

CHARLES W. L. HILL / GARETH R. JONES

STRATEGIC MANAGEMENT

AN INTEGRATED APPROACH



SIXTH EDITION

Strategic Management

An Integrated Approach

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University of Washington

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Texas A&M University

Houghton Mifflin Company

Boston New York

6th
EDITION

To my wife, Alexandra Hill, for her ever increasing support and affection
Charles W. L. Hill

For Nicholas and Julia and Morgan and Nia
Gareth R. Jones

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Library of Congress Control Number: 2002109474

ISBN: 0-618-30953-5

1 2 3 4 5 6 7 8 9 — VHP — 07 06 05 04 03

An Integrated Approach to Strategy

An Integrated Approach

This book is designed so that the concepts build upon one another, with early chapters providing a strong foundation for understanding concepts in later chapters. The authors go beyond an uncritical presentation of text material to debate the strengths and weaknesses and advantages and disadvantages of various techniques, strategies, and structures. This approach demonstrates that in the real world, strategic issues are complex and involve a consideration of pros and cons and a willingness to accept tradeoffs. In addition, the authors draw not only on strategic management literature, but also on the literature of economics, marketing, organizational theory, operations management, finance, and international business to deliver a perspective that is truly strategic in that it integrates these diverse disciplines into a comprehensive whole. Finally, a case selection *par excellence* gives students the ultimate opportunity to explore the application of concepts.

An Interactive Approach

Extensive pedagogy including numerous examples and hands-on activities enhances learning and makes studying *Strategic Management* an interactive experience. Every chapter begins with an overview outline and ends with a *Chapter Summary* and *Discussion Questions*. Other features in every chapter include:

Opening Cases

Dell Computer (Ch 1)
Boom and Bust in Telecommunications (Ch 2)
BJ's Wholesale—Competitive Advantage (Ch 3)
CSX—Getting the Trains to Run on Time (Ch 4)
Toyota's Goal? A High-Value Vehicle to Match Every Customer Need (Ch 5)
Information Technology, the Internet, and Changing Strategies in the Fashion World (Ch 6)
Extending the Wintel Monopoly to Wireless (Ch 7)
MTV Has to Sing a New Song as It Expands Globally (Ch 8)
The Rise of Worldcom (Ch 9)

Tyco International (Ch 10)

The Fall of Enron (Ch 11)

Strategy Implementation at Dell Computer (Ch 12)

The "New HP" Gets Up to Speed (Ch 13)



Strategy in Action

- 1.1: Strategic Planning at Microsoft
- 1.2: A Strategic Shift at Microsoft
- 1.3: The Genesis of Autonomous Action at 3M
- 1.4: Scenario Planning at Duke Energy
- 2.1: Entry Barriers into the Japanese Brewing Industry
- 2.2: Price Wars in the Breakfast Cereal Industry
- 2.3: Finland's Nokia
- 3.1: Value Creation at Pfizer
- 3.2: Southwest Airlines' Low Cost Structure
- 3.3: Continental Airlines Goes from Worst to First
- 3.4: The Road to Ruin at DEC
- 3.5: Bill Gates's Lucky Break
- 4.1: Too Much Experience at Texas Instruments
- 4.2: Toyota's Lean Production System
- 4.3: Supply Chain Management at Office Superstores
- 4.4: General Electric's Six Sigma Quality Improvement Process
- 4.5: Improving Quality in Health Care
- 5.1: Levi Strauss's Big Challenge
- 5.2: Why So Many American Express Cards?
- 5.3: Finding a Niche in the Outsourcing Market
- 5.4: Holiday Inns on Six Continents
- 5.5: Coca-Cola and PepsiCo Go Head to Head
- 6.1: Clear Channel Creates a National Chain of Local Radio Stations
- 6.2: How Prodigy Fell into the Chasm
- 6.3: Toys "R" Us's New Competitors
- 6.4: Fast Food Is a Ruthless Business
- 6.5: How to Make Money in the Vacuum Tube Business
- 7.1: Where Is the Standard for DVD Recorders?
- 7.2: How Dolby Became the Standard in Sound Technology
- 7.3: Lowering Costs Through Digitalization
- 7.4: Disruptive Technology in Mechanical Excavators
- 8.1: McDonald's Is Here, There, and Everywhere
- 8.2: Hewlett Packard in Singapore

- 8.3: IKEA's Swedish Ways
- 8.4: Merrill Lynch in Japan
- 9.1: Horizontal Integration in Health Care
- 9.2: Specialized Assets and Vertical Integration in the Aluminum Industry
- 9.3: DaimlerChrysler's U.S. *Keiretsu*
- 9.4: Cisco's \$2 Billion Blunder
- 10.1: Diversification at 3M: Leveraging Technology
- 10.2: Related Diversification at Intel
- 10.3: Postacquisition Problems at Mellon Bank
- 10.4: JDS Uniphase's \$40 Billion Error
- 11.1: Bill Agee at Morrison Knudsen
- 11.2: Price Fixing at Sotheby's and Christie's
- 11.3: The Agency Problem and the Collapse of Barings Bank
- 11.4: Did Computer Associates Inflate Revenues to Enrich Managers?
- 12.1: Union Pacific Centralizes to Increase Customer Responsiveness
- 12.2: Control at Cypress Semiconductor
- 12.3: How Ray Kroc Established McDonald's Culture
- 12.4: Gateway's New Rules Backfire
- 12.5: Kodak's Product Structure
- 12.6: Restructuring at Lexmark
- 13.1: GM's Multidivisional Structure Changes over Time
- 13.2: Amoco, Arco, and Burmah Castrol Become Part of BP
- 13.3: Alco Standard Gets It Right
- 13.4: Using IT to Make Nestlé's Global Structure Work
- 13.5: Oracle's New Approach to Control
- 13.6: Li & Fung's Global Supply Chain Management



Running Cases

- Dell—Changing Rivalry in the Personal Computer Industry (Ch 2)
- Drivers of Profitability for Dell Computer and Compaq (Ch 3)
- Dell's Utilization of the Internet (Ch 4)
- Compaq and Dell Go Head-to-Head in Customer Service (Ch 6)
- Dell's Global Business (Ch 8)
- Beating Dell—Why Hewlett Packard Wanted to Acquire Compaq (Ch 9)

Small-Group Exercises

- Short experiential exercises that ask students to work in groups and discuss a scenario concerning some aspect of strategic management.
- Designing a Planning System (Ch 1)

- Competing with Microsoft (Ch 2)
- Analyzing Competitive Advantage (Ch 3)
- Identifying Excellence (Ch 4)
- Finding a Strategy for a Restaurant (Ch 5)
- How to Keep the Hot Sauce Hot (Ch 6)
- Burning DVDs (Ch 7)
- Developing a Global Strategy (Ch 8)
- Comparing Vertical Integration Strategies (Ch 9)
- Dun & Bradstreet (Ch 10)
- Evaluating Stakeholder Claims (Ch 11)
- Deciding on an Organizational Structure (Ch 12)
- Deciding on an Organizational Structure Continued (Ch 13)

Article Files

Exercises that require students to search business magazines to identify a company facing a particular strategic management problem.

Strategic Management Project

A semester-long project that asks students to select a company and analyze it using a series of questions at the end of every chapter. At the end of the course, students might write a case study of their company and present it to the class.

Exploring the Web

An Internet exercise that requires students to go beyond the text by exploring a web site and answering chapter-related questions.



Closing Cases

- The Evolution of Strategy at Yahoo (Ch 1)
- How the Internet Revolutionized the Stockbrokerage Industry (Ch 2)
- Cisco Systems (Ch 3)
- Reinventing Levi's (Ch 4)
- How E*Trade Uses the Internet to Gain a Low-Cost Advantage (Ch 5)
- How eBay Revolutionized the Auction Business (Ch 6)
- The Evolution of IBM (Ch 7)
- Global Strategy at General Motors (Ch 8)
- AOL Time Warner: Horizontal and Vertical Integration (Ch 9)
- The Changing Boundaries of AT&T, 1995–2002 (Ch 10)
- Chainsaw Al Gets the Ax (Ch 11)
- Sam Walton's Approach to Implementing Wal-Mart's Strategy (Ch 12)
- Hughes Aircraft Changes Its Divisional Structure (Ch 13)

Strategic Management

Preface

In its fifth edition, *Strategic Management: An Integrated Approach* was the most widely used strategic management textbook on the market. In every edition we have attracted new users who share with us the concern for currency in text and examples to ensure that cutting edge issues and theories in strategic management are addressed. This revision of *Strategic Management* was fairly significant. The first edition of this book was written in the late 1980s. Although we have always endeavored to keep the book as up-to-date as possible, we felt that the structure of the book, and some of the key themes, still reflected strategic thinking as it was then and not as it is today. To make sure that the book was absolutely current in its content and coverage of material, we decided to embark upon a significant rewrite. The objective of the rewrite was to maintain all that was good about prior editions, while adding new material to the text when appropriate, and deleting materials that most professors now ignore. We believe that the result is a book that is much more focused on the realities of strategy and competitive advantage in the 2000s than any other textbook on the market, and is closely aligned with the needs of today's professors and students.

Comprehensive and Up-To-Date Coverage

The overall organization of this edition, as noted in Figure 1.3 on page 9, reflects that of previous editions and is designed so that the concepts build upon one another, with early chapters providing a strong foundation for later ones. Though the overall organization remains familiar, there have been significant changes in some of the chapters, and new chapters have been added to reflect current thinking in the field of strategic management.

Changes in Organization of the Book

- Chapter 7, “Strategy in High-Technology Industries” is new. This chapter was added to strengthen the book’s coverage of strategy in markets driven by rapid technological change.
- Chapter 11, “Corporate Performance, Governance, and Business Ethics” is new. This Chapter was added to strengthen coverage of material on business ethics and corporate governance in light of numerous examples of unethical behavior by corporate managers, the failure of corporate governance mechanisms such as the board of directors to check unethical behavior, and the negative impact of such failures on corporate performance. For example, unethical behavior at WorldCom and Enron was unchecked by the boards of those companies, and contributed to the poor performance and bankruptcy of both enterprises in 2002.
- The material that appeared in Chapter 2 of the fifth edition, “Stakeholders and the Corporate Mission” has been merged into other chapters where appropriate. Material on mission and goals has been moved into Chapter 1, “The Strategic Management Process.” Material on stakeholders, business ethics, and corporate governance has been moved to the new Chapter 11 where it has received expanded treatment.
- Chapters 11–14 in the fifth edition have been compressed into two chapters in the sixth edition, Chapters 12 and 13. Chapter 12 covers implementation issues that are

relevant for firms that compete in a single industry including organizational structure, strategic control, and culture. It also addresses implementation issues of functional and generic business-level strategies, along with restructuring and reengineering. Chapter 13 provides information about implementation issues for firms competing in multiple businesses, and it specifically focuses on implementing global strategies and the impact of information technology on strategy implementation.

Major Content Changes Within Chapters

- In Chapter 1 there is a new section added on **performance and competitive advantage** to drive home the point that strategy is about attaining a sustainable competitive advantage.
- In Chapter 3 there is a new section on **analyzing sources of competitive advantage and profitability**. This section explains in detail how strategic choice impacts the profitability of a company as measured by the return on invested capital. This section shows how an analysis of financial statements can reveal the financial impact of major differences in strategic choices. It also explains how strategic managers must think through the impact of their decisions on the financial position of the company.
- In Chapter 5 a new section has been added on **business strategy and game theory**. This section shows how managers can make better strategic choices by drawing on principles derived from game theory.
- In Chapter 6 the section on **strategy in embryonic and growth industries** has been substantially revised to add more material, particularly on how the nature of competition changes as industries pass through different growth stages and how this impacts the choice of strategy. This section looks at why many companies that are successful in embryonic industries fail to cross the chasm that separates an embryonic industry from a growth industry.
- Chapter 7 is new to this edition. The chapter looks at the importance of technological standards in industries, the nature of “network economics,” and strategies for winning “format wars” between companies that are promoting different, and incompatible, technical standards. Also discussed are the cost structure of high-technology firms and its strategic implications, strategies for managing intellectual property rights, and strategies for capturing a first-mover advantage. The chapter closes with a review of the strategic implications of technological paradigm shifts for both new entrants and incumbent firms in an industry.
- Chapter 9 contains a new section on **horizontal integration**. This section looks at why companies in the same industry acquire or merge with each other and the strategic implications of this. The chapter also contains an expanded treatment of strategic outsourcing and looks at how companies can outsource activities to attain a competitive advantage.
- Chapter 11 is a new chapter that looks at **corporate performance, governance, and business ethics**. The chapter explains how poor corporate performance can be caused by a combination of poor corporate governance systems and unethical behavior. The chapter reviews the strategic importance of managing stakeholders, putting strong corporate governance mechanisms in place, and making ethical decisions. Agency theory is used to explain failures of corporate governance and poor managerial ethics. The chapter draws heavily on recent examples of corporate fraud to illustrate the

main points. The opening case features Enron, and discussions of recently discovered fraud/unethical behavior at WorldCom, Tyco, and Computer Associates are contained within the chapter.

Throughout the revision, we have been careful to preserve the *balanced and integrated* nature of our account of the strategic management process. Moreover, as we added new material, we deleted less current or less important concepts and information to ensure that students would concentrate on the core concepts and issues in the field. We have also paid close attention to retaining the book's readability.

Finally, it is important to emphasize that we have overhauled the case selection. There are 43 cases in this edition. Twenty-seven of these cases are new to this edition. The remaining cases have been updated and revised. For example, the home video game case has been revised to include material on X-Box and Sony PlayStation 2. The Air Express and Airborne Express cases have been revised and updated to 2002. The Kodak case has been substantially rewritten around the issue of digital imaging. As always, we have used a tight screen to weed out poor quality cases and we believe that the selection we offer is the best on the market.

Practicing Strategic Management: An Interactive Approach

We hope you are excited by the hands-on learning possibilities provided by the exercises/assignments in the end-of-chapter *Practicing Strategic Management* sections. Following the Chapter Summary and Discussion Questions, each chapter contains the following assignments/exercises:

- **Small Group Exercise.** This short (20 minute) experiential exercise asks students to divide into groups and discuss a scenario concerning some aspect of strategic management. For example, the scenario in Chapter 11 asks students to identify the stakeholders of their educational institution and evaluate how stakeholders' claims are being and should be met.
- **Exploring the Web.** The Internet exercise requires students to explore a particular web site and answer chapter-related questions. For example, the Chapter 8 assignment is to go to the web site of IBM and analyze its strategy for competing in the global marketplace. This section also asks students to explore the Web for relevant sites of their own choosing and answer questions.
- **Article File.** As in the last edition, this exercise requires students to search business magazines to identify a company that is facing a particular strategic management problem. For instance, students are asked to locate and research a company pursuing a low-cost or a differentiation strategy, and to describe this company's strategy, its advantages and disadvantages, and the core competencies required to pursue it. Students' presentations of their findings lead to lively class discussions.
- **Strategic Management Project.** Students, in small groups, choose a company to study for the whole semester and then analyze the company using the series of questions provided at the end of every chapter. For example, students might select Ford Motor Co. and, using the series of chapter questions, collect information on Ford's top managers, mission, ethical position, domestic and global strategy and structure, and so on. Eventually, students would write a case study of their company and present it to the class at the end of the semester. Normally, we also have students present one or more of the cases in the book early in the semester, but in our classes we now treat the students' own projects as the major class assignment and their case presentations as the climax of the semester's learning experience.

- **Closing case study.** A short closing case provides an opportunity for a short class discussion of a chapter-related theme.

In creating these exercises it is not our intention to suggest that they should *all* be used for *every* chapter. For example, over a semester an instructor might combine a group Strategic Management Project with five to six Article File assignments and five to six Exploring the Web exercises, while doing eight to ten Small Group Exercises in class.

We have found that our interactive approach to teaching strategic management appeals to students. It also greatly improves the quality of their learning experience. Our approach is more fully discussed in the *Instructor's Resource Manual*.

Strategic Management Cases

The 43 cases that we have selected for this edition will appeal, we are certain, to students and professors alike, both because these cases are intrinsically interesting and because of the number of strategic management issues they illuminate. The organizations discussed in the cases range from large, well-known ones, for which students can do research in order to update the information, to small, entrepreneurial businesses that illustrate the uncertainty and challenge of the strategic management process. In addition, the selections include many international cases, and most of the other cases contain some element of global strategy. Refer to the table of contents for a complete listing of the cases with brief descriptions.

We feel that our entire selection is unrivaled in breadth and depth, and we are grateful to the other case authors who have contributed to this edition.

Larry D. Alexander, *Virginia Tech*

Simon Algar, *Thunderbird, The American Graduate School of International Management*

A. J. Almaney, *DePaul University*

Bharat Anand, *Harvard Business School*

Steven Angga-Prana, *New York University*

Frank C. Barnes, *University of North Carolina—Charlotte*

M. Edgar Barrett, *Thunderbird, The American Graduate School of International Management*

Chad Beaupierre, *New York University*

Scott Bevier, *New York University*

Herman L. Boschken, *San Jose State University*

James W. Camerius, *Northern Michigan University*

Jonathan Charlton, *Virginia Tech*

Joyce A. Claterbos, *University of Kansas*

Billy Cockrell, *Adrenaline Air Sports*

Gabriella Del Carro, *St. John's University*

Dorothy G. Dologite, *Baruch College, City University of New York*

John Dunkelberg, *Wake Forest University*

Harold Dyck, *California State University*

Roberto Ekesi, *New York University*

Joseph N. Fry, *Richard Ivey School of Business*

Marc E. Gartenfeld, *St. John's University*

Tim Goho, *Wake Forest University*

Sue Greenfeld, *California State University*

Myra Hart, *Harvard Business School*

Andrew C. Inkpen, *Thunderbird, The American Graduate School of International Management*
 Lawrence R. Jauch, *University of Louisiana at Monroe*
 Min Yee Ji, *New York University*
 Andrew Kimbrough, *Thunderbird, The American Graduate School of International Management*
 Suresh Kotha, *University of Washington*
 David Lane, *Harvard Business School*
 Vipon Kumar, *Thunderbird, The American Graduate School of International Management*
 Vicken Librarikian, *New York University*
 Meredith Martin, *Thunderbird, The American Graduate School of International Management*
 Melissa V. Melancon, *University of Louisiana at Monroe*
 Robert J. Mockler, *St. John's University*
 Chiaki Moriguchi, *Harvard Business School*
 Richard Moxon, *University of Washington*
 Vincent Pawlowski, *St. John's University*
 Elizabeth Petrovski, *St. John's University*
 Sharon I. Peyus, *Harvard Business School*
 Taz Pirmohamed, *Harvard Business School*
 Steve Preziosi, *St. John's University*
 Frank T. Rothaermel, *Michigan State University*
 George C. Rubenson, *Salisbury University*
 Melissa A. Schilling, *New York University*
 Frank M. Shipper, *Salisbury University*
 Damon Swaner, *St. John's University*
 Norihito Tanaka, *Kanagawa University*
 Marilyn L. Taylor, *University of Missouri at Kansas City*
 Beverly B. Tyler, *North Carolina State University*
 Roderick E. White, *Richard Ivey School of Business*

To help students learn how to effectively analyze and write a case study, we continue to include a special section on this subject. This section includes a checklist and explanation of areas to consider, suggested research tools, and tips on financial analysis.

Teaching and Learning Aids

Taken together, the teaching and learning features of *Strategic Management* provide a package that is unsurpassed in its coverage and that supports the integrated approach that we have taken throughout the book.

For the Instructor

- The **Instructor's Resource Manual** has been completely revised. For each chapter we provide a clearly focused *synopsis*, a list of *teaching objectives*, a *comprehensive lecture outline* that includes references to the transparencies, and *answers to discussion questions*. Each of the chapter opening cases also has a corresponding teaching note to help guide class discussion. Furthermore, the lecture outlines include summaries and teaching notes for the *Strategy in Action* boxes. Finally, the manual includes comments on the Practicing Strategic Management sections and suggested answers to the Closing Case Discussion Questions.

- The **Test Bank** (in the *Instructor's Resource Manual*) has been revised and offers a set of comprehensive true/false and multiple-choice questions, and new essay questions for each chapter in the book. The mix of questions has been adjusted to provide fewer fact-based or simple memorization items and to provide more items that rely on synthesis or application. Also, more items now reflect real or hypothetical situations in organizations. Every question is keyed to the teaching objectives in the *Instructor's Resource Manual* and includes an answer and page reference to the textbook.
- The **Instructor's Resource Manual: Cases** includes a complete list of Case Discussion Questions as well as a *comprehensive teaching note* for each case, which gives a complete analysis of case issues.
- New for this edition is the **HM ClassPrep with HMTesing CD**. This instructor CD provides a variety of teaching resources in electronic format allowing for easy customization to meet specific instructional needs. Included in ClassPrep are **PowerPoint slides** for classroom presentation and Word files from the *Instructor's Resource Manuals* that can be easily edited.
HMTesing, the computerized version of the *Test Bank*, allows instructors to select, edit, and add questions, or generate randomly selected questions to produce a test master for easy duplication. Online Testing and Gradebook functions allow instructors to administer tests via their local area network or the World Wide Web, set up classes, record grades from tests or assignments, analyze grades, and produce class and individual statistics.
- A package of **color transparencies** is available for adopters. These include nearly all the figures found in the chapters.
- New **Videos** from CNN's award-winning "CEO Exchange" series are available to adopters. This series uses in-depth interviews with internationally recognized and respected CEOs to shed light on those managerial, organizational, and technological issues that are shaping the marketplace of ideas. In addition, this series explores the personal side of commerce, as industry icons discuss the values and experiences that shape and influence their business philosophies, strategies, and decisions. The programs that accompany this book are "Jack Welch: Icon of Leadership," "Creating New Categories, Businesses, and Markets" (featuring Thomas Stemberg, chairman and CEO of Staples, and Carl Yankowski, former CEO of Palm, a market leader in handheld computers), "The Built to Order Revolution" (featuring Michael Dell, chairman and CEO of Dell Computer Corporation, and Frederick Smith, chairman, president, and CEO of FedEx Corporation), and "Innovators of Silicon Valley" (featuring Scott McNealy, chairman and CEO of Sun Microsystems, and Marc Andreessen, chairman of Loudcloud and co-founder of Netscape). Each program includes business students and faculty asking questions of the discussants. We are confident this video series will help highlight many issues of interest and can be used to spark class discussion.
- An extensive **web site** contains many features to aid instructors including downloadable files for the text and case materials from the *Instructor's Resource Manuals*, the downloadable PowerPoint slides, the Video Guide, and sample syllabi. Additional materials on the student web site may also be of use to instructors.

For the Student

- A student **web site** provides help for students as they make their way through the course. The web site features links to the companies highlighted in each chapter's boxes and opening and closing cases as well as the full-length cases, links to other sites of general interest while studying strategic management, the Exploring the Web exercises with any updates as necessary to account for the inevitable changes that occur to the relevant sites, case discussion questions to guide students as they analyze the in-depth cases, ACE self-tests related to each chapter, and a glossary and flashcards of key terms.
- The **Real Deal UpGrade CD-ROM** includes a glossary of key terms, chapter learning objectives, brief chapter outlines, chapter summaries, and quizzes to test understanding of the major concepts.

Acknowledgments

This book is the product of far more than two authors. We are grateful to George Hoffman, our editor-in-chief, and Steve Mikels, our marketing manager, for their help in promoting and developing the book and for providing us with timely feedback and information from professors and reviewers that have allowed us to shape the book to meet the needs of its intended market. We are also grateful to Susan Kahn, associate sponsoring editor, for ably coordinating the planning of our book and for managing the creation of the ancillary materials; and grateful to Rachel D'Angelo Wimberly, senior project editor, and May Jawdat, editorial assistant, for their adept handling of production. We are also grateful to the case authors for allowing us to use their materials. We also want to thank the departments of management at the University of Washington and Texas A&M University for providing the setting and atmosphere in which the book could be written, and the students of these universities who reacted to and provided input for many of our ideas. In addition, the following reviewers of this and earlier editions gave us valuable suggestions for improving the manuscript from its original version to its current form:

Ken Armstrong, *Anderson University*
 Kunal Banerji, *West Virginia University*
 Glenn Bassett, *University of Bridgeport*
 Thomas H. Berliner, *The University of Texas at Dallas*
 Richard G. Brandenburg, *University of Vermont*
 Steven Braund, *University of Hull*
 Philip Bromiley, *University of Minnesota*
 Geoffrey Brooks, *Western Oregon State College*
 Lowell Busenitz, *University of Houston*
 Gene R. Conaster, *Golden State University*
 Steven W. Congden, *University of Hartford*
 Catherine M. Daily, *Ohio State University*
 Robert DeFillippi, *Suffolk University Sawyer School of Management*
 Helen Deresky, *SUNY-Plattsburgh*
 Gerald E. Evans, *The University of Montana*
 John Fahy, *Trinity College, Dublin*
 Patricia Feltes, *Southwest Missouri State University*
 Mark Fiegenger, *Oregon State University*
 Isaac Fox, *Washington State University*

Craig Galbraith, *University of North Carolina at Wilmington*
Scott R. Gallagher, *Rutgers University*
Eliezer Geisler, *Northeastern Illinois University*
Gretchen Gemeinhardt, *University of Houston*
Lynn Godkin, *Lamar University*
Robert L. Goldberg, *Northeastern University*
Graham L. Hubbard, *University of Minnesota*
Tammy G. Hunt, *University of North Carolina at Wilmington*
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Robert Keating, *University of North Carolina at Wilmington*
Geoffrey King, *California State University–Fullerton*
Rico Lam, *University of Oregon*
Robert J. Litschert, *Virginia Polytechnic Institute and State University*
Franz T. Lohrke, *Louisiana State University*
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Van Miller, *University of Dayton*
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Francine Newth, *Providence College*
Paul R. Reed, *Sam Houston State University*
Rhonda K. Reger, *Arizona State University*
Malika Richards, *Indiana University*
Ronald Sanchez, *University of Illinois*
Joseph A. Schenk, *University of Dayton*
Brian Shaffer, *University of Kentucky*
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Strategic Management

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