



Formulation, Implementation, and Control

STRATEGIC MANAGEMENT

FORMULATION, IMPLEMENTATION, AND CONTROL

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Sixth Edition



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*To Susan McCartney Pearce,
David Donham Pearce, Mark McCartney Pearce,
Josephine Elizabeth Robinson,
Katherine Elizabeth Robinson, John Braden Robinson—
for the love, joy, and vitality that they give to our lives.*

PREFACE

This sixth edition of *Strategic Management: Formulation, Implementation, and Control* is both the culmination of almost 20 years of work by many people and a major revision designed to fit the 21st century needs of strategy students. We were pleased that the fifth edition was used by more teachers and students than any previous edition. This preface describes what we have done to make the sixth edition even more effective and relevant in preparing students for the exciting global economy they are about to enter. It also gives us the opportunity to recognize many outstanding contributors.

The sixth edition of *Strategic Management: Formulation, Implementation, and Control* provides a thoroughly revised, state-of-the-art treatment of the critical business skills needed to plan and manage strategic activities. We have divided the text into 12 chapters filled with many real-world business examples. Sensitivity to the 21st century strategic ramifications of topics like the global economy, entrepreneurship, ethics, restructuring, continuous improvement, integrated operations and manufacturing, virtual organization, and cultural diversity are evident throughout this major revision of the text. A newly revised and exciting cohesion case on the world's most successful global business, The Coca-Cola Company, is included based on the popular reaction to the use of Coca-Cola in the 5th edition. Coca-Cola remains large but still entrepreneurial, innovative, growing, and cleverly managed—a collection of thousands of locally focused operations in every corner of the globe. It provides an extraordinarily useful example that students will find beneficial, recognizable, and motivational in their study of strategic management, entrepreneurship, and global business.

Contemporary research in strategic management, with an emphasis on conceptual tools and skills created by value-adding scholars and practitioners in the field, will be evident throughout the 12 chapters in this edition. While the text retains its solid academic connection, we have endeavored to create text material that is practical, skills oriented, and applicable on the job.

We have selected 41 cases for this edition—all new! A special relationship with INSEAD has ensured a contemporary, global flavor to our case selections. The tireless cooperation of some of the world's best case writers has been a major contribution, ensuring a good sampling of companies by size, formulation versus implementation issues, and industry versus business-unit level of analysis.

We are pleased to maintain our strategic alliance with Halcyon's Office Profit. Office Profit provides a one-stop, comprehensive software tool for examining the financial and

operating data of a firm to assess its capabilities and options relative to industry standards and historical performance. Some of our cases can be examined via financial data already loaded on the disk available with this book.

Other components of our teaching package include a totally revised, comprehensive instructor's manual, a set of two-color transparencies, packaged with PowerPoint presentation slides, a computerized test bank, and two videos. These elements are coordinated and backed by Irwin's outstanding customer support capabilities.

Changes to Our Text Material

The literature and research comprising the strategic management field has been developing at a rapid pace in recent years both in the academic literature and the business press. We have endeavored to create an edition that incorporates major developments from both sources while keeping our focus centered on a straightforward and logical framework through which students can grasp the complexity and essence of strategic management. Some of the revisions that deserve particular note are:

- The text went from 11 chapters in the fifth edition to 12 chapters in this edition. The reason was to provide a treatment of strategic analysis and choice over two chapters instead of one chapter as in previous editions. A new Chapter 8 focuses on tools and techniques for strategic analysis at the business level—single- or dominant-product/service companies. A new Chapter 9 covers strategic analysis in multibusiness companies and covers behavioral considerations shaping strategic choice.
- Previous adopters will note a revised model of the strategic management process. Covered in Chapter 1, our revisions sought to reflect strategic analysis at different organizational levels while also portraying the role of action plans, continuous improvement, and employee empowerment within the strategic management process. While the model has been revised, we went to great efforts to keep the useful attributes mentioned by so many previous adopters as being a key distinctive competence present in our book: a logical flow, distinct elements, and easy-to-understand guide to strategic management.
- The role of the CEO and the board of directors has received prominent attention in Chapter 1. We have developed the exciting examples of Saturn and Nissan to explain company philosophy. Complementing this material, Chapter 2 has also increased its attention to customer influences on strategy, customer-driven organizations, and the essence of quality as a part of mission development.
- Our three-chapter set examining the environment has undergone considerable revision. Some key highlights include adding a major section on ecological issues; examining issues of regulation and innovation-friendly regulation as entry barriers; and highlighting techniques and concepts to create meaningful customer profiles and unique customer segmentation early on in strategic management.
- Globalization is certainly a defining theme in environmental analysis, and we have added important new examples and a discussion of factors that drive global companies. Forecasting competitive behavior and the creation of early warning systems when confronting competitive or environmental problems received new coverage in Chapter 5. Accompanying these new developments is a revised, three-chapter core replete with dynamic examples and contemporary discussion linking

them to the field's most important concepts in a breadth of coverage (three chapters) that continues to be one of the most expansive available.

- Attention to value chain analysis as a framework for examining a firm's strengths and weaknesses was expanded along with a major new discussion of benchmarking as a means to leverage the use of value chain analysis and other techniques for understanding firm capabilities. New examples—an exciting global female entrepreneur at England's Laura Ashley, Avery Dennison's global benchmarking, and the dramatic changes in the global PC industry—illustrate these topics.
- Our discussion of strategic alternatives in Chapter 7 was expanded in two ways. First, we sought to help students understand the linkage between strategic intent and corporate purpose—the big picture. Second, we added significantly to our discussion of market development as a grand strategy while expanding the coverage of strategic alliances and outsourcing as strategy elements—all changes intended to emphasize the focus and partnering trends among the best businesses around the globe.
- Already mentioned above, our treatment of strategic analysis and choice has been expanded from one large chapter to two chapters of more modest length. Our major concern here was to create a more user-friendly coverage of strategic analysis in the somewhat distinct venues of single- or dominant-product businesses and multibusiness companies. Chapter 8 seeks to focus on the single-product business by discussing techniques and concepts managers use to examine business strategy alternatives—identifying and choosing the best way to build sustainable competitive advantage. The chapter emphasizes speed and market focus, as well as the traditional cost leadership and differentiation sources of competitive advantage. Strategic analysis focused on identifying sources of each type of competitive advantage along with organizational resources required to support and sustain them form the basis for strategic analysis and choice at the business level.
- Strategic analysis and choice facing managers of multibusiness companies as they seek to maximize long-term shareholder value is the focus of a new Chapter 9. Rationalizing diversification, and examining opportunities for sharing in frastructure and capabilities are developed as key conceptual “tools” to make corporate strategic decisions. This chapter also retains a revised, *reduced* coverage of portfolio techniques and a focused coverage of key behavioral considerations in strategic choice.
- The three chapters on implementation and strategic control underwent major revision. Creating value activities provides a current, integrating theme for Chapter 10's material on action plans and functional tactics. Major revisions include coverage of flexible manufacturing systems, JIT, SPC, and outsourcing as operating tactical options; marketing responses to diversity, the decreasing importance of size, and HRM in a downsized, outsourcing environment; and a major emphasis on the use of policies as a source of employee empowerment.
- New material in Chapter 11 examines (1) guidelines to match structure to strategy emphasizing restructuring to support strategically critical activities, (2) business process engineering as a means to do the restructuring, and (3) downsizing, outsourcing, and self-managing work teams as ways to truly redefine the way an organization's “work” or strategically critical activities get done with speed, quality, and cost effectiveness. The discussion of leadership and culture has been reworked to place embracing change through three fundamental means as a central

theme. Examples from prominent companies that have visibly restructured themselves in the 1990s provide many useful strategy-in-action examples.

- Chapter 12's well-received coverage of strategic control was revised to include updated literature on strategic control and to add significant new material on continuous improvement. The emphasis was placed on strategic control; operational control and budgets were given reduced, yet focused coverage; and a new section was added on continuous improvement to build customer value, replete with how-to guidelines and current examples.

Overall, we found ourselves reenergized by the challenge to “continuously improve” on well-received text material. A lot has changed during the 1990s—changes that have revitalized and redefined the nature and focus of strategic management. The challenge and result for us has been a major revitalization and revision of our book while keeping a structured, student-friendly flow an overriding requirement.

We have updated, increased, and improved our *Strategy in Action* capsules. The fundamental idea behind them remains the same—provide interesting, separate examples that enrich text material and engage students as they read the text. The 12 chapters contain 42 of these illustration vignettes, 36 of which are completely new to the sixth edition. Each *Strategy in Action* provides a contemporary business example of a key chapter topic designed to enhance student interest and aid learning.

We also have 14 *Global Strategy in Action* capsules in this edition, with at least one in every chapter. These capsules are introduced to help students appreciate how strategic managers worldwide meet global competition, and we are excited about the interesting, all-new set assembled for this edition. They are more diverse, personal, and educational, taking students into a variety of surprising businesses around the world. They also offer North American student users the chance in a sense to “benchmark” companies most familiar to them with several best-practice companies across a variety of industries throughout the global economy.

We have responded to adopters' positive response to the introduction of The Coca-Cola Company as our cohesion case in the last edition by retaining the company as the cohesion case for this edition. While the company is the same, users of the cohesion case will be pleased to see a virtually totally rewritten coverage of strategic management at Coca-Cola. This company has made incredible progress since 1995. It has refined and built sustainable competitive advantages based on speed, market focus, differentiation, and cost leadership. Its strategies are specific, varied, and very educational. Numerous visual as well as narrative illustrations of each aspect of strategic management at Coca-Cola around the globe have been provided to help students learn strategic management from one of, if not the best global business system in the history of world commerce.

Our survey of adopters told us to continue to inform students about what they need to do in preparing a case—and to maintain a strategic point of view while doing so. We have included a major section at the end of Chapter 12 that is solely intended to aid students in understanding case method pedagogy and to prepare them to analyze a case, prepare it for class, and participate in class discussion. Additional support for this is included in the instructor's manual, providing instructors with the discretion to increase case preparation assistance for students. The case method section along with the cohesion case provide two proven learning aids that ensure that students understand and benefit from the case method pedagogy.

Five supplements accompany or are available to accompany our text to increase readers' ability to enhance their competence in the practice of strategic management: A guide to industry information sources follows Chapter 5. Students will find it helpful in rapidly orienting them to where and how to get company and industry data.

Also following Chapter 5 is a supplement on strategic planning tools and techniques for forecasting. It offers a practical assessment of each of 20 planning aids as well as source information on these detailed how-to materials.

A revised guide to financial analysis is provided following Chapter 6. It provides a thorough, easy-to-use guide to the quantitative analysis of financial and operating information, which will help refamiliarize students with previously learned techniques and introduce them to others.

Halcyon's Office Profit software is also available to accompany this sixth edition. It has been thoroughly updated for Windows 95 use, can be disk- or CD-ROM-based, and includes excellent industry comparative data from Robert Morris Associates. It has become an industry standard among commercial lenders, and the software choice in all SBA and SBDC offices. It allows quick and thorough financial and operating analysis, projections, and a variety of analyses that will have students focusing on strategic interpretation, not simple calculation. We have data from some of the cases in the sixth edition already preloaded on the Halcyon disk. Students can, however, use it on all cases as well as in their future managerial or entrepreneurial careers.

Cases in the Sixth Edition

We are truly excited about the 41 cases and industry notes assembled in this sixth edition. First, we have crafted a special relationship with INSEAD in Europe to provide 10 cases and industry notes distributed exclusively through them. These cases have undergone thorough class testing, are written by some of the world's best case writers, and take students into a variety of companies around the world. Following the INSEAD initiative, we have endeavored to ensure a strong global feel to our sixth edition case selection. The result means that over two-thirds of our cases involve companies either located or doing business outside North America.

Second, all 41 cases are new to this edition of *Strategic Management: Formulation, Implementation, and Control*. They all involve issues addressed in the 1990s, with a major emphasis on strategy implementation issues versus offerings most commonly found in strategy texts. We have a good mixture of small and large firms, global and domestic market commitments, and service, retail, technology, and manufacturing activities.

We are particularly pleased to organize the cases into three "kinds" of cases. First, we have 30 individual cases to let students explore separate companies in great detail. Then we assemble two industry case sets that examine two industries and two players within each industry. This way students can explore two industry settings in great detail while also viewing the industry from the perspective of the management teams of two significant industry participants. Finally, to further refine student skills in industry analysis, we have assembled five industry notes that let them examine a variety of industry settings with which they are likely familiar as a customer or a potential employee.

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We have benefited from the help of many people in the evolution of this book over six editions. Students, adopters, colleagues, reviewers, and business contacts have provided hundreds of insightful comments, suggestions, and contributions that have progressively enhanced this book. We are indebted to the researchers, writers, and practicing managers who have accelerated the development of the literature on strategic management.

We are likewise indebted to the talented case researchers who have produced the cases used in this book, as well as the growing network of case authors dedicated to the

revitalization of case research as an important academic endeavor. The discipline of strategic management is eminently more teachable when current, well-written and well-researched cases are available. We encourage every opportunity to properly recognize and reward first-class case research—it is a major avenue through which top strategic management scholars should be recognized.

The following strategic management scholars have provided the results of their case research in the creation of this sixth edition of *Strategic Management: Formulation, Implementation, and Control*:

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In using this text, we hope that you will share our enthusiasm both for the rich subject of strategic management and for the learning approach that we have taken. We value your

recommendations and thoughts about our material. Please contact Jack or Richard at the following addresses:

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We wish you the very best as you advance your knowledge in the exciting and rewarding field of strategic management.

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John A. Pearce II, Ph.D., is the endowed chair holder of the College of Commerce and Finance at Villanova University. Previously, Dr. Pearce was holder of the Eakin Endowed Chair in Strategic Management at George Mason University and was a State of Virginia Eminent Scholar. In 1994, he received the Fulbright U.S. Professional Award for service in Malaysia. Professor Pearce has taught at Penn State, West Virginia University, the University of Malta where as a Fulbright Senior Professor in International Management he served as the Head of Business Faculties, and at the University of South Carolina where he was Director of Ph.D. Programs in Strategic Management. He received a Ph.D. degree in Business Administration from the Pennsylvania State University.

Professor Pearce is coauthor of 24 books that have been used to help educate more than 1,000,000 students and managers. He has also authored more than 165 articles and professional papers. These have been published in journals that include the *Academy of Management Journal*, *California Management Review*, *Journal of Applied Psychology*, *Journal of Business Venturing*, *Sloan Management Review*, and *Strategic Management Journal*. Several of these publications have resulted from Professor Pearce's work as a principal on research projects funded for more than \$2 million. He is a recognized expert in the field of strategic management, with special accomplishments in the areas of strategy formulation, implementation, and control, management during recessions, mission statement development, competitive assessment, industry analysis, joint ventures, and tools for strategy evaluation and design.

A frequent leader of executive development programs and an active consultant to business and industry, Dr. Pearce's client list includes domestic and multinational firms engaged in manufacturing, service, and nonprofit industries.

Richard B. Robinson, Jr., Ph.D., is Professor of Strategy and Entrepreneurship and is a Business Partnership Foundation Fellow in the College of Business Administration at the University of South Carolina. Professor Robinson recently returned to USC after serving for three years as president and CEO of a rapidly growing hazardous waste management company.

Professor Robinson has published numerous articles and professional papers in preeminent journals and associations dedicated to improving the practice of strategic management and the art of entrepreneurship. He has coauthored 26 texts, proceedings, and supplements