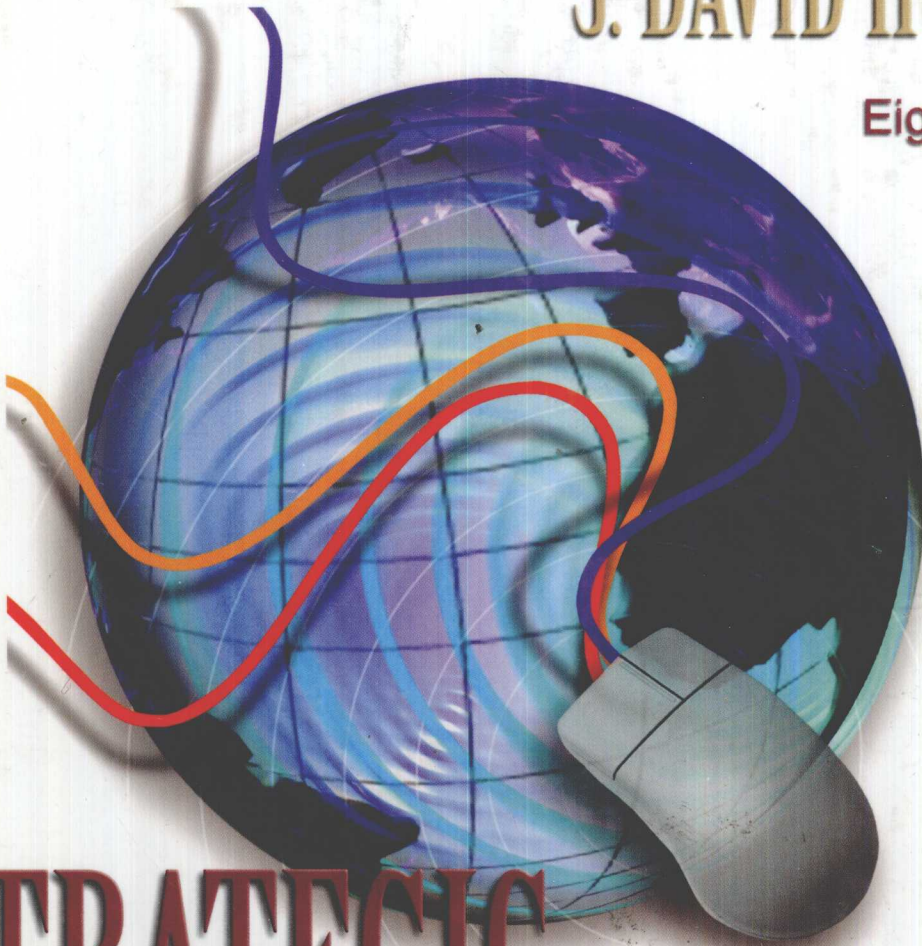


THOMAS L. WHEELLEN
J. DAVID HUNGER

Eighth Edition



**STRATEGIC
MANAGEMENT
AND BUSINESS POLICY**

eighth edition

STRATEGIC MANAGEMENT and BUSINESS POLICY

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Preface

We wrote *Strategic Management and Business Policy* to introduce you to strategic management—a field of inquiry that focuses on the organization as a whole and its interactions with its environment. The corporate world is in the process of transformation driven by information technology (in particular the Internet) and globalization. Strategic management takes a panoramic view of this changing corporate terrain and attempts to show how large and small firms can be more effective and efficient not only in today's world, but in tomorrow's as well.

This text contains the latest theory and research currently available in strategic management. We sifted through the past 5 years' worth of articles from the following academic and business publications: *Academy of Management Journal*, *Strategic Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *Journal of Management*, *Long Range Planning*, *Organization Science*, *Academy of Management Executive*, *Organizational Dynamics*, *Journal of Business Strategy*, *SAM Advanced Management Journal*, *Journal of Business Strategies*, *Strategy and Leadership* (previously *Planning Review*), *Strategy and Business*, *Competitive Intelligence*, *Journal of Business Venturing*, *Entrepreneurship Theory and Practice*, *Harvard Business Review*, *Business Week*, and *The Economist*.

Both the concepts and the cases have been class-tested in strategy courses and revised based on feedback from students and instructors. The first 10 chapters are organized around a strategic management model that prefaces each chapter and provides a structure for both content and case analysis. We emphasize those concepts that have proven to be most useful in understanding strategic decision-making and in conducting case analysis. Our goal was to make the text as comprehensive as possible without getting bogged down in any 1 area. Endnote references are provided for those who wish to learn more about any particular topic. All cases in the combined text and the case text are about actual organizations. The firms range in size from large, established multinationals to small, entrepreneurial ventures, and cover a broad variety of issues. As an aid to case analysis, we propose the strategic audit as an analytical technique.

Objectives

This book focuses on the following objectives, typically found in most strategic management and business policy courses:

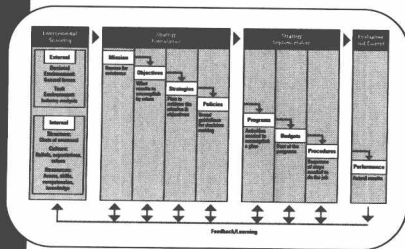
- To develop an understanding of strategic management concepts, research, and theories.
- To develop a framework of analysis to enable a student to identify central issues and problems in complex, comprehensive cases; to suggest alternative courses of action; and to present well-supported recommendations for future action.
- To develop conceptual skills so that a student is able to integrate previously learned aspects of corporations.
- To develop an understanding of the global economy and the Internet and their current and potential impact on business activities in any location.
- To develop an understanding of the role of corporate governance in strategic management.
- To develop the ability to analyze and evaluate, both quantitatively and qualitatively, the performance of the people responsible for strategic decisions.

- To bridge the gap between theory and practice by developing an understanding of when and how to apply concepts and techniques learned in earlier courses on marketing, accounting, finance, management, production, and information systems.
- To improve research capabilities necessary to gather and interpret key environmental data.
- To develop a better understanding of the present and future environments in which corporations must function.
- To develop analytical and decision-making skills for dealing with complex conceptual problems in an ethical manner.

This book achieves these objectives by presenting and explaining concepts and theories useful in understanding the strategic management process. It critically analyzes studies in the field of strategy to acquaint the student with the literature of this area and to help develop the student's research capabilities. It also suggests a model of strategic management. It recommends the strategic audit as 1 approach to the systematic analysis of complex organization-wide issues. Through a series of special issue and comprehensive cases (available in the combined text and the cases text), it provides the student with an opportunity to apply concepts, skills, and techniques to real-world corporate problems. The book focuses on the business corporation because of its crucial position in the economic system of the world and in the material development of any society.

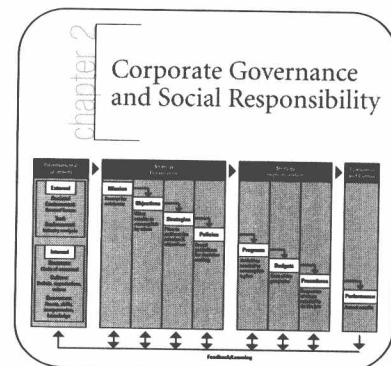
Time-Tested Features

This edition contains many of the same features and content that helped make previous editions successful. Some of the features are the following:



- A **strategic management model** runs throughout the first 10 chapters as a unifying concept. (Explained in Chapter 1)

- **Corporate governance** is examined in terms of the roles, responsibilities, and interactions of top management and the board of directors. (Chapter 2)



2.3 Social Responsibilities of Strategic Decision Makers

Should strategic decision makers be responsible only to shareholders or do they have broader responsibilities? The concept of **social responsibility** proposes that a private corporation has responsibilities to society that extend beyond making a profit. Strategic decisions often affect more than just the corporation. A decision to retrench by closing some plants and discontinuing product lines, for example, affects not only the firm's workforce, but also the communities where the plants are located and the customers with no other source of the discontinued product. Such situations raise questions of the appropriateness of certain missions, objectives, and strategies of business corporations. Managers must be able to deal with these conflicting interests in an ethical manner to formulate a viable strategic plan.

RESPONSIBILITIES OF A BUSINESS FIRM

What are the responsibilities of a business firm and how much of them must be fulfilled? Milton Friedman and Archie Carroll offer 2 contrasting views of the responsibilities of business firms to society.

- **Social responsibility and managerial ethics** are examined in detail in terms of how they affect strategic decision making. (Chapter 2)

- Equal emphasis is placed on **environmental scanning** of the societal environment as well as on the task environment. Topics include forecasting and Miles and Snow's typology in addition to Porter's industry analysis. (Chapter 3)

3.2 Industry Analysis: Analyzing the Task Environment

An industry is a group of firms producing a similar product or service, such as soft drinks or financial services. An examination of the important stakeholder groups, such as suppliers and customers, in a particular corporation's task environment is a part of industry analysis.

PORTER'S APPROACH TO INDUSTRY ANALYSIS

Michael Porter, an authority on competitive strategy, contends that a corporation is most concerned with the intensity of competition within its industry. The level of this intensity is determined by basic competitive forces, which are depicted in Figure 3-3. "The collective strength of these forces," he contends, "determines the ultimate profit potential in the industry, where profit potential is measured in terms of long-run returns on invested capital."¹ In carefully scanning its industry, the corporation must assess the importance to its success of each of the 6 forces: threat of new entrants, rivalry among existing firms, threat of substitute products or services, bargaining power of buyers, bargaining power of suppliers, and relative power of other stakeholders.² The stronger each of these forces, the more limited companies are in their ability to raise prices and earn greater profits. Although Porter mentions only 5 forces, a sixth—other stakeholders—is added here to reflect the power that governments, local communities, and other groups from the task environment wield over industry activities.

Using the model in Figure 3-3, a high force can be regarded as a threat because it is likely to reduce profits. A low force, in contrast, can be viewed as an opportunity because it may allow the company to earn greater profits. In the short run, these forces act as constraints on a company's activities. In the long run, however, it may be possible for a company, through its choice of strategy, to change the strength of one or more of the forces to the company's advantage. For example, in order to pressure its customers (P₁ buyers) to purchase more of Intel's latest microprocessors for use in their PCs, Intel supported the development of sophisticated software needing increasingly larger amounts of processing power. In the mid-1980s Intel began selling 3D graphics chips—not because it wanted to be in that business, but because 3D chips needed large amounts of processing power (provided at once by Intel). Intel also introduced software that made it easier for network administrators to manage PCs on their networks, which Intel believed would help sell more PCs and neutralize a threat from network computers.³

- Core and distinctive competencies** are examined within the framework of the resource-based view of the firm. (Chapter 4)

Figure 3-1: Strategic Factor Analysis Summary (EFAS) table for Intel. The table lists various strategic factors (e.g., Strengths, Weaknesses, Opportunities, Threats) and rates them on a scale of 1 to 5. A second table, Figure 3-4, shows the IFAS and SFAS tables for Intel, which combine internal and external factors to create a strategic fit matrix.

- Internal and external strategic factors are emphasized through the use of specially-designed EFAS, IFAS, and SFAS tables. (Chapters 3, 4, and 5)

- Two chapters deal with issues in **strategy implementation**, such as organizational and job design plus strategy-manager fit, action planning, and corporate culture. (Chapters 8 and 9)
- A separate chapter on **evaluation and control** explains the importance of measurement and incentives to organizational performance. (Chapter 10)

- The **strategic audit**, a way to operationalize the strategic decision-making process, provides a tested methodology in case analysis. (Chapter 10)

NEW: See the Strategic Audit poster in the folder on the inside back cover of this book.

- Special chapters deal with strategic issues in **managing technology and innovation, entrepreneurial ventures and small businesses, and not-for-profit organizations**. (Chapters 11, 12, and 13, respectively) These issues are often ignored by other strategy textbooks.

Strategic Audit of a Corporation

I. Current Situation

A. Current Performance

See Section 10.2 on pages 243-256.

How did the corporation perform the past year overall in terms of return on investment, market share, and profitability?

B. Strategic Posture

See Section 1.3 on pages 7-8.

- What are the corporation's current mission, objectives, strategies, and policies? Are they clearly stated or are they merely implied from performance?
- Mission:** What business(es) is the corporation in? Is the mission statement appropriate?
- Objectives:** What are the corporate, business, and functional objectives? Are they consistent with each other, with the mission, and with the internal and external environment?
- Strategies:** What are the current corporate, business, and functional strategies? Are they consistent with each other, with the mission and objectives, and with the internal and external environment?
- Policies:** What are they? Are they consistent with each other, with the mission, objectives, and strategies, and with the internal and external environments?
- Do the current mission, objectives, strategies, and policies reflect the corporation's international operations—whether global or multidomestic?

Suggestions
for Case Analysis

A few years ago, Alltel's first cash flow measure turned negative. Although the company reported a 30% gain in net income for the second quarter, the first cash flow was a negative \$80 million. Top management dismissed the cash flow situation as only temporary, reporting that capital spending and increasing revenues during the first part of the year was needed to fuel the company's sales growth reported later in the year. A company spokesman predicted that the first cash flow for the year should be \$300 million and concluded, "There's no problem with cash flow here."

"But we" responded Jeffrey Forta, President of Boston's First Institutional Research. Forta contended that Alltel's growing sales and earnings masked a serious problem in the company over the past year. Alltel's push to boost sales had caused it difficulty in meeting its cash needs from operations. "They're growing too fast and not getting the revenue from capital investments they need to get," Alltel pushed to end 1999 and revenue from operations since Forta predicted that without more changes, Alltel would have increasing difficulty continuing its double-digit sales growth.

This is an example of how a student used a performance measure to assess the overall health of a company. You can do the same type of in-depth analysis on a comprehensive strategic management case. This chapter provides you with various analytical techniques and suggestions for conducting this kind of case analysis.

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- **Suggestions for in-depth case analysis** provide a complete listing of financial ratios, recommendations for oral and written analysis, and ideas for further research. (Chapter 14)

- The **Strategic Audit Worksheet** is based on the time-tested strategic audit and is designed to help students organize and structure daily case preparation in a brief period of time. The worksheet works exceedingly well for checking the level of daily student case preparation—especially for open class discussions of cases. (Chapter 14)

FIGURE 14-1
Strategic Audit Worksheet

Strategic Audit Worksheet	Analysis		
	1. Current Situation	2. Opportunities	3. Threats
1. Current Situation			
2. Opportunities			
3. Threats			
4. Strategic Objectives			
5. Corporate Strategy			
6. Business Strategy			
7. Functional Strategy			
8. Competitive Advantage			
9. Core Competencies			
10. Internal Capabilities			
11. External Capabilities			
12. Internal Capabilities			
13. External Capabilities			
14. Internal Capabilities			
15. External Capabilities			
16. Internal Capabilities			
17. External Capabilities			
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96. Internal Capabilities			
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98. Internal Capabilities			
99. External Capabilities			
100. Internal Capabilities			

- **Key Theory As It Applies Capsules** in various chapters explain key theories underlying strategic management. This feature adds emphasis to the theories, but does not interrupt the flow of the text material.

Projections for the 21st Century

- From 1994 to 2010, the average life expectancy for women will rise from 67 to 71 and for men will increase from 63 to 67.
- From 1994 to 2010, the number of AIDS cases worldwide will increase from 20 million to 38 million.

Discussion Questions

1. What industry forces might cause a propitious niche to disappear?
4. What are the advantages and disadvantages of being a first mover in an industry? Give some examples of first-mover and late-mover firms. What do you think?

- **Projections for the 21st Century** end each chapter by forecasting what the world will be like in 2010.

- **An experiential exercise** focusing on the material covered in each chapter helps the reader to apply strategic concepts to an actual situation.

Following is an Internet case focusing upon strategic alliances. To begin the exercise, you will need a computer with Internet access. The rest is up to you!

Amy's Bread at Chelsea Market: A Web Discovery Case

CATHLEEN S. BURNS, University of Missouri,
AND PAULA S. WEBER, St. Cloud State University

COMPANY BACKGROUND AND HISTORY
In 1992, Amy Scherber opened her own business, "Amy's Bread." Amy's Bread is a retail and wholesale bakery in the Hell's Kitchen area of Manhattan. Amy's Bread has now expanded to a second Manhattan location in Chelsea Market, an innovative mall full of other entrepreneurs selling both food and nonfood items.

AMY'S DILEMMA

While Amy's Bread is doing well in Chelsea Market, profits are less than desired and the bakery has excess capacity. Amy is trying to decide what strategic alliances with other tenants in the mall would help her boost profits and absorb excess production capacity. You will help formulate Amy's emerging marketing strategy during your Web-based search process.

First Activity: Get familiar with Internet searches (if you are not already).

1. Check out a web site that provides information on search engines and searching:
 - (www.pbs.org/uti/begin.html)
 - (www.microsoft.com/insider/internet/default.htm)
 - (www.itrc.ucf.edu) [search "search engines"]
 - (www.zdnet.com/pcomp/features/fea1096/sub2.html)

- A list of **key terms** and the pages in which they are discussed enable the reader to keep track of important concepts as they are introduced in each chapter.
- **Timely, well-researched, and class-tested cases** (available in the combined text and the cases text) deal with interesting companies and industries. Many of the cases are about well-known, publicly held corporations—ideal subjects for further research by students wishing to “update” the cases.
- An **Industry Note for use in industry analysis** of the major home appliance industry is included for use by itself or with the Maytag case (available in the combined text and the cases text).

Features New to This 8th Edition

FOURTEEN REVISED AND UPDATED CHAPTERS OF TEXT

- Each chapter contains a major section dealing with the **impact of the Internet** upon the content in that chapter as well as a boxed insert providing an illustration of how the Internet is affecting strategic management.
- A new section on **theories of organizational adaptation** has been added to Chapter 1.
- The corporate governance theory capsule in Chapter 2 compares **agency theory** with stewardship theory.
- Chapter 3 contains a new section on using **key success factors** to create an industry matrix.
- Chapter 6 contains an expanded section on **horizontal corporate strategy and multipoint competition**.
- **Real options** are discussed in Chapter 7 as a way of evaluating strategic alternatives in a turbulent environment.
- Strategy implementation in Chapter 8 now includes a section on the **cellular organization**, a new type of structure, which goes beyond the network structure.
- Chapter 10 includes a new section dealing with **enterprise resource planning** as a part of strategic information systems.
- New sections on the **impact of stakeholders on innovation** and on **developing an entrepreneurial climate** within an existing organization have been added to Chapter 11 on managing technology and innovation.
- Chapter 12 now includes a section dealing with issues in **corporate governance in small businesses and entrepreneurial ventures**.

THIRTY-FIVE CASES (available in the combined text and the cases text)

- **35 cases—21 new or revised & updated**
 - **Sixteen new cases** (*Singapore Telecom, Hewlett-Packard in Vietnam, Waterford Crystal, Oracle, Sun Microsystems, drkoop.com, WingspanBank.com, Hewlett-Packard, Gardner Distribution, Amy's Bread, Guajilote Cooperativo Forestal, Carey Plant, Redhook Ale Brewery, Boeing, Mercedes-Benz, and A.W.A.R.E.*)
 - **Five revised and updated cases** (*Apple Computer, Kmart, Wal-Mart, Home Depot, and Vermont Teddy Bear*).

- **Five special issue cases** dealing with Corporate Governance (*Reluctant Director at Byte Products* and *Wallace Group*), Environment (*The Audit* and *Brookstone Hospice*), and Not-for-profit Organizations (*A.W.A.R.E.*).
- **Twenty-six comprehensive strategy cases.** These cases are excellent to use in team analyses and presentations. These cases are grouped into 10 industries:
 - Information Systems/Software (3 cases)
 - Internet (2 cases)
 - Computer (2 cases)
 - Recreation & Leisure (3 cases)
 - Major Home Appliances (1 industry note and 1 case)
 - Mass Merchandising/Distribution (3 cases)
 - Specialty Retailing (2 cases)
 - Small/Medium Entrepreneurial Ventures (4 cases)
 - Beverage/Food (3 cases)
 - Aviation/Automobiles (2 cases)
- **Eighteen cases containing international issues**
 - Six cases are of companies operating primarily outside North America (*Singapore Telecom*, *Hewlett-Packard in Vietnam*, *Body Shop*, *Waterford Crystal*, *Guajilote Cooperativo Forestal*, and *Mercedes Benz and Swatch*).
 - Twelve cases are of North American-based companies with significant international operations and issues (*Oracle*, *Apple Computer*, *Cisco Systems*, *Sun Microsystems*, *Hewlett-Packard*, *Carnival*, *Harley-Davidson*, *Reebok*, *Major Home Appliance Industry*, *Maytag*, *Boeing*, and *Wal-Mart*).
- **Seven cases contain Internet-related issues**
 - Two cases are of dot-com companies whose business model is the Internet (*drkoop.com* and *WingspanBank*).
 - Five cases are of companies whose mission is tied to the Internet either directly (*Oracle*, *Cisco Systems*, and *Sun Microsystems*) or indirectly (*Apple Computer* and *Hewlett-Packard*).
- **Cases of companies at all stages of corporate development**
 - I. Entrepreneurial Companies with Founder as CEO (17)
 - A. Small / Medium Companies (10)
 - Redhook Ale Brewery*
 - Inner-City Paint*
 - Brookstone Hospice*
 - Recalcitrant Director at Byte*
 - Wallace Group**
 - drkoop.com*
 - WingspanBank.com*
 - Amy's Bread*
 - Guajilote Cooperativo Forestal*
 - A.W.A.R.E.*
 - B. Large / Very Large (7)
 - Apple Computer*

Cisco Systems
Sun Microsystems
Oracle
Reebok
Home Depot
Body Shop

II. Established Companies Managed by Professional Managers (14)

Tasty Baking
Hewlett-Packard
Vermont Teddy Bear
Singapore Telecom
Carnival
*Mercedes Benz and Swatch**
Harley-Davidson
Major Home Appliance Industry
*Maytag**
Kmart
Gardner Distribution
Wal-Mart
*Arm & Hammer (Church & Dwight)**
Waterford Crystal

III. Business Units / Joint Ventures (3)

Boeing Commercial Group
Hewlett-Packard in Vietnam
The Carey Plant

* Note: Diversified into multiple industries

Supplements

Supplemental materials are available to the instructor from the publisher. These include both Text and Case Instructor Manuals; an Instructor's Resource CD-ROM containing the Concepts IM, Computerized Test Manager, and PowerPoint Electronic Transparencies; New Part-Ending Video; and myPHLIP Web site. Also available are the following Standard Online Courses—Blackboard, Course Compass, and WebCT.

INSTRUCTOR'S MANUALS

Two comprehensive Instructor's Manuals have been carefully constructed to accompany this book. The first one accompanies the text chapters; the second one accompanies the cases.

Text Instructor's Manual

To aid in discussing the 14 chapters dealing with strategic management concepts, the Text Instructor's Manual includes:

- (1) **Suggestions for Teaching Strategic Management**—discusses various teaching methods and includes suggested course syllabi.
- (2) **Chapter Notes**—includes summaries of each chapter, suggested answers to discussion questions, suggestions for using end of chapter cases/exercises, plus additional discussion questions (with answers) and lecture modules.
- (3) **Multiple choice test questions**—contains approximately 50 questions for each of the 14 chapters summing to over 700 questions from which to choose.

Case Instructor's Manual

To aid in case method teaching, the Case Instructor's Manual includes detailed suggestions for use, teaching objectives, and examples of student analyses for each of the 35 cases. This is the most comprehensive instructor's manual available in strategic management. A standardized format is provided for each case:

- (1) Case Abstract
- (2) Case Issues and Subjects
- (3) Steps Covered in the Strategic Decision-Making Process
- (4) Case Objectives
- (5) Suggested Classroom Approaches
- (6) Discussion Questions
- (7) Case Author's Teaching Note
- (8) Student-written Strategic Audit or Paper
- (9) EFAS, IFAS, SFAS Exhibits
- (10) Financial Analysis—ratios and common-size income statements
- (11) Student Strategic Audit Worksheet

INSTRUCTOR'S RESOURCE CD-ROM

The Instructor's Resource CD-ROM includes the electronic Instructor's Manual, Win/PH Test Manager, and PowerPoint Electronic Transparencies. Containing all of the questions in the printed Test Item File, Test Manager allows educators to create and distribute tests for their courses easily, either by printing and distributing through traditional methods or by online delivery via a Local Area Network (LAN) server.

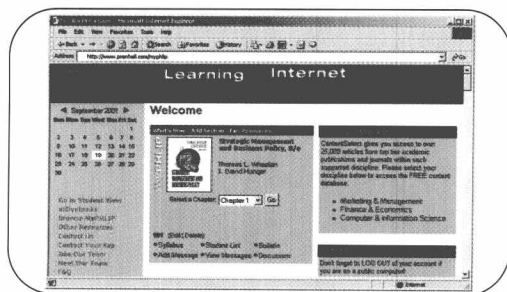
VIDEO: NEWBURY COMICS

New! The 8/e now offers all new part-ending footage shot at Newbury Comics, an exciting and current popular culture retail chain. Segments address key issues such as the company's basic model, mission and vision, and decision-making models. Accompanying case information can be found at the end of the parts in the text.



POWERPOINTS

The PowerPoint transparencies, a comprehensive package of text outlines and figures corresponding to the text and cases, are designed to aid the educator and supplement in-class lectures.



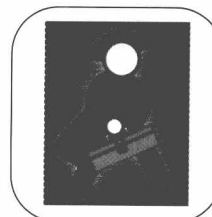
MYPHLIP WEB SITE

The new MyPHLIP provides professors with a customized course Web site including new communication tools, one-click navigation of chapter content, and great PHLIP resources such as Current Events and Internet Exercises. It also features an online Study Guide for students.

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ONLINE COURSES

Courses are available in *Blackboard*, *Course Compass* and *WebCT*. These courses feature Companion Web Site and Test Item File Content in an easy-to-use system. Developed by educators for educators and their students, this online content and tools feature the most advanced educational technology and instructional design available today. The rich set of materials, communication tools, and course management resources can be easily customized to either enhance a traditional course or create the entire course online.



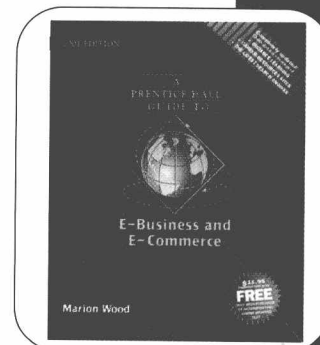
MASTERING STRATEGY

Mastering Strategy is the first product in the *Mastering Business* series. It offers students an interactive, multimedia experience as they follow the people and issues of CanGo, Inc., a small Internet startup. The text, video, and interactive exercises provide students an opportunity to simulate the strategic planning experience and chart the future activities for CanGo.



PRENTICE HALL GUIDE TO E-COMMERCE AND E-BUSINESS FOR MANAGEMENT

Free with any PH text, this guide introduces students to many aspects of e-business and the Internet, providing tips on searching out information, looking for jobs, continuing education, and using the Internet in Management courses.



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