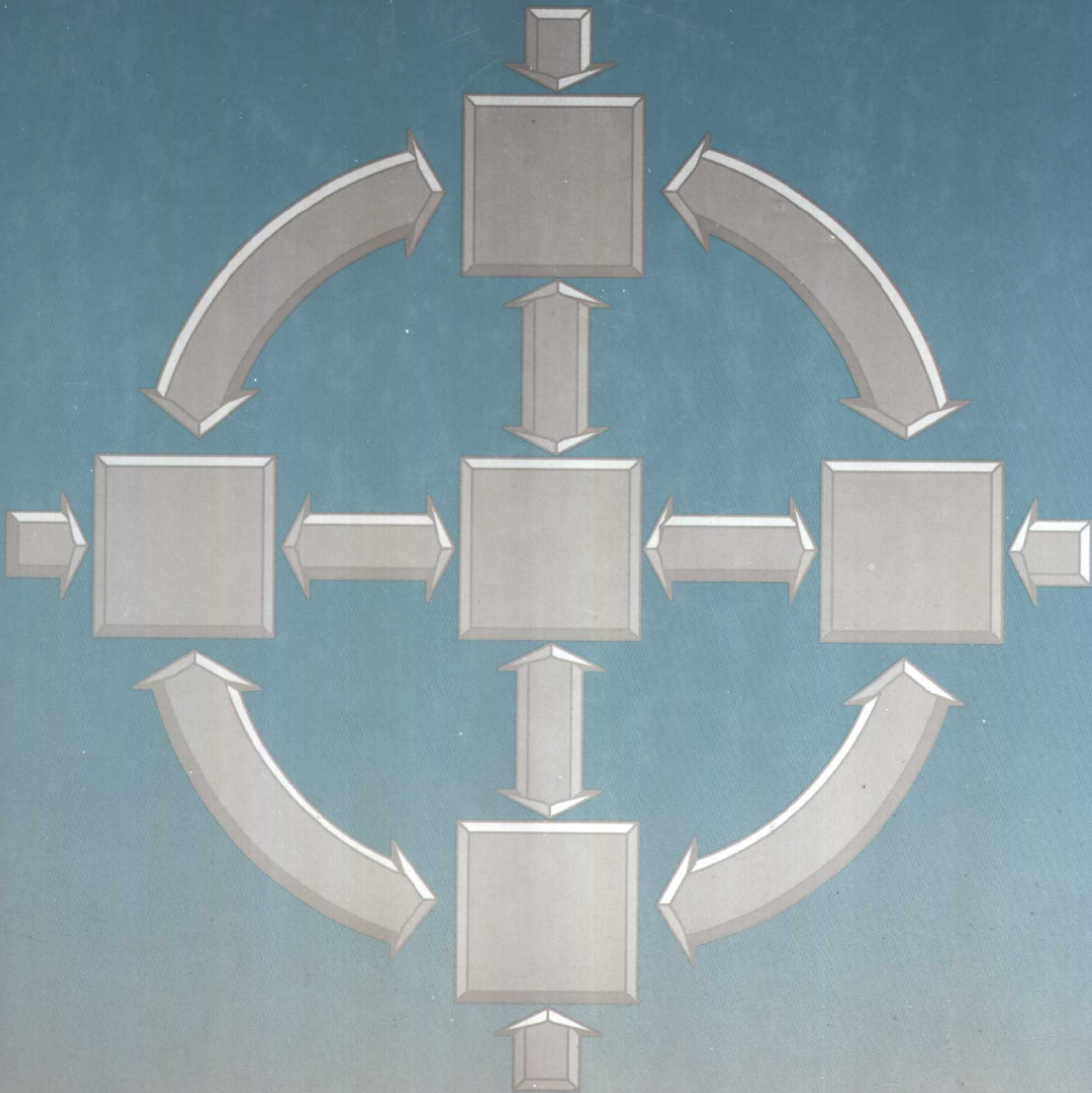


STRATEGIC MANAGEMENT

A Methodological Approach

7/97
USED BOOK



Fourth Edition

ROWE MASON DICKEL MANN MOCKLER

STRATEGIC MANAGEMENT

A METHODOLOGICAL APPROACH

FOURTH EDITION



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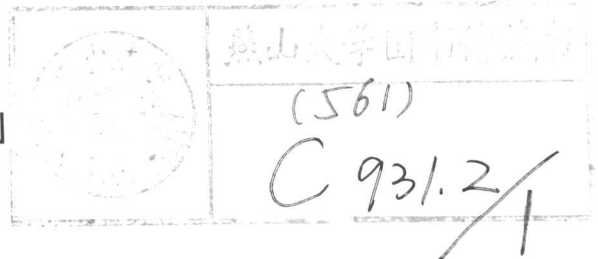
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PREFACE

A new standard of performance is being applied to strategic managers, who must cope with an increasingly turbulent environment. No longer is strategy simply the analysis of alternatives, or determining what marketing approaches will beat out competitors. Rather, strategic management needs to parallel the approach that has been taken when applying total quality management (TQM). Our emphasis in this revision extends the TQM approach to considering total “value” management. Performance measures such as return on investment, earnings growth, and market share must be augmented to include such other measures as flexibility, responsiveness, adaptability, and social responsibility. To achieve these objectives, organizations need to utilize shorter development cycles, prepare designs that take manufacturing considerations into account, ensure zero defects, introduce concurrent design and manufacturing, develop shorter delivery cycles, and become more customer-oriented. Thus “managing value” casts what corporate strategy must achieve in a new light.

Today’s organizations will need to have leaner staffs, to empower their employees by sharing decisions, to obtain commitment and innovation from employees, and to evolve a culture that promotes the ability to be adaptive and responsive. They also need leaders who have the vision required to shape meaningful strategies and deploy them throughout the organization. Is this asking too much of management? Perhaps, but what is the alternative? A faltering, ineffective management that will not survive the onslaught of competition and of ever-present corporate raiders. Accordingly, we dedicate the fourth edition of *Strategic Management* to helping managers and aspiring managers succeed in the 1990s. The tools provided here will help them understand all aspects of the environment and the organization so that they can formulate achievable and effective strategic plans.

Because organizations are dynamic—they have different cultures and values, are in different phases of their life cycles, employ multiple management styles, and have changing portfolios of products—there are few pat answers to the questions that

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arise. Herein lies the crux of strategic thinking. Managers must think beyond current conditions and arrive at courses of action that respond effectively to problems. A sound strategic analysis provides the factual basis on which to formulate strategic alternatives and helps managers evaluate the consequences of a given strategy.

The perspective we have taken is that in a capstone course in business such as this, the material covered should stand on its own. Although considerable reference is made to material addressed in courses leading up to the strategic management course, the body of knowledge that has evolved over the past 10 to 15 years provides a solid foundation for strategic management. Many of the methods used at this level are distinct from those applied in other courses. For example, early courses in strategy relied primarily on the integration of prior knowledge. In our approach to the field of strategy, however, we have also included research findings and specific methods applied by major consulting organizations such as the Boston Consulting Group.

CHANGES IN THE CURRENT EDITION

In preparing the fourth edition of this book, we have paid special attention to the helpful suggestions made by the reviewers and by the many users of the previous three editions. We have also updated material in every chapter and have added new material and new chapters.

The changes include expanded material on topics such as organizational restructuring, competitor analysis, cost de-averaging, and the use of information technology to gain a competitive advantage. There is more emphasis on the management aspects of strategy, on industry analysis as part of environmental analysis, on leadership, and on the change process. We have expanded the material on global strategy, strategic alliances, or the impact of Europe ECC. New topics include time-based competition versus cost-based competition, total quality management, value-based strategies, concurrent design and manufacture, and the application of expert systems as a strategic support tool. In addition, we have expanded coverage of generic competitive strategies, sustainable competitive advantage, and strategic computer applications. Our new thrust retains the unique attributes that distinguish this text from the others in the field. But we have streamlined the text material by emphasizing critical methodologies and have placed supporting methodologies in appendices at the end of several chapters.

We have restructured the sequence of the chapters in the book to focus more clearly on the *process* of formulating strategy. Each chapter focuses on a step in the process of determining which strategy leads to the desired goals specified by the organization. Thus each chapter starts with an indication of where in the process the material fits and how it contributes to formulating an effective strategy. Each of these chapters helps meet the overall objective of formulating a strategy that contributes to a sustainable market penetration and profitability. The methods employed are used to help analyze the requirements that ultimately lead to “total value management.”

In addition to the strategic process model that can be associated with each chapter, at the beginning of each chapter we show the four dominant factors that impinge on the organization and create the need for change. Strategic techniques

help managers determine what changes are needed and how to evaluate possible alternatives. The four-force model looks at the problem from a systems perspective and makes it easier to get a complete picture of a given situation. The forces that managers should consider when formulating strategy are

1. The *external environment*, including competitor analysis, stakeholder analysis, global and government considerations, and industry studies.
2. *Allocation of resources*, including financial planning, analysis of investment capital expenditures, and R&D.
3. *Organizational culture and leadership*, organization life cycle, organizational change, and the acceptance of change.
4. The *internal environment*, including performance evaluation, implementation, technology, and competitive advantage.

CASES IN THIS EDITION

The choice of the cases we have included for analysis in this book was based on the following criteria:

1. Students often need information from other sources to prepare their case analyses. We chose cases for which this supplemental information is readily available.
2. All cases either have been updated or are no more than 1 or 2 years old.
3. Cases cover the broad spectrum of businesses and include service as well as manufacturing companies.
4. Where appropriate, we chose well-known companies.

We have continued to emphasize the executive memo as a means of summarizing a case analysis. We feel preparing such a memo sharpens understanding by forcing the analyst to be concise and to emphasize critical issues. Furthermore, many executives insist on summaries of studies that are done, so skill and practice in preparing the executive memo are valuable in their own right.

The methods discussed in the book can be viewed as a means of imposing order on a complex set of relationships. These methods and approaches, however, do not provide final answers; they offer guidelines and enhance understanding. Without analysis, managers would be forced to rely on intuition and experience alone as the basis for making strategic decisions.

PRIMARY OBJECTIVES OF THE BOOK

Our goal in preparing this text has been to provide a sound foundation to formulating strategy, analyzing cases, and implementing strategy. By applying one's understanding of future trends, one can see how to sustain a competitive advantage. To this end, we have sought to

1. Offer students an opportunity to exercise the analytical and conceptual skills that case analysis requires.

2. Give them experience in using methods that are currently applied by major organizations and consulting groups.
3. Provide conceptual frameworks (such as strategic thinking and total value management) that act as overall guides in strategy formulation.
4. Introduce new concepts (such as leadership style and expert systems) that help stretch the individual's imagination and broaden his or her perspective on strategic issues.
5. Facilitate more effective decision making by developing strategies based on sound analysis rather than guesswork.
6. Provide a basis for understanding both the economic and the organizational implications of strategic decision making.
7. Provide a basis for integrating prior business knowledge into a systematic and methodological approach to strategy formulation.

With these objectives in mind, we feel confident that those who use this text will find that they not only have developed useful skills but also have achieved a better understanding of business functioning and the role of strategy in sustaining a competitive advantage.

STRATEGY SUPPORT TOOLS

To facilitate the application of the various strategic methods covered in this book, we have shown worksheets for the methods used in the book. In addition, there is available from Addison-Wesley a supplemental text on strategic models that provides computer support for a number of methods covered in the book. A special student edition of *fisCAL*, a computer program that covers the various financial analyses employed in strategy formulation, is also available. We have made no attempt to include spreadsheets such as Lotus, Quattro-Pro, or Excel because of the wide availability of such programs. In many cases, however, instructors may want to use a computer simulation as part of their teaching approach.

ACKNOWLEDGMENTS

First and foremost, we want to thank the many teachers, students, and business managers whose ideas and suggestions we have incorporated in this text. The dedication, patience, and understanding of our families and colleagues are what makes such work a meaningful endeavor. Equally vital have been our secretaries, whose conscientiousness and skill made this book possible.

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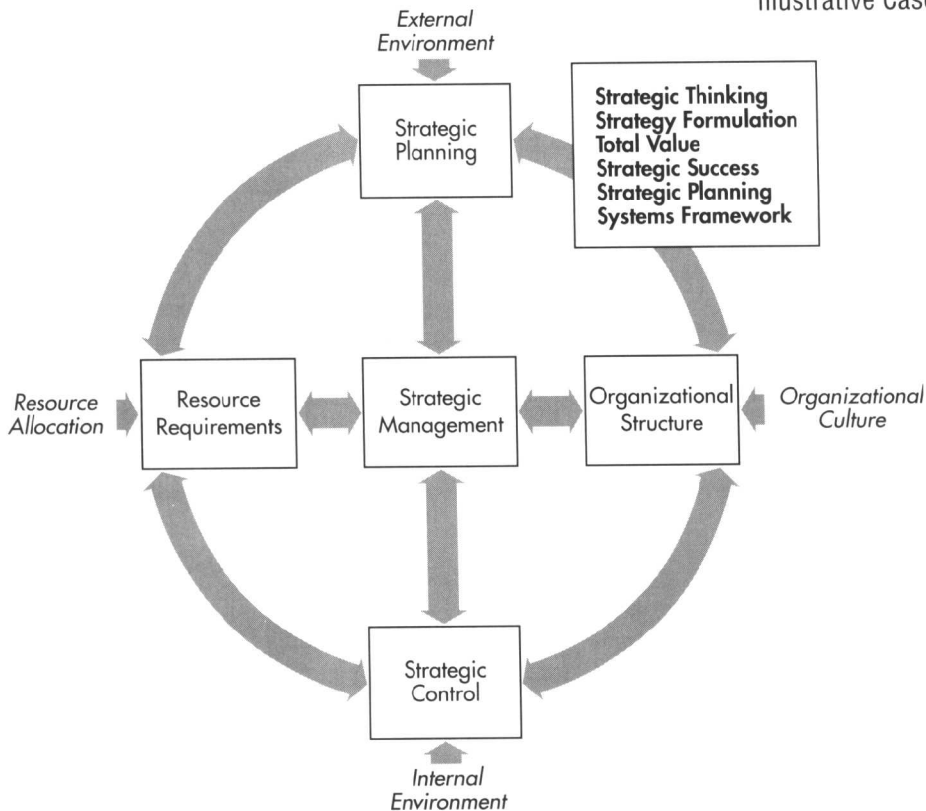
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CHAPTER ONE

A Framework for Strategic Management

CHAPTER OUTLINE

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Strategic Thinking
Strategy Formulation
Strategic Analysis
What Is Value?
Total Value
Strategic Success and Organizational Values
Illustrative Case: AHSC
Maintaining and Renewing Successful Strategies
Preparing and Communicating a Strategic Plan
Strategic Planning at Omicon Industries, Inc.
A Systems Framework for Strategic Management
Illustrative Case: Polaroid



Chapter 1
A Framework
for Strategic
Management

Chapter 2
Strategic Analysis

Chapter 3
Strategic
Visioning, Goals,
Ethics, and Social
Responsibility

Chapter 4
The Competitive
Environment

Chapter 5
Capability-based
Strategy

Chapter 6
Market Dynamics
and Sustainable
Competitive
Advantage

*How to approach
strategic
management*

*Application of
strategic analysis*

*Understanding
vision, values,
ethics*

*Coping with
competitive
forces,
stakeholders*

*Assessing
company
capability,
timeliness, quality*

*Determining
trends, gap
analysis, and
market dynamics*



Chapter 7
Strategy in a
Global
Environment

Chapter 8
Financial Planning
and Competitive-
Cost Analysis

Chapter 9
Entrepreneurship,
Mergers and
Acquisitions,
Restructuring,
and the Service
Sector

Chapter 10
Leadership Factor
in Strategy and
Implementing
Strategic Change

Chapter 11
Information
Technology and
Future Directions
in Strategy

*Assessing global
trade, foreign
markets, monetary
exchange*

*Preparing a
financial plan
and competitive-
cost analysis*

*Importance of
small business,
entrepreneurs,
restructuring*

*Strategy
implementation,
leadership,
culture*

*Information
technology,
trends, new
management*



INTRODUCTION

Why are some companies successful while others struggle just to stay afloat? Is the answer better products, better marketing, more efficient production, better quality, timely delivery? Is it a productive organization with a supportive culture and effective leadership? Or is it some combination of the way the organization operates and the quality of its management? Questions such as these demand answers if a company is to be successful in today's increasingly competitive and turbulent environment. The answers are many, but they all focus on one basic requirement. *In order to succeed, a company must offer value to its customers.* That is, it must provide *total value*. Value represents the customer's perception of what is delivered, at what price, and with what features that serve their real needs. Pages 7 and 8 describe value and total value in greater detail. *Strategic management* is the process by which organizations determine what value is needed and how to add that value. It is a means for ensuring that organizations can cope effectively with the myriad of demands placed on them from within and without. This book aims to provide an understanding of the strategic management process and of methods that can be used to formulate appropriate strategies. These tools can help companies achieve and sustain a competitive advantage.

As an illustration of why companies require effective strategic management, consider the issue of *Business Week* dated June 24, 1991. In it, the following stories appeared.

1. Clorox, which was once part of Procter & Gamble, is now battling P&G over a detergent-bleach combination product. The result is that Clorox has taken the new detergent-bleach combination off the market. But in the process, P&G has lost some of *its* market share for core bleach products.
2. Motorola, the company known for cracking the Japanese market, had a difficult time selling chips to IBM. After many years, Motorola decided to allow other companies to produce its high-performance microprocessors while it concentrated on producing the reduced-instruction-set-chip (RISC). Motorola is working with IBM to design a low-cost version of the chip to power both IBM and Apple work stations.
3. On the other side of the Pacific, Nippon Electric in Japan is working with American Telephone and Telegraph, along with Sun Microsystems Inc. and MIPS Computer Systems Inc., to produce the RISC chips that will be the heart of future work stations and advanced personal computers.
4. Across the Atlantic, Ford of Europe is working at breakneck speed to be ready for the opening of borders in 1992. Ford will launch an image-building “blitz” across Europe and will speed up the introduction of new models. It will cost Ford \$11 billion to improve its technology, introduce new models, and upgrade dealers.
5. Goodyear’s miracle man Stanley Gault will attempt to pull Goodyear out of its slump. It is estimated that it will cost \$11 billion to remake the ailing tire-maker—and this during a devastating slump in auto sales.
6. Faced with a \$400 million loss, USAir has had to close many of its facilities, ground aircraft, and furlough 7,000 employees. It has also had to defer orders for 28 Boeing jets and cut back on its expansion plans for Cleveland and Baltimore. CEO Seth Schofield faces the challenge of discovering exactly where USAir fits.
7. The recent plunge in real estate values has propelled the banking industry toward disaster. Office vacancies are the highest they have been in years, property values have fallen, and bad loans have been increasing at an alarming rate. By taking an aggressive approach to identifying bad real estate loans and building adequate reserves, banks now appear to be on the mend and expect their loan portfolios to stabilize by the end of the year.
8. In an attempt to introduce more pro-family policies, du Pont has appointed Faith Wohl as “in house conscience.” Her job is to help employees balance family concerns with their careers. She has done this by setting up day care centers and promoting generous leaves on the occasion of the birth or adoption of a child or the sickness of a relative.

STRATEGIC THINKING

Strategic management is essential for dealing with the continuous stream of changes that flood all organizations. Managers need to cope with pressures of rapid change in order to achieve organizational goals effectively. Thus “strategic