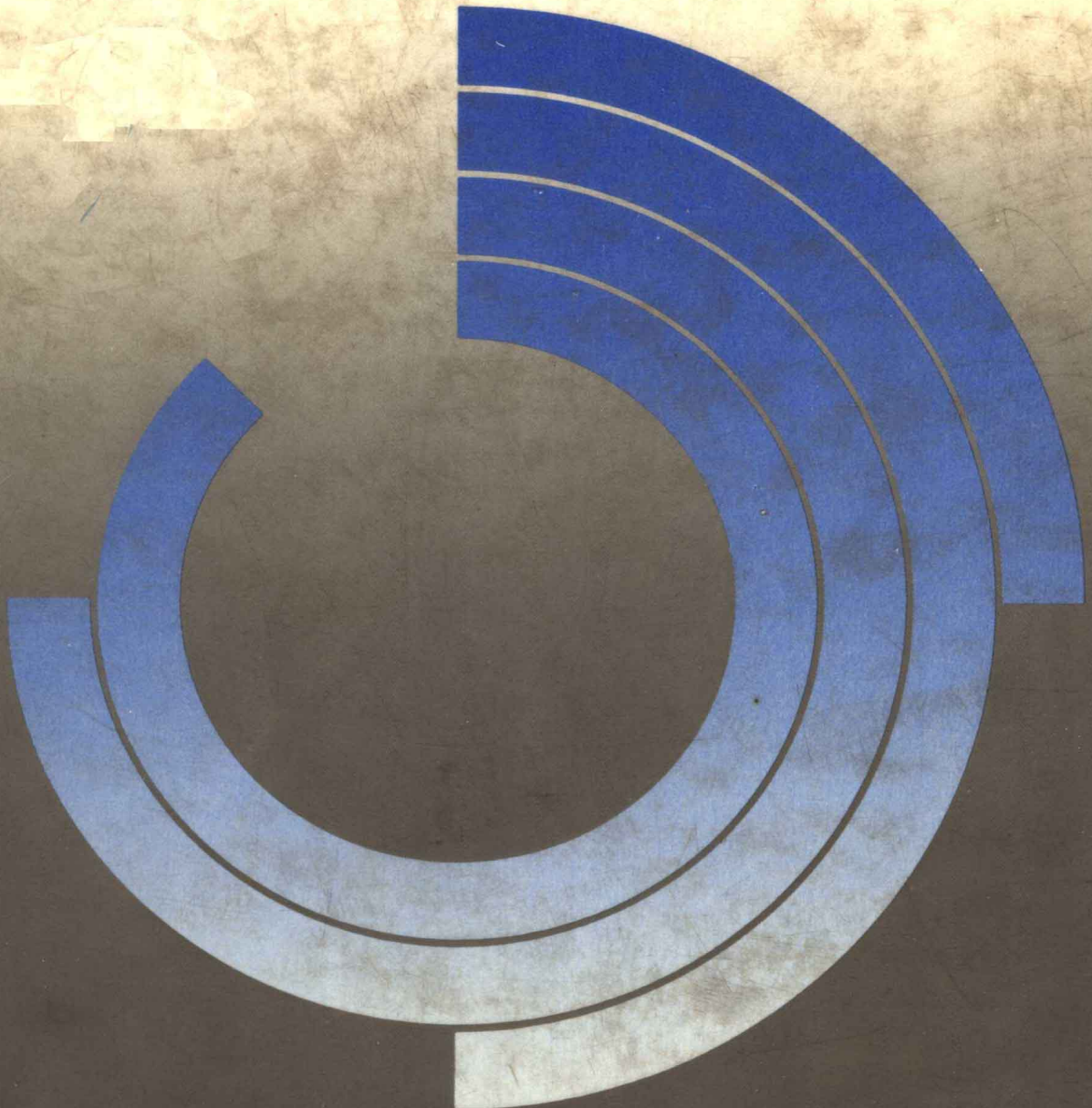

**THOMPSON
STRICKLAND**

4TH EDITION

STRATEGIC MANAGEMENT

Concepts and Cases



STRATEGIC MANAGEMENT

Concepts and Cases

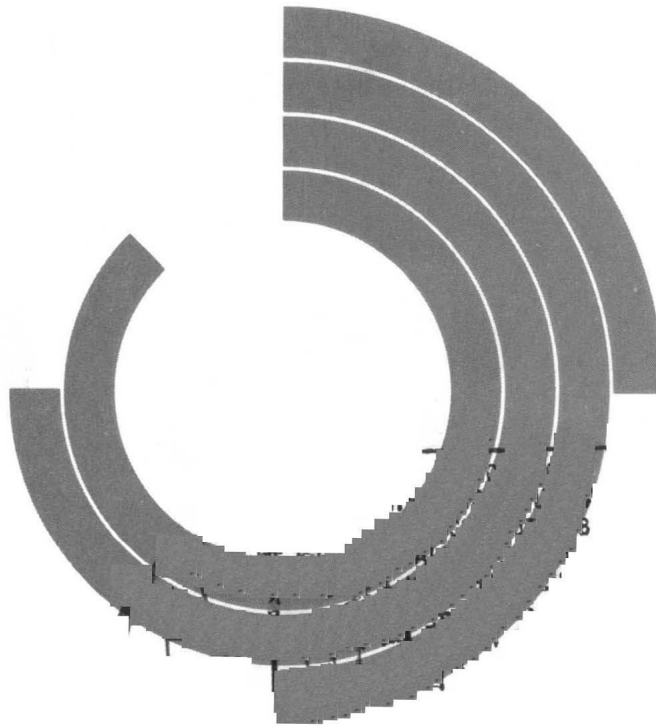
Arthur A. Thompson, Jr.

and

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The University of Alabama



1987 Fourth Edition

BPI
IRWIN

Homewood, Illinois 60430

Preface

This fourth edition of *Strategic Management: Concepts and Cases* is over 60 percent “new” and plows a lot of fresh ground. We have reorganized the seven chapters covering the concepts and tools of strategic analysis into nine chapters; condensed our treatments of the subject matter into fewer pages; added discussion of some important new topics and techniques; created a three-chapter module on business-level strategy and a two-chapter section on strategic analysis in diversified companies; inserted Analytical Checklists at the end of most chapters to signal to students the key steps in conducting thorough strategic analysis; and developed 12 new Illustration Capsules. Throughout, the content reflects new contributions to the strategic management literature, a stronger conceptual framework, and clear focus on “principles,” analytical approaches, and real world practice.

Of the 36 cases we have selected for this edition, 26 are new and one of the 10 holdovers has been updated and revised. The cases are grouped into four sections. Four cases introduce students to the issues and tasks of strategic management, 14 cases zero in on industry and competitive analysis and business-level strategy, 6 cases concern strategic analysis in diversified companies, and 12 cases deal with managing strategy implementation. Quite frankly, we’re enthusiastic about the case lineup for this edition; the companies are unusually interesting and the case situations are targeted closely to current strategic management problems and practices.

In addition, we have expanded the available teaching package in a most exciting way. Instructors wishing to introduce students to meaningful *computer-assisted* strategic analysis techniques now have the option of adopting a specially packaged version of the fourth edition containing *Strat-Analyst*™—a set of two case analysis disks for use with Lotus® 1–2–3® on IBM-compatible personal computers with two disk drives. The *Strat-Analyst* option makes it simple and quick for students to do financial ratio analysis, construct graphs from data in a case, build “what if” scenarios, make five-year financial projections, and conduct industry and competitive analysis. *Strat-Analyst* is user-friendly and requires no knowledge of microcomputers, programming, or Lotus 1–2–3 beyond that of knowing how to boot up a disk on a personal computer. The novice can learn to use *Strat-Analyst* successfully in less than an hour, and step-by-step instructions are built into every *Strat-Analyst* option. The case analysis results that students can get with *Strat-Analyst* have been incorporated into the teaching notes in the *Instructor’s Manual*. Our students have given *Strat-Analyst* high marks—an outcome which leads us to believe that computer-assisted strategic analysis is destined to become a standard feature in today’s courses in strategic management.

Complementing the textbook and the *Strat-Analyst* option are a new edition of *Readings in Strategic Management* (with 65 percent new readings) and a substantially enhanced *Instructor’s Manual*. The four-part package creates the most complete, best integrated set of teaching materials that we have ever offered. It gives instructors

wide latitude in course design, convenient access to the latest developments in instructional technology, and expanded opportunity to vary the nature of student assignments. The added choices, student supplements, and features of this new edition put the instructor in an even stronger position to put together a course that is fully capable of winning student approval.

What's New in the Text Chapters?

The rapid-fire development of the strategic management literature dictates that major edition-to-edition refinements be made in the treatment given to concepts and analytical techniques. In our updating and adjusting, however, we have kept the focus of this edition strongly centered on the strategy-related tasks of managers and on the methods of strategic analysis. Senior managers (major department heads on up) are cast firmly in the twin roles of chief strategy maker and chief strategy implementer, charged with presiding over insightful strategic analysis, formulating and reviewing strategic action plans, and leading the process of strategy implementation and execution in their respective areas of responsibility. Every key aspect of strategic management is thoroughly examined: defining the business, setting strategic objectives, conducting industry and competitive analysis, evaluating diversified business portfolios, checking out the various generic corporate and business strategy options, seeking ways to achieve a sustainable competitive advantage, building a capable organization, shaping the corporate culture, creating strategy-related administrative fits, and exerting strategic leadership.

We've made several changes worth calling to your attention:

- An all-new chapter on building and defending competitive advantage has been integrated into the presentation. To make room for this material and other new topics *without* expanding the number of pages devoted to text coverage, the writing style has been tightened, wordiness eliminated, and discussions streamlined. Even with the inclusion of new topics, the nine chapters of this edition consume less space than the seven chapters of the last edition.
- What was three-chapter coverage of strategy alternatives and the tools of strategic analysis in the previous edition has been refashioned into a five-chapter presentation: a three-chapter, stand-alone sequence on business-level strategy and a two-chapter, stand-alone sequence on corporate-level strategy. Business strategy is treated first, then corporate strategy, because the concepts and techniques of corporate strategy rely so heavily on a good grasp of business strategy concepts. However, because of their stand-alone nature, instructors who prefer to do so can cover the material on corporate strategy (Chapters 6 and 7) ahead of the business strategy chapter grouping (Chapters 3, 4, and 5).
- The new three-chapter discussion of business-level strategy follows the trail blazed by Professor Michael Porter in his two pioneering books, *Competitive Strategy* (1980) and *Competitive Advantage* (1985). The first chapter in the sequence covers the fundamentals of industry and competitive analysis, the second concerns generic business strategies and industry environments, and the third deals exclusively with how to build and defend competitive advantages at the line-of-business level. The coverage of business strategy has important sections on strategic group map-

ping, driving forces, diagnosing key success factors, Porter's "five forces model" of competition, strategic cost analysis and activity-cost chains, competitor analysis, company situation analysis, profiling a firm's competitive market position and relative competitive strength, ways to tailor business strategies to fit a variety of industry environments, matching strategy to competitive advantage opportunities, and the development of offensive and defensive strategies.

- The role of experience curve economics in business-level strategy formulation is given increased emphasis; the concept of the experience curve is developed fully in a much revised Illustration Capsule.
- An easy-to-follow generic approach to conducting industry and competitive analysis is presented at the end of Chapter 3. It draws together the tools for profiling the strategic features of industry structure and overall industry attractiveness, the competitive forces at work in an industry, and a company's situation in this environment. In addition, it lays out the format for a strategic action plan based on the preceding industry and competitive diagnosis. (This approach has been incorporated in *Strat-Analyst* to give students a time-saving and convenient way to do first-rate situation analysis and then use the results directly in formulating a strategic plan.)
- One of the two new chapters on strategic analysis in diversified companies explains the various corporate strategy alternatives, with emphasis on building a diversified business portfolio and postdiversification portfolio management. The other chapter concentrates on the analytical tools for appraising diversified corporate portfolios; it contains an enhanced treatment of strategic fit and a major new section on creating *corporate-level* competitive advantage.
- Chapter 1 has been greatly condensed to focus only on the process of strategic management—what it is, why it matters, and who is responsible for it.
- In Chapter 2 the spotlight is on the direction-setting entrepreneurial tasks—defining the business, establishing strategic objectives, and formulating a strategic plan. The levels of strategy, a model of the primary determinants of strategy, and how managers tackle the strategy formation process are all laid out in some detail.
- The discussion of strategy implementation is organized around the five internal administrative aspects most crucial to putting the chosen strategy into place: building a capable organization, allocating resources and creating action programs, galvanizing organizational commitment to the chosen strategy, implementing strategy-supportive policies and administrative systems, and exercising strategic leadership. Chapter 8 deals with the first two and Chapter 9 deals with the last three.
- The strategy-related pros and cons of alternative forms of organization are more prominently highlighted in our presentation of how to link strategy and structure. The importance of building a strategy-supportive corporate culture continues to get center stage treatment as a key to successful strategy execution.
- Analytical checklist sections appear at the end of Chapters 3 through 9 to draw student attention again to key concepts and techniques and to serve as a handy reminder to students of what ground to cover in doing a thorough job on assigned cases.
- Shorter, crisper Illustration Capsules have been developed to highlight real world application of core concepts. Twelve of the 21 capsules are new to this edition,

and we have continued to lace every chapter with concrete examples of how strategic management concepts are used by companies and managers.

As before, we have devoted a special chapter to introducing students to case method pedagogy and pointers on how to analyze a case. In our experience, many students are unsure about what they need to do in preparing a case and they are certainly inexperienced in analyzing a company from a strategic point of view. Chapter 10 orients them to what to expect and focuses their attention on the traditional analytical sequence of (1) identify, (2) evaluate, and (3) recommend. This chapter includes a table on how to calculate and interpret key financial ratios; it, along with the step-by-step “what to do” checklists at the end of the text chapters, should get students off on the right foot for both class discussion of cases and written case assignments.

All in all, we are confident that you will find the text portion of this edition better organized, more tightly written, comfortably mainstream, and as close to the cutting edge of both theory and practice as basic textbook discussions can be.

The Collection of Cases

This edition includes over 70 percent new cases and a richer diversity of companies and situations. There are five cases involving non-U.S. based—or international—firms, two cases concerning not-for-profit organizations, five cases involving firms listed in *The 100 Best Companies to Work For in America*, four cases about young start-up companies, six cases involving the ins and outs of corporate diversification, nine cases dealing with the strategic problems of family-owned or relatively small entrepreneurial businesses, two cases about companies whose founder-CEOs now rank among the 400 richest people in the United States, and paired cases showing the contrasting strategies of firms in the same industry. Sprinkled into the mix are cases involving service industries, cases about high-tech companies, cases concerning acknowledged industry leaders, cases involving up-and-coming companies, cases on companies with high-interest products, cases situated in all phases of the industry chain (natural resources, energy, manufacturing, wholesaling, and retailing), cases about companies in trouble, long cases, short cases, “two-day” cases, and cases that rate as tried-and-true favorites. Five of the cases have serial parts (which are reprinted in the *Instructor's Manual*), further expanding the menu and the tempo.

Several criteria have driven our choice of cases for this edition. We have tried to adhere to our traditional practice of choosing cases which senior-level students can suitably handle, which will stimulate student interest, and which involve situations that will produce a lively, exciting classroom discussion. We have looked long and hard for new cases that are current and timely, and have then blended them in with cases whose situations are timeless, classic, and always relevant. And we have been mindful of the need for every case to contain key teaching points and offer real opportunity for students to become skilled in using the tools of strategic analysis. Each of the cases has been conscientiously researched, carefully written, and class-tested. We believe you will find this case collection durable, representative of strategic problems and analytical applications, flexible as to sequencing, and eminently teachable.

The New *Strat-Analyst*™ Option

Scarcely anything is producing more dramatic change in business schools today than the growing use of personal computers for instructional purposes. It is fast becoming standard for upper-level undergraduates to use PCs for one assignment or another on at least a weekly basis. With more business application software becoming available (some of it strategy-related) and with more employers on the lookout for students who have working knowledge of personal computers, the time seems right to start utilizing the power of personal computer technology in the strategic analysis arena.

We have created the *Strat-Analyst* supplement as a way of educating students to the analytical potential of personal computers in the strategic management course. The use of *Strat-Analyst*, however, is strictly *optional* with adopters—the text can be ordered *with* or *without* the *Strat-Analyst* disks. *Strat-Analyst* is designed to work on all IBM-compatible PCs with standard 256k memories, but it must be used in conjunction with Lotus 1–2–3 (this presents no real barrier to students because virtually any university's PC lab will have multiple copies of the Lotus 1–2–3 software package readily available for student use).

Strat-Analyst is multipurpose so as to give instructors the ability to make several different types of computer-assisted strategic analysis assignments. There are two main sections in *Strat-Analyst*. The first section contains files of the financial exhibits for 16 cases and has case-specific templates (a different one for each case) that allow students to *quickly* do any of the following:

- Calculate financial and operating ratios, common-size income statements, and annual compound rates of change in any of several performance variables.
- Construct line graphs, bar graphs, pie charts, and scatter diagrams using any of the case data on file.
- Do “what if” scenarios and five-year financial performance projections.
- Obtain hard copy printouts of all of the analytical work they do.

While students often do some financial analysis of case data using hand calculators, they are often discouraged from doing regular, systematic financial analysis because of the time-consuming nature of punching so many calculator buttons and writing down the results. *Strat-Analyst* makes such calculations so easy to get that instructors can insist on and expect thorough financial assessments. And students can spend their time analyzing the results of the number-crunching rather than on doing a time-consuming series of repetitive calculations on several years of data. *Strat-Analyst*'s graphing capabilities are particularly valuable to students in preparing written assignments and visual aids for oral presentations. The “what if” features make it easier to quantify the effects of particular strategic actions and to examine the outcomes of alternative scenarios.

The second section of *Strat-Analyst* features an easy-to-use, step-by-step generic procedure for conducting industry and competitive analysis (ICA) on any assigned case. The menu of ICA options here includes

- Industry situation analysis.
- Competitive situation analysis.

- Company situation analysis.
- Development of a strategic action plan.

Students can choose to go through one, two, three, or all of the ICA options and, when finished, get a neatly organized, final-copy printout of their analysis in a report format (which can then be conveniently graded by the instructor).

We believe that *Strat-Analyst* offers students three important benefits:

1. It gives students a major assist in doing higher-caliber strategic analysis.
2. It will significantly cut the time that it takes students to do a thorough job of case preparation.
3. It will build student comfort levels and skills in the use of PCs for managerial analysis purposes.

The instructor profits too—from improved student performance, from the added dimension *Strat-Analyst* gives the course, and from increased flexibility of course design and variety in instructional techniques. Testing of *Strat-Analyst* in our own classes indicates that it is a win-win approach for both students and instructors.

If You Also Want to Use Readings

For instructors who like to incorporate samples of the strategic management literature into their course syllabus, the second edition of *Readings in Strategic Management* is now available. It contains 31 selections, varying in length from a few pages to 20 pages. All are current (only one was published prior to 1980); all are quite readable; and all are suitable for seniors and MBA students. Most of the selections (22) are articles reprinted from leading journals; they add in-depth treatment to important topic areas covered in the text. Nine of the articles are drawn from practitioner sources and were chosen to stress how particular tools and concepts relate directly to actual companies and managerial practices. In tandem, these readings provide an effective, efficient vehicle for reinforcing and expanding the text-case approach.

Acknowledgments

We have benefited from the help of many people during the evolution of this book. Students, adopters, and reviewers have generously supplied an untold number of insightful comments and helpful suggestions. Our intellectual debt to those academics, writers, and practicing managers who have blazed new trails in the strategy field will be obvious to any reader familiar with the literature of strategic management. We are particularly indebted to the case researchers whose casewriting efforts appear herein and to the companies and organizations whose experiences and situations comprise the case studies.

To each of the case contributors goes a very special thank you. The importance of good, timely cases cannot be overestimated in contributing to a substantive study of strategic management issues and practices. From a research standpoint, cases in strategic management are invaluable in exposing the generic kinds of strategic issues that companies face, in forming hypotheses about strategic behavior, and in drawing

experienced-based generalizations about the practice of strategic management. Pedagogically, strategy cases give students essential practice in diagnosing and evaluating strategic situations, in learning to use the tools and concepts of strategy analysis, in sorting through the pros and cons of various strategic options, and in tailoring strategic action plans to fit the prevailing circumstances. Without an ample supply of fresh, well-researched, and well-written cases, the discipline of business policy would fall into disrepair, losing much of its energy and excitement. We trust, therefore, that sentiment and support for first-class case research will thrive and that case researchers will be recognized and justly rewarded for their scholarly contributions.

The following reviewers have been of considerable help in directing our efforts at various stages in the evolution of the manuscript through four editions: W. Harvey Hegarty, Indiana University; Roger Evered, Penn State University; Charles B. Saunders, the University of Kansas; Rhae M. Swisher, Troy State University; Claude I. Shell, Eastern Michigan University; R. Thomas Lenz, Indiana University–Purdue University at Indianapolis; James B. Thurman, Virginia Polytechnic Institute and State University; Michael C. White, Texas Tech University; Dennis Callahan, University of Rhode Island; R. Duane Ireland, Baylor University; William E. Burr II, University of Oregon; C. W. Millard, Iowa State University; Richard Mann, University of Southern California; Kurt Christensen, Purdue University; Neil W. Jacobs, Northern Arizona University; Louis W. Fry, University of Washington; D. Robley Wood, Virginia Commonwealth University; George J. Gore, University of Cincinnati; William R. Soukup, San Diego State University; William Acar, Kent State University; George B. Davis, Cleveland State University; and John F. Preble, University of Delaware.

Naturally, as custom properly dictates, we are responsible for whatever errors of fact, deficiencies in coverage or in exposition, and oversights that remain. As always we value your recommendations and thoughts about the book. Your comments regarding coverage and content will be most welcome, as will your calling our attention to specific errors. Please write us at P.O. Box J, Department of Management and Marketing, The University of Alabama, Tuscaloosa, AL 35487-9725.

A.A.T.

A.J.S.

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1 Strategic Management: What It Is, Whose Responsibility It Is, and Why It Matters

"Cheshire Puss," she [Alice] began . . .
"would you please tell me which way
I ought to go from here?"

"That depends on where you want
to get to," said the cat.

—Lewis Carroll

To be in hell is to drift, to be in
heaven is to steer.

—George Bernard Shaw

My job is to make sure the company
has a strategy and that everybody
follows it.

—Kenneth H. Olsen
CEO, Digital Equipment Corp.

As long as companies have conducted business, some have been outstanding successes while others have been dismal failures. Some companies act with purpose and direction, others drift. Some companies are adept at seizing new opportunities, others watch passively or let them slip through the cracks. Some companies perform well because of good internal management, others barely survive because of inefficiency and misdirected operations.

The management practices of successful and unsuccessful enterprises have been scrutinized in an effort to learn the really important managerial do's and don'ts that separate the winners from the losers. Although what research and experience have taught us so far falls short of a genuine theory of "how to manage," we have nonetheless zeroed in on some notable managerial differences between high-performing and low-performing enterprises:¹

1. In high-performing organizations, there is a clear sense of direction. Senior managers have a strong vision of where the company needs to be headed and why. They are not afraid to blaze new trails or initiate major changes in the organization's business makeup. By contrast, the managers of low-performing organizations are characteristically so absorbed in the latest crisis and

¹ For a sampling of some of the findings and conclusions, see Joel Ross and Michael Kami, *Corporate Management in Crisis: Why the Mighty Fall* (Englewood Cliffs, N.J.: Prentice-Hall, 1973); Alfred D. Chandler, *The Visible Hand* (Cambridge, Mass.: Harvard Univ. Press, 1977); William K. Hall, "Survival Strategies in a Hostile Environment," *Harvard Business Review* 58, no. 5 (September–October 1980), pp. 75–85; Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence: Lessons from America's Best-Run Companies* (New York: Harper & Row, 1982); and Michael E. Porter, *Competitive Advantage* (New York: Free Press, 1985).