

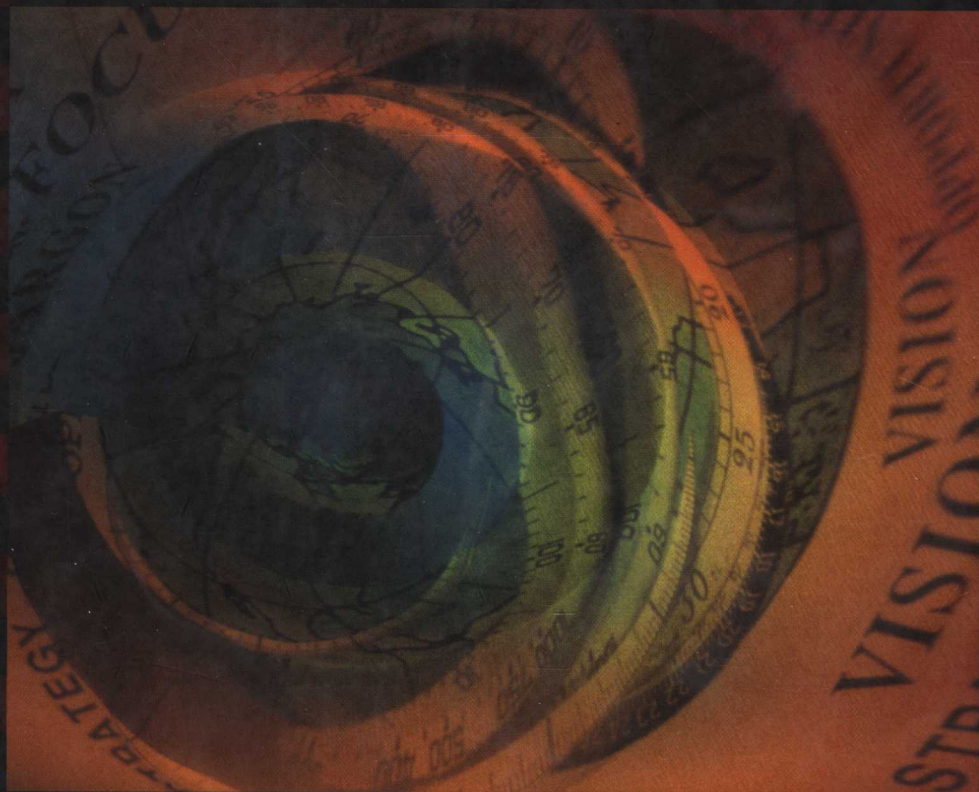


CONCEPTS

STRATEGIC MANAGEMENT

Competitiveness and Globalization

THIRD EDITION



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Strategic Management Competitiveness and Globalization CONCEPTS

Third Edition

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South-Western College Publishing

an International Thomson Publishing company 

Cincinnati • Albany • Boston • Detroit • Johannesburg • London • Madrid • Melbourne • Mexico City
New York • Pacific Grove • San Francisco • Scottsdale • Singapore • Tokyo • Toronto

Publishing Team Director: Dave Shaut
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Media Technology Editor: Kevin Von Gillern
Media Production Editor: Robin Browning
Production House: WordCrafters Editorial Services, Inc.
Internal Design: Ellen Pettengell Design
Cover Design: Tin Box Studio
Cover Image: © 1998 Tamsin Jarzebowska/Photonica
Photography Manager: Cary Benbow
Marketing Manager: Rob Bloom
Manufacturing Coordinator: Sue Kirven

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Cincinnati, Ohio

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Library of Congress Cataloging-in-Publication Data

Hitt, Michael A.

Strategic management : competitiveness and globalization :
concepts and cases / Michael A. Hitt, R. Duane Ireland, Robert E.
Hoskisson.—3rd ed.

p. cm.

Includes bibliographical references and index.

ISBN 0-538-88182-8 (Student Edition)

ISBN 0-324-00011-1 (Annotated Instructor's Edition)

ISBN 0-538-88188-7 (Concepts Edition)

ISBN 0-538-88189-5 (Cases Edition)

1. Strategic planning. 2. Industrial management. I. Ireland, R.
Duane. II. Hoskisson, Robert E. III. Title.

HD30.28.H586 1999

658.4'012—dc21

98-20413
CIP

2 3 4 5 6 7 8 9 WE 7 6 5 4 3 2 1 0 9

Printed in the United States of America



International Thomson Publishing

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*To Frankie, Shawn, Angie, and Tamara. Thanks for
everything: I love you.*

*To my wife, Mary Ann, and our children, Rebecca and Scott.
The three of you are the centerpiece of my life. I love all of you
and treasure the blessing of being your husband and father.*

*To Kathy, Robyn, Luke, Dale, Allison, Becky, Angela, Joseph,
and Matthew. Our family is the most important concern of
my life.*

Preface

The third edition of *Strategic Management: Competitiveness and Globalization (Concepts)* continues the tradition from previous editions of integrating “cutting edge” concepts with an engaging writing style. As such, the many new features and careful revisions enhance the value of our market-leading textbook.

NEW FEATURES

- All new **chapter opening cases** and **strategic focus segments**
- Many new **company-specific examples** in each chapter
- Expanded **global coverage** throughout the book with more emphasis on the international context and issues in both the text materials and cases
- A complete view of **strategy formulation** and **implementation** at all levels
- New and current research integrated throughout the chapters’ conceptual presentations

*These new features provide a unique **competitive advantage** to this book over other alternatives.* With all new opening cases and three new strategic focus segments for each chapter, there are 52 major case examples in the concepts portion of the book. In addition, over 50 percent of the shorter examples used throughout each chapter are completely new.

This new edition also emphasizes a **global advantage** with comprehensive coverage of international concepts and issues. In addition to comprehensive coverage in **Chapter 8: International Strategy**, references to and discussions of the international context and issues are included throughout the other chapters. The chapter opening cases, strategic focus segments and individual examples in each chapter cover numerous global issues and markets.

Importantly, this new edition solidifies a **research advantage** for the book. For example, each chapter has over 100 references. An average of over 50 new references has been added in each chapter for this edition. Additionally, we maintain

our position as the only text on the market that offers a full four-color format that enhances the presentation of our materials and the overall text design.

Our primary goal in preparing this revised edition was to **define our advantage** by presenting the most complete learning mechanism and instructional tool. Our strategic intent continues to be to present readers with a complete, accurate, and up-to-date explanation of the strategic management process.

INTRODUCTION

The strategic management process is the focus of this book. Described in Chapter 1, organizations (both for-profit companies and not-for-profit agencies) use the strategic management process to understand competitive forces and to develop competitive advantages systematically and consistently. The magnitude of this challenge is greater today than it has been historically. A new competitive landscape is developing as a result of the technological revolution and increasing globalization. The technological revolution has placed increased importance on firm innovation and the ability to rapidly introduce new goods and services to the marketplace. The global economy, one in which goods and services flow freely among nations, continuously pressures firms to become more competitive. By offering either valued goods or services to customers, competitive firms increase the probability of earning above-average returns. Thus, the strategic management process helps organizations identify what they intend to achieve and how they will accomplish valued outcomes.

This book is intended for use primarily in strategic management and business policy courses. The materials presented in the 13 chapters have been researched thoroughly. Both the academic, scholarly literature and the business, practitioner literature were studied and then integrated to design, write, and revise this book. The academic literature provided the foundation to develop an accurate, yet meaningful description of the strategic management process. The business practitioner literature yielded a rich base of current domestic and global examples to show how the concepts, tools, and techniques of the strategic management process are applied in different types of organizations.

THE STRATEGIC MANAGEMENT PROCESS

Our treatment of the strategic management process is both *traditional* and *contemporary*. In maintaining tradition, we examine important materials that have historically been a part of understanding strategic management. For example, we thoroughly examine how to analyze a firm's external environment and internal environment as a part of the strategic management process.

Contemporary Treatment In explaining the aforementioned important activities, we strive to keep our treatments contemporary. In Chapter 3, for example, we emphasize the importance of identifying and determining the value-creating potential of a firm's resources, capabilities, and core competencies. The strategic actions taken as a result of understanding a firm's resources, capabilities, and core competencies have a direct link with the company's ability to establish a sustainable

competitive advantage, achieve strategic competitiveness, and earn above-average returns.

Our contemporary treatment of the strategic management process is also exemplified in the chapters on the dynamics of strategic change in the complex global economy. In Chapter 5, for example, we discuss how the dynamics of competition between firms affect the outcomes achieved by individual companies. This chapter's discussion suggests that in most industries, the strategic actions taken by a firm are influenced by a series of competitive actions and responses initiated by competitors. Thus, competition in the global economy is fluid, dynamic, and significantly influences a firm's performance. Similarly, in Chapter 7, we explain the dynamics of strategic change at the corporate level, specifically addressing the motivation and consequences of mergers, acquisitions, and restructuring (e.g., divestitures) in the global economy.

We also emphasize that the total set of strategic actions known as *strategy formulation* and *strategy implementation* (see Figure 1.1 in Chapter 1) must be integrated carefully if a firm is to achieve strategic competitiveness and earn above-average returns. Thus, this book shows that strategic competitiveness is achieved and above-average returns are earned only when firms use implementation tools and actions that are consistent with the firm's chosen business-level (Chapter 4), corporate-level (Chapter 6), acquisition (Chapter 7), international (Chapter 8), and cooperative (Chapter 9) strategies.

Contemporary Concepts Contemporary topics and concepts are the foundation for our in-depth analysis of strategic actions firms take to implement their chosen strategies. In Chapter 10, for example, we describe how different corporate governance mechanisms (e.g., boards of directors, institutional owners, executive compensation, etc.) affect strategy implementation. Chapter 11 explains how firms can gain a competitive advantage by effectively using organizational structures to implement business-level and corporate-level strategies. The vital contributions of strategic leaders are discussed in Chapter 12. Chapter 13 addresses the important topic of corporate entrepreneurship and innovation through internal corporate venturing, strategic alliances, and external acquisition or venture capital investments. Through integration of the traditional and contemporary topics, readers of this book should be able to fully understand the strategic management process and how to use it successfully in an organizational setting.

A number of contemporary topics and issues are examined in the book as well. These include stakeholder analyses, core competencies, total quality management (TQM), strategic flexibility, transnational strategy, strategic refocusing (downsizing, downscoping), strategic change and reengineering, teamwork and horizontal organization, and the importance of business ethics.

KEY FEATURES OF THIS TEXT

To increase the value of this book for readers, several features are included, each of which is described below.

Learning Objectives Each chapter begins with clearly stated learning objectives. These objectives inform readers of key points they should master from each chapter. To both facilitate and verify learning, students can revisit each chapter's learn-

ing objectives by preparing answers to the review questions appearing at the end of each chapter.

Opening Cases Following the learning objectives is an opening case. These cases describe current strategic actions taken by modern companies including Bang & Olufsen, Nippon Steel, British Telecommunications, WorldCom, and Hoechst AG, among others. The purpose of these cases is to demonstrate how a specific firm applies the strategic management concepts that are examined in individual chapters. Thus, the opening cases provide a distinct link between the theory and application of the strategic management process in different organizations.

Key Terms Key terms critical to understanding the strategic management process are boldfaced throughout the book. Definitions of these key terms appear in chapter margins as well as in the text. Other terms and concepts throughout the text are italicized, signifying their importance.

Strategic Focus Segments Three all new Strategic Focus segments are presented in each chapter. As with the opening case, the Strategic Focus segments highlight a variety of high-profile organizations. Each segment demonstrates the application of an important part of the strategic management process in the pursuit of strategic competitiveness.

End-of-Chapter Summaries Each chapter ends with a summary that revisits the concepts outlined in the learning objectives. These summaries are presented in a bulleted format to highlight concepts, tools, and techniques examined in each chapter.

Review Questions Review questions are pointedly tied to the learning objectives, prompting students to re-examine the most important concepts in each chapter.

Application Discussion Questions These questions challenge readers to directly apply the part of the strategic management process highlighted in that chapter. They are intended to stimulate thoughtful classroom discussions and to help students develop critical thinking skills.

Ethics Questions At the end of each chapter, readers are challenged by a set of questions about ethical issues that require careful thought and analysis. Preparing answers to these questions helps students recognize and confront ongoing ethical issues facing management teams. Discussing these difficult issues in class heightens awareness of the ethical challenges encountered in global organizations and markets today.

Internet Exercises The Internet is an invaluable source for the exchange of information worldwide. No other mechanism has had the ability to disseminate business information on such a large scale so quickly and effectively as the Internet. As such, a set of Internet exercises, developed by Bruce Barringer of the University of Central Florida, is included at the end of each chapter. Each set of exercises is designed so that students develop the ability to effectively recognize valid information sources and use this to further their business knowledge and management skills.

Examples In addition to the opening cases and Strategic Focus segments, each chapter contains many other real-world examples. Grounded in descriptions of actual organizations' actions, these examples are used to illustrate key strategic management concepts and to provide realistic applications of the strategic management process.

Indices Besides the traditional end of book subject and name indices, a company index is provided. This index includes the names of all organizations discussed in the text for easier accessibility.

Full Four-Color Format Our presentation and discussion of the strategic management process is facilitated by the use of a full four-color format. This format provides the foundation for an interesting and visually appealing treatment of all parts of the strategic management process. Exhibits and photos further enhance the presentation by giving visual insight into the workings of the global business environment.

The Strategic Advantage

The title of this book highlights the importance of strategic competitiveness and globalization to our examination of the strategic management process. The strategic management process is critical to organizational success. As described in Chapter 1, strategic competitiveness is achieved when a firm develops and exploits a sustained competitive advantage. Attaining such an advantage results in the earning of above-average returns; that is, returns that exceed those an investor could expect from other investments with similar amounts of risk. For example, Gillette developed and sustained a competitive advantage over time because of its significant emphasis on innovation even though it operates largely in low-technology industry(ies). Its innovation has helped it to remain one of the top firms in each of the industries in which it competes.

The Competitive Advantage

Success in the new competitive landscape requires specific capabilities, including the abilities to (1) use scarce resources wisely to maintain the lowest possible costs, (2) constantly anticipate frequent changes in customers' preferences, (3) adapt to rapid technological changes, (4) identify, emphasize, and effectively manage what a firm does better than its competitors, (5) continuously structure a firm's operations so objectives can be achieved more efficiently, and (6) successfully manage and gain commitments from a culturally diverse workforce.

The Global Advantage

Also critical to the approach used in this text is the fact that all firms face increasing global competition. Firms no longer operate in relatively safe domestic markets as U.S. auto firms have discovered. In the past, many companies, including most in the United States, produced large quantities of standardized products. Today, firms typically compete in a global economy that is complex, highly uncertain, and unpredictable. To a greater degree than in a primarily domestic economy, the global economy rewards effective performers, whereas poor performers are forced to re-

structure significantly to enhance their strategic competitiveness. As noted earlier, increasing globalization and the technological revolution have produced a new competitive landscape. The new competitive landscape presents a challenging and complex environment for firms, but one that also has opportunities. The importance of developing and using these capabilities in the new competitive landscape of the twenty-first century should not be underestimated.

CASES

There are two other versions of our book. The combined edition (ISBN 0-538-88182-8) includes the 13 text chapters featured in this book along with 40 comprehensive cases. These 40 cases are also available in a cases-only edition (ISBN 0-538-88189-5). All of these cases are new to the third editions of our work and represent a variety of business and organizational situations and strategic issues. For example, there are cases representing manufacturing, service, consumer goods, and industrial goods industries. Furthermore, many of the cases include an international perspective. Also, cases with high technology, entertainment, and food or retail firms are represented. Some cases focus specifically on social or ethical issues, whereas others emphasize strategic issues of entrepreneurial or small- and medium-sized firms. Finally, a significant number of the cases also provide an effective perspective on the industry examined.

The cases were reviewed carefully and selected personally by the authors. Our goal was to choose cases that were well written and that are focused on clear and important strategic management issues. In addition, the variety of cases provides a rich learning experience for those performing case analyses. The cases are multidimensional. For the readers' convenience, a matrix listing all 40 cases and the dimensions/characteristics of each one is provided following the table of contents. Although most of these cases are concerned with well-known national and multinational companies, several depict the strategic challenges involved in smaller and entrepreneurial firms (e.g., Pasta Perfect, Amazon.com, Harold's).

Given the global economy emphasized in our work, approximately 65 percent of the cases include an international perspective (e.g., Enron Development Corporation, Motorola in China, Birra Moretti). There are also cases of special interest or topics (e.g., Bank of America, Southwest Airlines, Starbucks, Benetton, China Eastern Airlines and Columbia/HCA). Several of these cases have won special awards for their excellence (e.g., Telefónica España and Cap Gemini Sogeti). In summary, the cases represent a wide variety of important and challenging strategic issues and provide an exciting setting for case analyses and presentations. Additional support is available to instructors desiring to use a selected set of the 40 new cases. Further information about the Custom Case Program can be obtained from your ITP sales representative.

SUPPORT MATERIAL*

The third edition's support materials are authored by most of the same top instructors as the previous editions. We present to you one of the most compre-

*Adopters: Please contact your ITP sales representative to learn more about the supplements you are qualified to receive.

hensive and quality learning packages available for teaching strategic management. These materials have been authored by a top support team and were carefully guided by ourselves, to ensure quality and consistency.

For the Instructor

Annotated Instructor's Edition (ISBN: 0-324-00011-1) A comprehensive Annotated Instructor's Edition (combined text and cases version) has been prepared by Kendall W. Artz of Baylor University. The annotations, provide background information and suggestions to facilitate class discussion of important concepts from the book. The annotations also provide the instructor with additional company examples that give further insight into a particular topic. In addition, most chapter opening cases are accompanied by at least one URL so that further information related to the featured company can be researched using the World Wide Web.

Instructor's Manual with Video Guide & Transparencies (ISBN: 0-538-88183-6) A complete Instructor's Manual has been prepared by Richard A. Menger of St. Mary's University. The instructor's manual provides teaching notes, suggestions, and summaries. The teaching notes include discussion summaries or highlights of each opening case, Strategic Focus segment, table, and figure appearing in the text. Teaching suggestions provide the instructor with a choice of strategies for integrating various text features into a lecture format.

Video Guide (ISBN: 0-538-88183-6) An exclusive video guide has been developed by Bruce Barringer of the University of Central Florida to accompany the video package and provide information on length, alternative points of usage within the text, subjects to address, and discussion questions to stimulate classroom discussion. Suggested answers to these questions are also provided.

Transparency Acetates (ISBN: 0-324-00888-0) The full-color transparency acetates include important figures from the text and additional transparencies from the PowerPoint Presentation Files. To provide comprehensive coverage, 150 transparency acetates are included in the set.

Transparency Masters (ISBN: 0-538-88183-6) More than 200 transparency masters are printed from the PowerPoint Presentation Files and include figures from the text and innovative adaptations to enhance classroom presentation.

Instructor's Case Notes (ISBN: 0-538-88185-2) Samuel M. DeMarie of the University of Nevada at Las Vegas prepared the Case Notes that accompany the book. Each note provides details about the case within the framework of case analysis that is presented in the text. The authors selected the 40 new cases, based on the variety of strategy topics and industry types they represent. The structure of these case notes allows instructors to organize case discussions along common themes and concepts. For example, each case note details the firm's capabilities and resources, its industry and competitive environment (if applicable), and key factors for success in the industry. The case notes also feature aspects of the cases that make them unique.

Test Bank (ISBN: 0-538-88184-4) The Test Bank, prepared by Debora J. Gilliard of Metropolitan State College of Denver, has been thoroughly revised for this new

edition. The test bank contains more than 1,200 multiple choice, true/false, and essay questions. Each question has been coded according to Bloom's taxonomy, a widely known testing and measurement device used to classify questions according to level (easy, medium, or hard) and type (application, recall, or comprehension).

World Class Test Computerized Testing Software (ISBN: 0-324-0059-6) New this year, World Class Test allows instructors to create, edit, store, and print exams easily and efficiently.

PowerPoint Presentation Files (ISBN: 0-0-538-88190-9) Jay Dial of Case Western Reserve University has developed more than 800 PowerPoint slides for this text. These unique slides feature figures from the text, lecture outlines, and innovative adaptations to enhance classroom presentation. These files are available on disk in PowerPoint 4.0. The PowerPoint Presentation File slides are integrated with *PowerNotes* (see below).

South-Western College Publishing's Strategy Internet Site and Resource Center
The new strategy site includes a wealth of information for both students and instructors. Link directly to the Hitt/Ireland/Hoskisson section and see updates to the cases, strategy terms defined, a full Internet index with important strategy URL listings, and a section on how to write a case analysis. For the instructor, there are sample syllabi that demonstrate both traditional and nontraditional teaching of the course. This online service is available to everyone. We encourage you to access our site and our explore your strategic advantage at:
<http://strategy.swcollege.com>

Videos (ISBN: 0-538-00377-3) A new, very unique video package is available that features video segments exclusive to the South-Western College Publishing management team. Written and directed by Learnnet, these video segments run 10-15 minutes each and focus on both small and large companies as they utilize the strategic management process. During the video segment, questions are posed and students are asked to analyze different evolving management situations. Each chapter has its own video segment, focusing on the topics presented therein.

For the Student

Insights: Readings in Strategic Management, Third Edition (ISBN: 0-538-88186-0) Prepared by Timothy B. Palmer of Louisiana State University, *Insights* has been revised and expanded for this edition and includes multiple selected readings from academic and popular business periodicals such as the *Academy of Management Executive*, the *Wall Street Journal*, *Forbes*, and *Fortune*. Each chapter features 3-4 business articles.

PowerNotes (ISBN: 0-538-88187-9) PowerNotes (a student note-taking guide), prepared by Jay Dial of Case Western Reserve University, provides a simple solution for the majority of students who spend their time during lectures copying material from the overheads. PowerNotes contains reduced images of the PowerPoint Presentation Files with space for lecture notes on each page.

ACKNOWLEDGMENTS

We gratefully acknowledge the help of many people in the development of this edition of our book. The professionalism, guidance, and support provided by the editorial team of John Szilagyi (Executive Editor), Katherine Pruitt-Schenck (Project Manager), Shelley Brewer (Production Editor), and Rob Bloom (Marketing Manager) are gratefully acknowledged. We appreciate the excellent work of Sam DeMarie, Jay Dial, Debora Gilliard, Richard Menger, Kendall Artz, Bruce Barringer, and Timothy Palmer in preparing the supplemental materials accompanying this book. Also, we appreciate the excellent secretarial assistance provided by Adrian Elton. In addition, we owe a debt of gratitude to our colleagues at Texas A&M University, Baylor University, and the University of Oklahoma. Finally, we gratefully acknowledge the help of many who read and provided feedback on drafts of our chapters for the three editions of our book. Their insights enhanced our work. Those who contributed through reviews and evaluations are:

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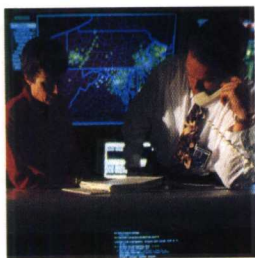
FINAL COMMENT

Organizations face exciting and dynamic competitive challenges as the 1990s come to a close and the twenty-first century begins. These challenges, and effective responses to them, are explored in this third edition of *Strategic Management: Competitiveness and Globalization*. The strategic management process offers valuable insights for those committed to successfully leading and managing organizations in the 1990s and beyond. We hope that you will enjoy the exposure to the strategic management process provided by this book. In addition, we wish you success in your careers and future endeavors.

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