, and decreased absenteeism. Avon's 1993 new strategy eliminated two layers of management in its global operations, which enables the office of the chairman and the business units to communicate new ideas and execute strategies more efficiently.

With this new strategy in place, Avon is now on the road to recovery. At the end of the 1993 fiscal year, Avon had experienced a 4.9 percent increase in sales and a 24.7 percent increase in net income as compared to 1989.

Source: Martha H. Peak, "Avon's Calling: Now a Full-Service Resource for Women," *Management Review*, February 1993, pp. 30-32; "Avon Puts on a New Face," *Sales & Marketing Management*, July 1993, p. 13; Avon Products, Inc., annual report, 1993.

## The Strategic Management Process

A description of the strategic management process involves the use of terms and expressions that have a variety of meanings and interpretations depending on the author and source. For example, some of the phrases used interchangeably with strategic management are *strategy and policy formulation*, *long-range planning*, and *business policy*. The purpose of this chapter is to define the terminology used in this book and to present a framework for analysis of the strategic management process.

Basically, strategic management can be broken down into three phases: strategy formulation, strategy implementation, and strategy evaluation. *Strategy formulation* is concerned with making decisions with regard to:

1. Defining the organization's guiding philosophy, purpose, and mission.
2. Establishing long-range objectives to achieve the mission.
3. Selecting the strategy to achieve the long-range objectives.