

The background of the cover is a dark, textured grey. Overlaid on this are numerous thin, straight lines in various colors including red, orange, yellow, green, blue, and purple. These lines crisscross the entire cover, creating a complex, web-like pattern that suggests movement and interconnectedness.

**John McGee  
Howard Thomas  
David Wilson**

**SECOND EDITION**

**STRATEGY**  
**ANALYSIS AND PRACTICE**



# Strategy:

Analysis and practice

SECOND EDITION

John McGee, Howard Thomas and  
David Wilson



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*Strategy: Analysis and Practice, 2<sup>nd</sup> Edition*  
John McGee, Howard Thomas and David Wilson  
ISBN-13 978-0-07-712691-9  
ISBN-10 0-07-712691-2



Published by McGraw-Hill Education  
Shoppenhangers Road  
Maidenhead  
Berkshire  
SL6 2QL  
Telephone: 44 (0) 1628 502 500  
Fax: 44 (0) 1628 770 224  
Website: [www.mcgraw-hill.co.uk](http://www.mcgraw-hill.co.uk)

**British Library Cataloguing in Publication Data**

A catalogue record for this book is available from the British Library

**Library of Congress Cataloguing in Publication Data**

The Library of Congress data for this book has been applied for from the Library of Congress

Acquisitions Editor: Leah Batchelor  
Development Editor: Tom Hill  
Marketing Manager: Alice Duijser  
Senior Production Editor: James Bishop

Cover design by Adam Renvoize  
Printed and bound in Spain by Grafo

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ISBN-13 978-0-07-712691-9  
ISBN-10 0-07-712691-2

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## **Dedication**

To our colleagues and students, past and present, who have shaped our thinking and to Jenny, Lynne and Jo, who have always inspired us.



# Preface

The first edition of this book in 2005 deliberately took a broad and eclectic approach to strategy. We tried to avoid sharp critique of particular perspectives and, instead, attempted to be more holistic, looking for complementarities between paradigms; integration of perspectives where possible; a general avoidance of schools of thought and assumptions of paradigm incommensurability. In this second edition, we have tried to continue and develop this approach but with greater and hopefully a sharper focus than previously. As a result, there have been some significant changes along the way. Changes which, we hope, will have resulted in a more focused and accessible text and one which will usefully support and inform teachers, students and practitioners of strategy alike.

The book has been reduced in length from 21 chapters in the first edition to 16. We have, however, retained the overall logic of the various sections of the book which were laid out in the first edition. The Introduction provides the reader with the basic concepts of strategy and introduces the systemic model to convey both the complexity of strategy as well as how analysis and practice are interrelated and linked. The model may look complex at first sight, but the rest of the book is largely guided by the model, so readers can dip into various parts of the text and, at the same time, refer back to the model to see where their focus fits in the grand scheme of things. Feedback from the first edition indicated that the model was seen as useful by some readers and as unduly complex by others. On balance, we decided to keep the model as an orientating device. In this way, readers can emphasise as much, or as little, as they feel appropriate in the ways they interrogate and teach the subject. A major simplification of this second edition has been to reduce the sections of the book into two main parts.

**Part One** introduces the concepts and tools of strategy analysis. Here we introduce some of the basic economic and positioning concepts and models of strategy analysis. The overriding concern of each chapter is to help readers see how to apply the various models introduced (e.g. the value chain, or macroeconomic theory). Part One also emphasises that one of the key differences between economics and strategy lies in the assumption of perfect knowledge by the economist and having to deal with often very imperfect knowledge in the domain of the strategist. In the latter case, exploiting advantage and gaining position are key for organizations to become and remain successful. We recognise, however, that many educational institutions have parallel courses to strategy (such as economics and global business). While we have included two separate chapters in this part of the book to cover macroeconomics and global strategies, they can easily be omitted from any strategy course where economics and globalization are taught separately. A further feature of the book (and in particular Part One) is not only to introduce the many models of strategy analysis so that students can become familiar with them and their use, but also to highlight the limitations of such models and thus avoid oversimplistic thinking.

**Part Two** comprises chapters which focus on strategy implementation and practice. From this perspective, questions of organizational structures, cultures and processes become the focus of attention. To help the transition from analytical models to organizational thinking, there is a brand new chapter (Chapter 10) which deals with organization and strategy. The point here is to emphasize that strategy can be seen both as a behavioural set of processes and as a function of organizational structures and cultures. We hope this new, linking, chapter helps the transition of the argument from analysis to practice. We have retained and expanded the chapter on risk which we view as an inherent part of practice and which is an area skimmed over, or often missing completely, from

many strategy texts. This section also retains chapters from the first edition on governance and performance but both are substantially rewritten. In particular, the chapter on governance has substantially greater coverage of international aspects of governance (as opposed to the first edition's focus primarily on UK governance models and processes). The chapter on performance now is an amalgamation of two previous chapters from the first edition and is, we hope, an appropriate and accessible finale for any strategy text. Taking the balanced scorecard as its central leitmotiv, this chapter completes the circle around the systemic model introduced in the first chapters of the book. More behavioural approaches are contained in chapters on decision making, strategic change and innovation and learning. We feel these are an integral part of strategy and we try to maintain the perspective of introducing the models (and the jargon) as well as turning a critical eye towards their limitations. This sometimes means introducing the reader to complex perspectives, such as seeing innovation as effectively growth in a multi-dimensional space, consisting of products/services, their features and user needs for example. Hence innovation becomes a trade-off activity with competitors often blind-sided by rivals who innovate on other combinations of these factors. Decision making and change are introduced as two of the key issues any strategist (as a manager) has to face and deal with successfully. There is many a slip between cup and lip and impeccable strategic analysis can easily founder on the rocks of poor decision making, implementation and the management of change necessary during implementation.

Many end of chapter cases and in-chapter vignettes have been updated and changed to fit the substantial revisions contained in this second edition. We hope you find them useful aids and exemplars for your teaching and understanding of strategy. Although our eclectic approach to strategy may not suit all readers, we have consistently tried to avoid fads and fashions as well as schools of thought which, in our view, limit the field of inquiry. We feel this second edition is a significant improvement on the first, but we have stayed true to what we feel are the defining characteristics of the first edition:

- Strong emphasis on strategy in practice: An innovative approach which is informed by academic research but remains highly practical and 'hands on'. Dedicated chapters on risk management, managing strategic change, strategy and the learning organization, and corporate governance.
- An analytical approach to strategy: A thorough study of competitive advantage provides students with the level of analysis fundamental to understanding business and corporate level strategy.
- An understanding of the link between strategy, knowledge and technological change, and value and performance. Value and value-based management is shown as central to strategic management. Three themes are treated explicitly because they are particularly close to the core of strategic management thinking. These are (i) performance assessment; (ii) organizational knowledge, learning and value innovation; and (iii) total quality management and customer value.
- A range of contemporary and relevant cases throughout: Illustrative case examples and end of chapter cases offer insights into a variety of globally recognized companies such as Google, Yahoo!, eBay, Amazon, Fiat, Tesco, Gillette and more.
- A section of longer cases places strategy into a variety of contemporary international contexts and offers students the opportunity to analyse strategic decisions across an array of international businesses including Renault, Apple, Honda, Citigroup and Canon.
- Clear and well-developed pedagogy: An introduction to each part orients the student to the landscape of the chapters that follow. To aid learning, each chapter introduces its themes and concepts, and leads the student through the topic with key terms highlighted in bold for easy reference. Case examples contained within the chapters provide illustrations of strategy in practice within real organizations, and at the end of each chapter, a summary and assignments



draw together the overarching themes and test understanding. A concluding chapter-end case study encourages the student to analyze how some of the concepts raised in the chapter can be applied within an organization. See the Guided Tour for more information.

- An unparalleled range of supporting resources: The book is accompanied by an Online Learning Centre website, [www.mcgraw-hill.co.uk/textbooks/mcgee](http://www.mcgraw-hill.co.uk/textbooks/mcgee), which provides a range of resources for lecturers and students. Lecturers will find PowerPoint presentations, lecture guides and case study notes to assist them in teaching with the textbook. The student area contains a wealth of extra resources including test questions, help with studying cases, guide answers to the end of chapter assignments questions and more. For more information see our guide to technology to enhance teaching and learning on the following pages.

# Cases

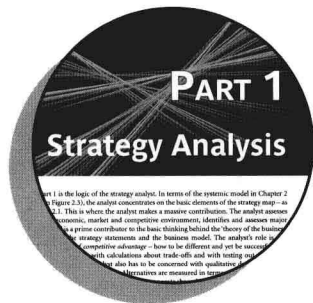
Strategically placed throughout chapters you will find case boxes that explore the themes and concepts covered on the preceding pages. At the end of most chapters there is a case study which is slightly longer and draws on a key concept covered in that chapter. Where appropriate, the case boxes and case studies have questions at the end. Below is a list of all the cases.

Chapter	Case Title	Questions
1 – What is strategy? Concepts and practices	Case box 1.1: Magazines take on Amazon	✓
	Case box 1.2: How Honda became successful	✓
	Case study 1.1: Building the ‘Centrica model’	✓
2 – A systemic analysis of strategy and practice	Case box 2.1: The legacy of Russ Ackoff	✓
<b>Part 1 – Strategy Analysis</b>		
3 – Industry analysis and competitive advantage	Case box 3.1: Profitability of UK retailers	✓
	Case box 3.2: Wal-Mart’s British accent needs polish	✓
	Case box 3.3: Capital intensity in retailing	✓
	Case box 3.4: The scale economy brander	✓
	Case box 3.5: World of dealcraft – video games	✗
4 – The macroeconomics of strategy	Case box 4.1: The Swedish banking crisis 1992	✗
	Case box 4.2: Lessons from the global banking crisis 2008	✗
	Case study 4.1: The Big Mac Index	✓
5 – Competitive strategy: the analysis of strategic position	Case box 5.1: The Germans are coming	✗
	Case box 5.2: The end of the free lunch – again	✗
	Case study 5.1: The Novotel value chain	✓
	Case study 5.2: Molecular weight: BASF and the chemical industry	✓
6 – Competitive strategy: the analysis of strategic capability	Case box 6.1: The game of chess	✗
	Case box 6.2: Out of Africa	✓
	Case study 6.1: Google: fuzzy maths	✓
7 – Strategy for the digital economy	Case box 7.1: Many-to-many networks	✗
	Case box 7.2: Facebook	✗
	Case box 7.3: Standards versioning	✗
	Case box 7.4: Market power and interoperability	✗
	Case box 7.5: The rise of co-evolution and cooperation	✗
	Case box 7.6: Lock-in and switching costs	✗
	Case box 7.7: Expectations management	✗
	Case study 7.1: Surviving the net: Yahoo!, eBay and Amazon	✓
	Case study 7.2: Browser wars are back	✓
8 – Corporate strategy: adding value in multi-business firms	Case box 8.1: Conglomerates in the FTSE 100	✗
	Case box 8.2: Mars buys Wrigley	✓
	Case box 8.3: The case for conglomerates	✗
	Case box 8.4: Merck’s manoeuvres	✗
	Case box 8.5: Marauding maharajahs: India’s acquisitive companies	✓
	Case study 8.1: Fiat’s ambitions: the Italian solution	✓



9 – Global strategies and international advantage	Case box 9.1: Emerging multinationals: they're behind you	✗
	Case box 9.2: Flat prospects: pulp and paper	✗
	Case box 9.3: US multinationals are regional not global	✗
	Case box 9.4: The first multinationals: Assyria circa 2000 BC	✓
	Case box 9.5: Asian alliances	✗
	Case study 9.1: Leahy's global shopping spree: interview with Sir Terry Leahy	✓
<b>Part 2 – Strategic Implementation and Practice</b>		
10 – Organizational models and strategy	Case box 10.1: What Tesco knows and what Woolies forgot	✗
	Case box 10.2: The UK car industry: failure to adapt to the external environment	✗
	Case study 10.1: The cash-register guy	✓
11 – Risk, uncertainty and strategy	Case box 11.1: The Muzak effect of reducing uncertainty and risk	✗
	Case box 11.2: Strategic considerations for a European business in a global economy	✗
	Case study 11.1: Svante Arrhenius, climate change and global warming: what's the risk?	✓
12 – Strategic decision making: process analysis	Case box 12.1: Nokia	✗
	Case study 12.1: Magic restored	✓
13 – Strategic decision making: managing strategic change	Case box 13.1: Where 'Think different' is taking Apple	✗
	Case box 13.2: Bankruptcy at Sabena	✗
	Case box 13.3: Leadership at St George Bank, Australia	✗
	Case box 13.4: Mind traps: locked in our own worlds of experience	✗
	Case box 13.5: The Gemini model of corporate transformation	✗
	Case study 13.1: The education of Andy Grove	✓
14 – Strategy as knowledge: innovation and learning	Case box 14.1: What do we know about the knowledge economy?	✗
	Case box 14.2: Outsource your innovations	✓
	Case box 14.3: Does IT matter?	✓
	Case box 14.4: Innovation at Apple: the iPod	✓
	Case box 14.5: Inertia in organizations through routines	✗
	Case box 14.6: 3M's seven pillars of innovation	✓
	Case study 14.1: Don't laugh at gilded butterflies	✓
15 – Strategy and corporate governance	Case box 15.1: Goodwin stands firm on £16m RBS pension	✗
	Case box 15.2: Starbucks' CSR statement	✗
	Case box 15.3: In Nigeria: Coke is it?	✗
	Case study 15.1: Too many turkeys: executive pay	✓
16 – Analyzing and measuring strategic performance	Case box 16.1: Freeserve's business model	✓
	Case box 16.2: Punch Taverns	✓
	Case box 16.3: Sales memorandum	✓
	Case box 16.4: Business school strategy and the metrics for success	✓
	Case study 16.1: The Continental Household Mortgage Company	✓

# Guided Tour

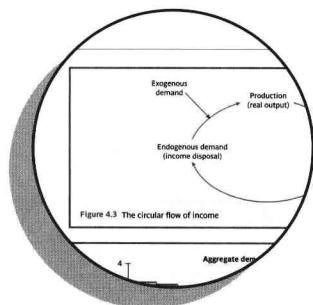
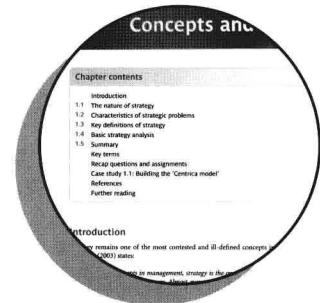


## Part Openers

At the beginning of each part, the authors introduce the topics and themes covered throughout the proceeding chapters.

## Chapter Introduction

Each introduction section indicates the key areas that will be discussed within each chapter and helps to put the chapter content into a wider perspective.

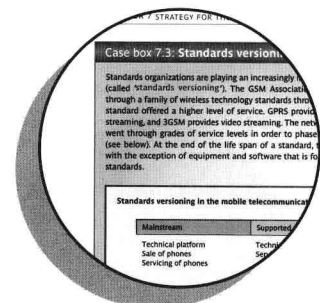


## Figures and Tables

Each chapter has a number of tables and figures to help you visualise the various economic models and to illustrate and summarise important concepts.

## Case Boxes/Case Studies

Case Boxes appear throughout the chapters and help relate the theory learnt to real life situations. Longer Case Studies are at the back of most chapters and they provide a more in-depth discussion of organisations through which to explore the ideas from the chapter.



### 8.8 Summary

This chapter has introduced a new dimension to our strategic portfolio. The job of designing, managing and adapting the portfolio with the corporate centre, it is concerned with the issues of individual strategic business units, but it is particularly concerned with those tasks the corporate centre has to pay close attention to so that patterns of specialization are created and managed effectively. Issues of organization structure and process are defined, and in this chapter we have gone so far as to argue that it is a key task for the corporate centre.

Although the corporate centre has a distinct role to play with the same economic issues. In particular, the corporate centre is concerned with the issues of scope. This is reflected in the fact that the corporate centre has been succeeded by many other names and has been succeeded by many other names. It is possible to remember that all strategic decisions are made on the basis of the corporate centre.

## End of Chapter Summary

This briefly reviews and reinforces the main topics you will have covered in the chapter.

## Key Terms

These are highlighted throughout each chapter and a list is compiled at the end for reference.

### Key terms

comparative advantage	311	global advantage
country-specific advantage (CSA)	319	globalization
diamond of national advantage	299	internationalization
double diamond	317	internationalization
factor conditions	299	multinational
firm-specific advantage (FSA)	319	multinational
flagship model	320	national advantage
foreign direct investment (FDI)	298	transnational
global markets	303	world trade

### Recap questions and assignments

1. Pick a strategic decision with which you are familiar, or in which you are interested. How would you describe its key process features?
2. Using the same example (or you can choose another strategic decision) done and by whom during the process.
3. What, in your view, were the major influences on the decision?

## Recap Questions and Assignments

These questions encourage you to review and apply the knowledge you have acquired from the chapter and can be undertaken to test your understanding.

## References and Further Reading

A comprehensive list of references is provided at the end of each chapter along with suggested further reading for further exploration into the topic.

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The Case Study Section contains thirty-four case studies within the chapters and contains a list of references. These have been chosen to exemplify and illustrate the concepts and theories discussed in the text. They are practical examples of how strategy is implemented in real business situations. Together with the

## Case Study Section

At the back of the text there are cases from various industries and organizations, offering real business situations around which to explore, analyse and critique strategy in action.

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After completing each chapter, log on to the supporting Online Learning Centre website. Take advantage of the study tools offered to reinforce the material you have read in the text, and to develop your knowledge of strategy in a fun and effective way.

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- Glossary of key terms
- Learning objectives
- Suggested answers to end of chapter recap questions and assignments
- Web links

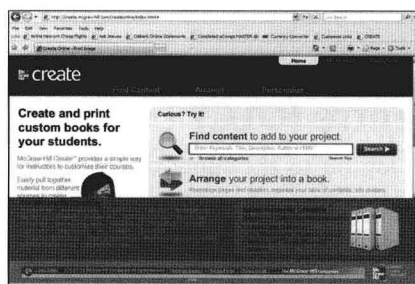
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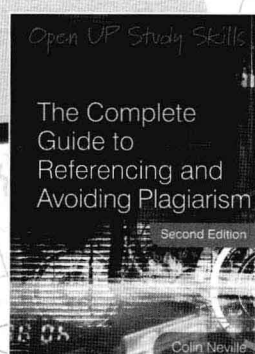
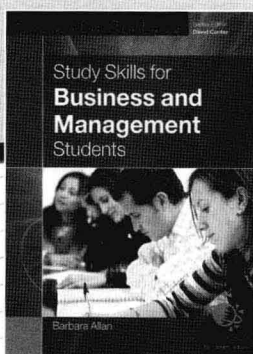
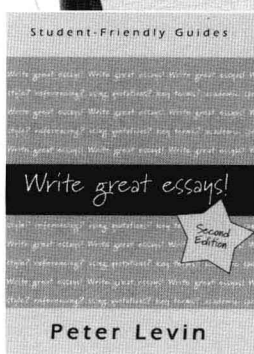
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# Acknowledgements

Our thanks go to the following reviewers for their comments at various stages in the text's development:

John Anchor, Huddersfield University  
Lynne Butel, Plymouth University  
Charlie Carroll, University of Groningen  
Romano Dyerson, University of London, Royal Holloway  
Beverly Jones, Keele University  
Dr de Jong, University of Groningen  
Pikay Richardson, University of Manchester  
Dr Van Wijk, Erasmus University

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