Tenth Edition

READINGS IN

STRATEGIC MANAGEMENT

1978 – 1998

10th Edition

Thompson • Strickland

Thompson

Strickland

Kramer

Readings in STRATEGIC MANAGEMENT

Arthur A. Thompson, Jr.
University of Alabama

A. J. Strickland III
University of Alabama

Tracy Robertson Kramer
George Mason University

Tenth Edition

Irwin
McGraw-Hill

Boston, Massachusetts Burr Ridge, Illinois Dubuque, Iowa
Madison, Wisconsin New York, New York San Francisco, California St. Louis, Missouri

To Laura Leigh, Polly Beth, Ashleigh, and Ryan
Matthew and Lena
and Bradley and Natalie

Irwin/McGraw-Hill

A Division of The **McGraw-Hill** *Companies*

READINGS IN STRATEGIC MANAGEMENT

This book is printed on acid-free paper.

4 5 7 8 9 0 9 0 DOW/DOW 9 0 1

ISBN 0-256-24146-5

Vice president and editorial director: *Michael W. Junior*
Publisher: *Craig S. Beytien*
Senior sponsoring editor: *John E. Biernat*
Senior developmental editor: *Laura Hurst Spell*
Marketing manager: *Ellen Cleary*
Senior project manager: *Mary Conzachi*
Production supervisor: *Scott Hamilton*
Designers: *Ellen Pettenge/Michael Warrell*
Compositor: *GAC/Shepard Poorman*
Typeface: *10.5/12 Times Roman*
Printer: *R.R. Donnelley & Sons Company*

This book is a tenth edition in honor of the tenth anniversary edition of *Strategic Management: Concepts and Cases*. The previous edition of this book was called the fifth edition.

Library of Congress Cataloging-in-Publication Data

Readings in strategic management / [edited by] Arthur A. Thompson,
Jr., A. J. Strickland III, Tracy Robertson Kramer. — 10th ed.
p. cm.
Includes 43 journal articles, previously published betwen
1991–1997, 9 of which appeared in the 1995 edition.
Includes bibliographical references and index.
ISBN 0-256-24146-5
1. Strategic planning. I. Thompson, Arthur A., 1940– .
II. Strickland, A. J. (Alonzo J.) III. Kramer, Tracy Robertson.
HD30.28.R418 1998
658.4'012—dc21 97-31066

http://www.mhcollege.com

PREFACE

During the past decade or so, business policy has expanded its status from being just an integrative course in the business curriculum to being a full-fledged discipline with a distinctive literature of its own. A large knowledge base is rapidly building on the concepts of strategy, the tasks and processes of strategy formulation and implementation, and all the ramifications of aligning the organization's operations, competitive capabilities, and culture to meet the requirements of changing markets and changing customer expectations.

Important, insightful techniques for examining a company's competitive position, business strengths, industry attractiveness, and the makeup of multibusiness corporate portfolios have come to the fore. Formal strategy evaluations and annual strategy reviews are growing in use, having already risen to become a standard management practice in most large companies. There is heightened managerial application of such strategic concepts as strategic vision, strategic intent, driving forces, strategic groups, competitor analysis, key success factors, core competencies, competitive capabilities, value-chains, benchmarking, strategic fit, resource fit, first-mover advantages, employee empowerment, reengineering, total quality management, and leaner, flatter organizations. Issues pertaining to strategy formulation, resource allocation, and operational effectiveness enjoy high priority on managerial action agendas. The whole strategic management cycle—from defining the business to crafting a strategy to implementation and execution to evaluation of results to reformulation and fine-tuning the game plan—is being intensively scrutinized by practitioners, consultants, and business school academics.

Although many instructors rely on text treatments and case analysis to teach their courses in strategic management, there is reason to supplement the "standard approach" with a sampling of path-breaking treatments and current topics from the literature. For those instructors who believe in exposing students to the literature, *Readings in Strategic Management* provides an interesting blend of contemporary and landmark articles—ones that lead students efficiently to the forefront of the theory and practice of strategic management.

This edition contains 43 articles, of which 34 are recently published and new to this edition. Only the nine carryover articles were published prior to 1994, and none of the articles in this edition were published before 1991. In addition, a substantial number are by authors outside the United States. More important, all are eminently readable and well matched to the level of most strategic management texts.

The readings we have chosen for this edition are primarily of two types. One type, consisting of standard-length articles from first-tier journals, adds in-depth treatment to important topic areas covered in most business policy/strategy texts, thereby giving students more insight into the details of particular techniques and exposing them to the latest research findings and conceptual thinking. The second type includes shorter articles, drawn from practitioners' sources, that emphasize how strategic management concepts and tools relate directly to actual practice. In tandem, the two types of readings provide an effective and efficient vehicle for reinforcing and expanding text-case treatments and for giving students a flavor of both current literature and state-of-the-art strategic management applications.

ORGANIZATION OF THE READINGS

The 43 readings have been grouped into five sections—each of which represents one of the major building blocks of strategic management. At the beginning of each grouping is a brief overview of the topics covered and how each article fits into the scheme and structure of strategy management. An introductory statement outlining the content of the article is at the beginning of each article. Both academic and practitioner articles are included in each grouping.

The first section of six articles addresses the role of the general manager as architect and chief implementer of strategy. The topic areas covered include creating and sustaining a corporate vision, mission statements, strategic intent, business definition, and strategic planning.

The second grouping of 11 articles deals with analyzing and crafting business-level strategy. The section sweeps across a broad range of topics, including several articles on the topic of competitive advantage. One article addresses core capabilities as the basis for competitive advantage, another looks internally for sources of competitive advantage, a third concerns technology-related competitive advantage, while a fourth concerns service advantage. Other important topics addressed include resource-based strategies, hypercompetition, innovation strategies, collaboration, focus strategies, and when and when not to pursue vertical integration.

The third section is concerned with strategic analysis in diversified companies and the formation and management of strategic alliances. The lead article in this section takes a chronological look at the history of diversification strategies over the last four decades. Other topics addressed include related diversification based on core competencies, collaboration as a source of competitive advantage, and the keys to success in making alliances and joint ventures.

The fourth group of articles surveys the ins and outs of effective strategy implementation and execution. Seventeen articles cover a wide variety of topics beginning with the advantages of superior implementation of not-so-new strategies. Leadership, culture, and strategic control are also addressed in some depth. Other current topics include organizational change and design, reengineering, benchmarking, total quality management, and strategic outsourcing.

The final section concerns business ethics and social responsibility. The first of four articles is an in-depth look at the pressures placed on young managers to behave unethically. Other topics addressed include the significance of corporate value and ethics statements and ethical standards in international operations.

To get a more detailed overview of the 43 articles, please take a look at the paragraph-long introductions to each of the five groups of readings and the introductory overviews we've included for each article.

ACKNOWLEDGMENTS

We wish to thank the various publishers and authors of the articles contained in this book. Comments regarding coverage and content of this book will be most welcome. You can e-mail us at athompso@cba.va.edu or fax us at (205) 348-6695. Alternatively, you can write us at George Mason University, 13541 Union Village Circle, Clifton, VA 20124 or University of Alabama, Department of Management and Marketing, P. O. Box 870225, Tuscaloosa, AL 35487-0225.

Arthur A. Thompson, Jr.
A. J. Strickland III
Tracy Robertson Kramer

CONTENTS

PART ONE THE GENERAL MANAGER AND STRATEGY 1

PART TWO BUSINESS STRATEGY FORMULATION 77

PART

I

THE GENERAL MANAGER AND STRATEGY

Part I of the book addresses the role of the general manager as architect and chief implementer of strategy. The lead article by James Collins and Jerry Porras discusses how visionary companies are built around the company's core ideology and an envisioned future. Next, M. S. S. El-Namaki defines corporate vision and describes what makes a vision good or bad. Ron McTavish's article emphasizes the importance of analyzing "what is" and "what was" before deciding "what should be." In his article, Gary Hamel states that companies must revolutionize their strategic planning process or surrender to the revolutionaries. Bernard Boar uses the works of Sun Tzu and Machiavelli to pen responses to strategy questions. Finally, Robert Burgelman and Andrew Grove introduce the term *strategic dissonance* to describe divergences between strategic intent and strategic actions.

READING 1–1

BUILDING YOUR COMPANY'S VISION

James C. Collins
Jerry I. Porras

Collins and Porras suggest that building a visionary company involves discovering the company's core ideology and creating an envisioned future. Core ideology, the enduring character of the organization, consists of core values and core purpose, while the envisioned future is what the company aspires to become.

We shall not cease from exploration
And the end of all our exploring
Will be to arrive where we started
And know the place for the first time.

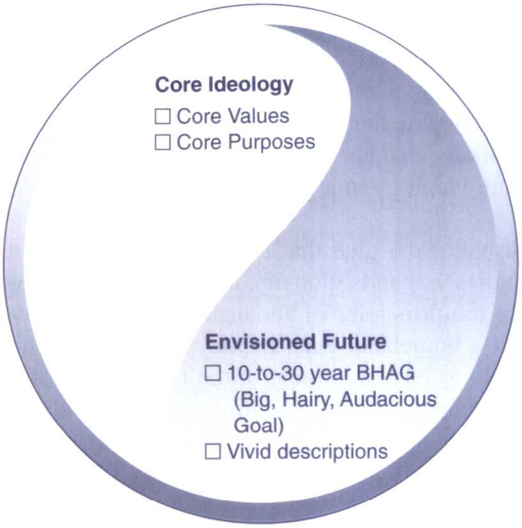
T. S. Eliot
Four Quartets

Companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world. The dynamic of preserving the core while stimulating progress is the reason that companies such as Hewlett-Packard, 3M, Johnson & Johnson, Procter & Gamble, Merck, Sony, Motorola, and Nordstrom became elite institutions able to renew themselves and achieve superior long-term performance. Hewlett-Packard employees have long known that radical changes in operating practices, cultural norms, and business strategies does not mean losing the spirit of the HP Way—the company's core principles. Johnson & Johnson continually questions its structure and revamps its processes while preserving the ideals embodied in its credo. In 1996, 3M sold off several of its large mature businesses—a dramatic move that surprised the business press—to refocus on its enduring core purpose of solving unsolved problems innovatively. We studied companies such as these in our research for *Built to Last: Successful Habits of Visionary Companies* and found that they have outperformed the general stock market by a factor of 12 since 1925.

Truly great companies understand the difference between what should never change and what should be open for change, between what is genuinely sacred and what is not. This rare ability to manage continuity and change—requiring a consciously practiced discipline—is closely linked to the ability to develop a vision.

Source: Excerpted as specified* from *Built to Last*, by James C. Collins and Jerry I. Porras. Copyright © 1994 by James C. Collins and Jerry I. Porras. Reprinted by permission of HarperCollins Publishers, Inc.
*"Building Your Company's Vision" as publisher in *Harvard Business Review* (14 pages).

FIGURE 1 Articulating a Vision



Vision provides guidance about what core to preserve and what future to stimulate progress toward. But *vision* has become one of the most overused and least understood words in the language, conjuring up different images for different people: of deeply held values, outstanding achievement, societal bonds, exhilarating goals, motivating forces, or raisons d'être. We recommend a conceptual framework to define vision, add clarity and rigor to the vague and fuzzy concept swirling around that trendy term, and give practical guidance for articulating a coherent vision within an organization. It is a prescriptive framework rooted in six years of research and refined and tested by our ongoing work with executives from a great variety of organizations around the world.

Truly great companies understand the difference between what should never change and what should be open for change, between what is genuinely sacred and what is not.

A well-conceived vision consists of two major components: *core ideology* and *envisioned future*. (See Figure 1, "Articulating a Vision.") Core ideology, the yin in our scheme, defines what we stand for and why we exist. Yin is unchanging and complements yang, the envisioned future. The envisioned future is what we aspire to become, to achieve, to create—something that will require significant change and progress to attain.

CORE IDEOLOGY

Core ideology defines the enduring character of an organization—a consistent identity that transcends product or market life cycles, technological breakthroughs, management fads, and individual leaders. In fact, the most lasting and significant contribution of those who build visionary companies is the core ideology. As Bill Hewlett said about his longtime friend and business partner David Packard upon Packard's death not long ago, "As far as the company is concerned, the greatest thing he left behind him was a code of ethics known as the HP Way." HP's core ideology, which has guided the company since its inception more than 50 years ago, includes a deep respect for the individual, a dedication to affordable quality and reliability, a commitment to community responsibility (Packard himself bequeathed his $4.3 billion of Hewlett-Packard stock to a charitable foundation), and a view that the company exists to make technical contributions for the advancement and welfare of humanity. Company builders such as David Packard, Masaru Ibuka of Sony, George Merck of Merck, William McKnight of 3M, and Paul Galvin of Motorola understood that it is more important to know who you are than where you are going, for where you are going will change as the world around you changes. Leaders die, products become obsolete, markets change, new technologies emerge, and management fads come and go, but core ideology in a great company endures as a source of guidance and inspiration.

Core ideology provides the glue that holds an organization together as it grows, decentralizes, diversifies, expands globally, and develops workplace diversity. Think of it as analogous to the principles of Judaism that held the Jewish people together for centuries without a homeland, even as they spread throughout the Diaspora. Or think of the truths held to be self-evident in the Declaration of Independence, or the enduring ideals and principles of the scientific community that bond scientists from every nationality together in the common purpose of advancing human knowledge. Any effective vision must embody the core ideology of the organization, which in turn consists of two distinct parts: core values, a system of guiding principles and tents; and core purpose, the organization's most fundamental reason for existence.

Core Values Core values are the essential and enduring tenets of an organization. A small set of timeless guiding principles, core values require no external justification; they have *intrinsic* value and importance to those inside the organization. The Walt Disney Company's core values of imagination and wholesomeness stem not from market requirements but from the founder's inner belief that imagination and wholesomeness should be nurtured for their own sake. William Procter and James Gamble didn't instill in P&G's culture a focus on product excellence merely as a strategy for success but as an almost religious tenet. And that value has been passed down for more than 15 decades by P&G people. Service to the customer—even to the point of subservience—is a way of life at Nordstrom that traces its roots back to 1901, eight decades before customer service programs became stylish. For Bill Hewlett and David Packard, respect for the individual was first and foremost a deep personal value; they didn't get it from a book or hear it from a management guru. And Ralph S. Larsen, CEO of Johnson & Johnson, puts it this way: "The core values embodied in our credo might be a competitive advantage, but that is not *why* we have them. We have them because they define for us what we stand for, and we would hold them even if they became a competitive *dis*advantage in certain situations."

The point is that a great company decides for itself what values it holds to be core, largely independent of the current environment, competitive requirements, or management fads. Clearly, then, there is no universally right set of core values. A company need not have as its core value customer service (Sony doesn't) or respect for the individual (Disney doesn't) or quality (Wal-Mart Stores doesn't) or market focus (HP doesn't) or teamwork (Nordstrom doesn't). A company might have operating practices and business strategies around those qualities without having them at the essence of its being. Furthermore, great companies need not have likable or humanistic core values, although many do. The key is not *what* core values an organization has but that it has core values at all.

Companies tend to have only a few core values, usually between three and five. In fact, we found that none of the visionary companies we studied in our book had more

FIGURE 2 Core Values Are a Company's Essential Tenets

Merck
- Corporate social responsibility
- Unequivocal excellence in all aspects of the company
- Science-based innovation
- Honesty and integrity
- Profit, but profits from work that benefits humanity

Nordstrom
- Service to the customer above all else
- Hard work and individual productivity
- Never being satisfied
- Excellence in reputation; being part of something special

Philip Morris
- The right to freedom of choice
- Winning—beating others in a good fight
- Encouraging individual initiative
- Opportunity based on merit; no one is entitled to anything
- Hard work and continuous self-improvement

Sony
- Elevation of the Japanese culture and national status
- Being a pioneer—not following others; doing the impossible
- Encouraging individual ability and creativity

Walt Disney
- No cynicism
- Nurturing and promulgation of "wholesome American values"
- Creativity, dreams, and imagination
- Fanatical attention to consistency and detail
- Preservation and control of the Disney magic

than five: most had only three or four. (See Figure 2 "Core Values Are a Company's Essential Tenets.") And, indeed, we should expect that. Only a few values can be truly *core*—that is, so fundamental and deeply held that they will change seldom, if ever.

To identify the core values of your own organization, push with relentless honesty to define what values are truly central. If you articulate more than five or six, chances are that you are confusing core values (which do not change) with operating practices, business strategies, or cultural norms (which should be open to change). Remember, the values must stand the test of time. After you've drafted a preliminary list of the core values, ask about each one, If the circumstances changed and *penalized* us for holding this core value, would we still keep it? If you can't honestly answer yes, then the value is not core and should be dropped from consideration.

A high-technology company wondered whether it should put quality on its list of core values. The CEO asked, "Suppose in 10 years quality doesn't make a hoot of difference in our markets. Suppose the only thing that matters is sheer speed and horsepower but not quality. Would we still want to put quality on our list of core values?" The members of the management team looked around at one another and finally said no. Quality stayed in the *strategy* of the company, and quality-improvement programs remained in place as a mechanism for stimulating progress; but quality did not make the list of core values.

The same group of executives then wrestled with leading-edge innovation as a core value. The CEO asked, "Would we keep innovation on the list as a core value, no matter how the world around us changed?" This time, the management team gave a resounding yes. The managers' outlook might be summarized as, "We always want to do leading-edge innovation. That's who we are. It's really important to us and always will be. No matter what. And if our current markets don't value us, we will find markets that do." Leading-edge innovation went on the list and will stay there. A company should not change its core values in response to market changes; rather, it should change markets, if necessary, to remain true to its core values.

Who should be involved in articulating the core values varies with the size, age, and geographic dispersion of the company, but in many situations we have recommended what we call a *Mars Group*. It works like this: Imagine that you've been asked to re-create the very best attributes of your organization on another planet but you have seats on the rocket ship for only five to seven people. Whom should you send? Most likely, you'll choose the people who have a gut-level understanding of your core values, the highest level of credibility with their peers, and the highest levels of competence. We'll often ask people brought together to work on core values to nominate a Mars Group of five to seven individuals (not necessarily all from the assembled group). Invariably, they end up selecting highly credible representatives who do a super job of articulating the core values precisely because they are exemplars of those values—a representative slice of the company's genetic code.

Even global organizations composed of people from widely diverse cultures can identify a set of shared core values. The secret is to work from the individual to the organization. People involved in articulating the core values need to answer several questions: What core values do you personally bring to your work? (These should be so fundamental that you would hold them regardless of whether or not they were rewarded.) What would you tell your children are the core values that you hold at work and that you hope *they* will hold when they become working adults? If you awoke tomorrow morning with enough money to retire for the rest of your life, would you continue to live those core values? Can you envision their being as valid for you 100 years from now as they are today? Would you want to hold those core values, even if at some point one or more of them became a competitive *dis*advantage? If you were to start a new organization tomorrow in a different line of work, what core values would you build into the new organization regardless of its industry? The last three questions are particularly important because they make the crucial distinction between enduring core values that should not change and practices and strategies that should be changing all the time.

Core Purpose Core purpose, the second part of core ideology, is the organization's reason for being. An effective purpose reflects people's idealistic motivations for doing the company's work. It doesn't just describe the organization's output or target customers; it captures the soul of the organization. (See Figure 3, "Core Purpose Is a Company's Reason for Being.") Purpose, as illustrated by a speech David Packard gave to HP employees in 1960, gets at the deeper reasons for an organization's existence beyond just making money. Packard said,

> I want to discuss why a company exists in the first place. In other words, why are we here? I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we call a company so they are able to accomplish something collectively that they could not accomplish separately—they make a contribution to society, a phrase which sounds trite but is fundamental. . . . You can look around [in the general business world and] see people who are interested *in money and* nothing else, but the underlying drives come largely from a desire to do something else: to make a product, to give a service—generally to do something which is of value.[1]

FIGURE 3 Core Purpose Is a Company's Reason for Being

3M: To solve unsolved problems innovatively

Cargill: To improve the standard of living around the world

Fannie Mae: To strengthen the social fabric by continually democratizing home ownership

Hewlett-Packard: To make technical contributions for the advancement and welfare of humanity

Lost Arrow Corporation: To be a role model and a tool for social change

Pacific Theatres: To provide a place for people to flourish and to enhance the community

Mary Kay Cosmetics: To give unlimited opportunity to women

McKinsey & Company: To help leading corporations and governments be more successful

Merck: To preserve and improve human life

Nike: To experience the emotion of competition, winning, and crushing competitors

Sony: To experience the joy of advancing and applying technology for the benefit of the public

Telecare Corporation: To help people with mental impairments realize their full potential

Wal-Mart: To give ordinary folk the chance to buy the same things as rich people

Walt Disney: To make people happy

Purpose (which should last at least 100 years) should not be confused with specific goals or business strategies (which should change many times in 100 years). Whereas you might achieve a goal or complete a strategy, you cannot fulfill a purpose; it is like a guiding star on the horizon—forever pursued but never reached. Yet although purpose itself does not change, it does inspire change. The very fact that purpose can never be fully realized means that an organization can never stop stimulating change and progress.

Whereas you might achieve a goal or complete a strategy, you cannot fulfill a purpose; it is like a guiding star on the horizon—forever pursued but never reached.

In identifying purpose, some companies make the mistake of simply describing their current product lines or customer segments. We do not consider the following statement to reflect an effective purpose: "We exist to fulfill our government charter and participate in the secondary mortgage market by packaging mortgages into investment securities." The statement is merely descriptive. A far more effective statement of purpose would be that expressed by the executives of the Federal National Mortgage Association, Fannie Mae: "To strengthen the social fabric by continually democratizing home ownership." The secondary mortgage market as we know it might not even exist in 100 years, but strengthening the social fabric by continually democratizing home ownership can be an enduring purpose, no matter how much the world changes. Guided and inspired by this purpose, Fannie Mae launched in the early 1990s a series of bold initiatives, including a program to develop new systems for reducing mortgage and underwriting costs by 40 percent in five years; programs to eliminate discrimination in the lending process (backed by $5 billion in underwriting experiments); and an audacious goal to provide, by the year 2000, $1 trillion targeted at 10 million families that had traditionally been shut out of home ownership—minorities, immigrants, and low-income groups.

Similarly, 3M defines its purpose not in terms of adhesives and abrasives but as the perpetual quest to solve unsolved problems innovatively—a purpose that is always leading 3M into new fields. McKinsey & Company's purpose is not to do management consulting but to help corporations and governments be more successful: in 100 years, it might involve methods other than consulting. Hewlett-Packard doesn't exist to make electronic test and measurement equipment but to make technical contributions that improve people's lives—a purpose that has led the company far afield from its origins in electronic instruments. Imagine if Walt Disney had conceived of his company's purpose as to make cartoons, rather than to make people happy; we probably wouldn't have Mickey Mouse, Disneyland, EPCOT Center, or the Anaheim Mighty Ducks hockey team.

One powerful method for getting to the purpose is the *five whys*. Start with the descriptive statement, We make X products, or We deliver X services, and then ask, Why is that important? five times. After a few whys, you'll find that you're getting down to the fundamental purpose of the organization.

We used this method to deepen and enrich a discussion about purpose when we worked with a certain market-research company. The executive team first met for several hours and generated the following statement of purpose for their organization: To provide the best market-research data available. We then asked the following question: Why is it important to provide the best market-research data available? After some discussion, the executives answered in a way that reflected a deeper sense of their organization's purpose: To provide the best market-research data available so that our customers will understand their markets better than they could otherwise. A further discussion let team members realize that their sense of self-worth came not just from helping customers understand their markets better but also from making a *contribution* to their customers' success. This introspection eventually led the company to identify its purpose as: To contribute to our customers' success by helping them understand their markets. With this purpose in mind, the company now frames its product decisions not with the question Will it sell? but with the question Will it make a contribution to our customers' success?

The five whys can help companies in any industry frame their work in a more meaningful way. An asphalt and gravel company might begin by saying, We make gravel and asphalt products. After a few whys, it could conclude that making asphalt and gravel is important because the quality of the infrastructure plays a vital role in people's safety and experience; because driving on a pitted road is annoying and dangerous; because 747s cannot land safely on runways built with poor workmanship or inferior concrete; because buildings with substandard materials weaken with time and crumble in earthquakes. From such introspection may emerge this purpose: To make people's lives better by improving the quality of man-made structures. With a sense of purpose very much along these lines, Granite Rock Company of Watsonville, California, won the Malcolm Baldrige National Quality Award—not an easy feat for a small rock quarry and asphalt company. And Granite Rock has gone on to be one of the most progressive and exciting companies we've encountered in *any* industry.

Notice that none of the core purposes fall into the category "maximize shareholder wealth." A primary role of core purpose is to guide and inspire. Maximizing shareholder wealth does not inspire people at all levels of an organization, and it provides precious little guidance. Maximizing shareholder wealth is the standard off-the-shelf purpose for those organizations that have not yet identified their true core purpose. It is a substitute—and a weak one at that.

When people in great organizations talk about their achievements, they say very little about earnings per share. Motorola people talk about impressive quality improvements and the effect of the products they create on the world. Hewlett-Packard