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**Fred R. David**

# **Strategic Management**

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- **CONCEPTS AND CASES**



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# Strategic Management

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• CONCEPTS AND CASES

**Fred R. David**

FRANCIS MARION UNIVERSITY

FLORENCE, SOUTH CAROLINA



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my wife and children—  
for their encouragement and love.

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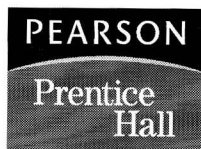
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10 9 8 7 6 5 4 3 2  
ISBN-13: 978-0-13-501320-5  
ISBN-10: 0-13-501320-8

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# Preface

The business world today is considerably different and more complex than it was just two years ago when the previous edition of this text was published. Today, we experience private-equity firms acquiring hundreds of companies, rising consumer and business concern about global warming and pollution, high oil and gasoline prices, extensive outsourcing, a migration of work to China and India, more attention on business ethics, ballooning federal budget deficits, continued globalization, consolidation within industries, a European Union in dispute over its constitution, and intense rivalry in almost all industries. E-commerce continues to alter the nature of business to its core.

Thousands of strategic alliances and partnerships, even among competitors, formed in recent years. Hundreds of companies have declared bankruptcy and corporate scandals have highlighted the need for improved business ethics and corporate disclosure of financial transactions. Downsizing, rightsizing, reengineering, and countless divestitures, acquisitions, and liquidations have permanently altered the corporate landscape in the last two years. Thousands of firms have begun global operations and thousands more have merged. Thousands have prospered and yet thousands more have failed in the last two years. Many manufacturers have become e-commerce suppliers and long-held competitive advantages have eroded as new ones have formed.

Both the challenges and opportunities facing organizations of all sizes today are greater than ever. Illegal immigration across the U.S.–Mexico border has reached emergency levels. There is less room than ever for error today in the formulation and implementation of a strategic plan. This textbook provides a systematic effective approach for developing a clear strategic plan.

Changes made in this twelfth edition are aimed squarely at illustrating the effect of this new world order on strategic-management theory and practice. Due to the magnitude of the changes affecting companies, cultures, and countries, every page of this edition has been updated. The first edition of this text was published in 1986 and since that time it has grown to be one of, if not the most widely read strategic management books in the world. This text now is published in nine languages other than English. All 31 of the case companies in this twelfth edition are brand new, having not appeared in the prior edition.

This twelfth edition provides updated coverage of strategic-management concepts, theory, research, and techniques in the chapters. Every sentence and paragraph has been scrutinized, modified, clarified, deleted, streamlined, updated, and improved to enhance the content and caliber of presentation. The structure of this edition parallels the last, with nine chapters and a Cohesion Case, but the improvements in readability and coverage are dramatic. Every chapter features strategic-management concepts and practices presented in a clear, focused, and relevant manner with hundreds of new examples integrated throughout.

The skills-oriented, practitioner perspective that historically has been the foundation of this text is enhanced and strengthened in this edition. New and expanded coverage of strategic-management theories and research herein reflect companies' use of concepts such as value chain analysis (VCA), Balanced Scorecard, resource-based view (RBV), benchmarking, restructuring, and outsourcing. To survive and prosper in the new millennium, organizations must build and sustain competitive advantage. This text is now trusted around the world to provide future and present managers the latest skills and concepts needed to effectively formulate and efficiently implement a strategic plan—a game plan if you will—that can lead to sustainable competitive advantage for any type of business.

Our mission in preparing the twelfth edition of *Strategic Management: Concepts and Cases* was “to create the most current, well-written strategic management textbook on the market—a book that is exciting and valuable to both students and professors.” Based on comments from 49 reviewers of the prior edition, new strategic-management research and practice, such as the Industrial Organizational (I/O) Model, Market Commonality, Value Chain Analysis, Balanced Scorecard, and First Mover Advantages, are incorporated and

supported by hundreds of new practical examples. There is a brand-new Cohesion Case on Walt Disney—2008 which replaces the prior Google case. Nearly all of the twelfth edition Experiential Exercises have been revamped, replaced, or improved.

The time basis for all cases included in this edition is 2007 since year-end 2006 or 2007 financial statements are provided in all of the cases. This case lineup represents the most up-to-date compilation of cases ever assembled in a strategic management text. There are more cases on technology companies this time, more nonprofit companies, and more global companies. The cases are paired up within industries. The 31 cases in this edition represent a totally fresh beginning for this text and all the cases focus on well-known, student-exciting companies and organizations.

The 49 reviewers (on pp. 22–23) and I believe you will find this edition to be the best strategic management textbook available for communicating both the excitement and value of strategic management. Concise and exceptionally well organized, this text is now published in English, Chinese, Spanish, Thai, German, Japanese, Farsi, Indonesian, Indian, and Arabic. A version in Russian is being negotiated. On five continents, this text is widely used in colleges and universities at both the graduate and undergraduate levels. In addition, thousands of companies, organizations, and governmental bodies use this text as a management guide, making it perhaps the most widely used strategic planning book in the world.

This textbook meets all AACSB-International guidelines for the business policy and strategic-management course at both the graduate and undergraduate levels, and previous editions have been used at more than 500 colleges and universities. Prentice Hall maintains a separate Web site for this text at [www.prenhall.com/david](http://www.prenhall.com/david). The author maintains the Strategic Management Club Online at [www.strategyclub.com](http://www.strategyclub.com), which offers many benefits for strategic-management and business policy students.

## Chapter Themes

As listed below, two themes permeate all chapters in this edition and contribute significantly to making it timely, informative, exciting, and valuable. Boxed insert “Perspectives” in each chapter link concepts being presented to each theme. Nearly all of the boxed inserts are new to this edition.

1. **Global Factors Affect Virtually All Strategic Decisions** The global theme is enhanced in this edition because doing business globally has become a necessity, rather than a luxury in most industries. Nearly all strategic decisions today are affected by global issues and concerns. There is new global coverage in each chapter consistent with the growing interdependence among countries and companies worldwide. The dynamics of political, economic, and cultural differences across countries directly affect strategic-management decisions. Doing business globally is more risky and complex than ever. The global theme illustrates how organizations today can effectively do business in an interlocked and interdependent world community.
2. **Preserving the Natural Environment Is a Vital Strategic Issue** Unique to strategic-management texts, the natural environment theme is strengthened in this edition in order to promote and encourage firms to conduct operations in an environmentally sound manner. This theme now includes social responsibility, sustainability, and business ethics issues. Countries worldwide have enacted laws to curtail the pollution of streams, rivers, the air, land, and sea. Global warming is now undeniable, and even oil companies are supporting emission restrictions as consumers are demanding responsible action from companies and politicians. Thousands of companies are “going green.” The strategic efforts of both companies and countries to preserve the natural environment are described herein. More and more businesses are issuing Sustainability Reports to detail their efforts to curb global warming and operate in an environmentally-friendly manner. Respect for the natural environment has become an important concern for consumers, companies, society, and AACSB-International.

## Twelfth Edition Design Features

There are some nice design features in this edition. For the first time ever, four photos in vivid color are present in each chapter and are tied directly to (1) chapter opening, (2) global perspective, (3) natural environment perspective, and (4) Walt Disney end-of-chapter experiential exercises. These four photos per chapter make the twelfth edition much more visually appealing. In the prior edition, only chapter opening photos were present.

The comprehensive strategic-management model is displayed on the inside front cover of the text. At the start of each chapter, the section of the comprehensive strategy model covered in that chapter is highlighted and enlarged so students can see the focus of each chapter in the basic unifying comprehensive model.

A new Case Information Matrix and Case Description Matrix are provided in the Preface to reveal (1) topical areas emphasized in each case and (2) contact and location information for each case company. These matrices provide suggestions on how the cases deal with the two themes and the nine chapters. For example, the Case Information Matrix provides details regarding which cases can be used to highlight mission/vision and which ones are best for strategy implementation.

## Time-Tested Features

This edition continues to offer many special time-tested features and content that have made this text so successful for nearly twenty years. Historical trademarks of this text that are strengthened in this edition include:

## Chapters: Time-Tested Features

- This text meets AACSB-International guidelines which support a practitioner orientation rather than a theory/research approach. It offers a skills-oriented approach to developing a vision and mission statement; performing an external audit; conducting an internal assessment; and formulating, implementing, and evaluating strategies.
- The global and natural environment themes permeate all chapters and examine strategic-management concepts in these important perspectives.
- The author's writing style is concise, conversational, interesting, logical, lively, and supported by numerous current examples throughout.
- A simple, integrative strategic-management model appears in all chapters and on the inside front cover of the text. This model is widely utilized for strategic planning among consultants and companies worldwide. One reviewer said: "One thing I have admired about David's text is that he follows the fundamental sequence of strategy formulation, implementation, and evaluation. There is a basic flow from mission/purposes to internal/external environmental scanning to strategy development, selection, implementation, and evaluation. This has been, and continues to be, a hallmark of the David text. Many other strategy texts are more disjointed in their presentation, and thus confusing to the student, especially at the undergraduate level."
- A Cohesion Case follows Chapter 1 and is revisited at the end of each chapter. This Cohesion Case allows students to apply strategic-management concepts and techniques to a real organization as chapter material is covered, which readies students for case analysis in the course.
- End-of-chapter Experiential Exercises effectively apply concepts and techniques in a challenging, meaningful, and enjoyable manner. Eighteen exercises apply text material to the Cohesion Case; ten apply textual material to a college or university; another ten exercises send students into the business world to explore important strategy topics. The exercises are relevant, interesting, and contemporary.
- There is excellent pedagogy in this text, including Notable Quotes and Objectives to open each chapter, and Key Terms, Current Readings, Discussion Questions, and Experiential Exercises to close each chapter.

- There is excellent coverage of strategy formulation issues such as business ethics, global versus domestic operations, vision/mission, matrix analysis, partnering, joint venturing, competitive analysis, governance, and guidelines for conducting an internal/external strategy assessment.
- There is excellent coverage of strategy implementation issues such as corporate culture, organizational structure, outsourcing, marketing concepts, financial analysis, and business ethics.
- A systematic, analytical approach is presented in Chapter 6, including matrices such as the SWOT, BCG, IE, GRAND, SPACE, and QSPM.
- The chapter material is again published in four-color.
- “Visit the Net” Internet exercises are available online at [www.prenhall.com/david](http://www.prenhall.com/david) or at the [www.strategyclub.com](http://www.strategyclub.com) Web site and in the page margins of the text. This feature reveals the author’s recommended Web sites for locating additional information on the concepts being presented, and greatly enhances classroom presentation in an Internet environment since the recommended sites have been screened closely to assure that each is well worth visiting in class. This feature also provides students with substantial additional material on chapter concepts.
- The Web site, [www.prenhall.com/david](http://www.prenhall.com/david), provides chapter and case updates and support materials.
- The nine chapters are organized in the same manner as the previous edition.
- A chapters-only paperback version of the text is available.
- Custom-case publishing is available whereby an instructor can combine chapters from this text with cases from a variety of sources, or select any number of cases you desire from the 31 cases in the full text.
- For the chapter material, the outstanding ancillary package includes a comprehensive *Instructor’s Manual*, computerized test bank, and PowerPoints.

## Cases: Time-Tested Features

- This edition contains the most current set of cases in any strategic-management text on the market. All cases include year-end 2006 or 2007 financial data and information.
- The cases focus on well-known firms in the news making strategic changes. All cases are undisguised and most are exclusively written for this text to reflect current strategic-management problems and practices. These are all “student friendly” cases.
- Organized conveniently by industry (usually two competing firms per industry), the cases feature a great mix of small business, international, and not-for-profit firms.
- All cases have been class tested to ensure that they are interesting, challenging, and effective for illustrating strategic-management concepts.
- All the cases provide complete financial information about the firm, an organizational chart, and a vision and mission statement for the organization if those were available.
- Customized inclusion of cases to comprise a tailored text is available to meet the special needs of some professors.
- For the cases, the outstanding ancillary package includes an elaborate *Case Solutions Manual*, PowerPoint, and support from the [www.strategyclub.com](http://www.strategyclub.com) Web site.
- All of the cases are comprehensive in the sense that each provides a full description of the firm and its operations rather than focusing on one issue or problem such as a plant closing. Each case thus lends itself to students preparing a three-year strategic plan for the firm.

## What’s New to This Edition in the Chapters

In addition to the special time-tested trademarks described above, this edition includes some exciting new features, changes, and content designed to position this text as the clear leader and best choice for teaching business policy and strategic management.

First of all, the new Cohesion Case on the Walt Disney Company features one of the most successful, well-known, best managed, and largest family entertainment companies in the world. In addition to its theme parks worldwide, Disney owns Touchstone Pictures, Miramax Films, Pixar, ESPN Zone, 17 hotels at the Walt Disney World Resort, ABC News, Disney Channel, and more. It is a fun company and real challenge for students to address strategic issues facing Disney.

Experiential Exercises at the end of each chapter apply concepts to the Disney Cohesion Case and ready students for case analysis when they complete the chapter material. Over the past twenty years, the Cohesion Case for this text has changed from Ponderosa Steakhouse in the first and second editions, to Hershey Foods in the third through seventh editions, to AOL in the eighth edition, to American Airlines in the ninth edition, Krispy Kreme in the tenth, Google in the eleventh, and now Walt Disney, which is a great company for students to focus upon throughout the semester.

In this edition, new features, changes, and content common to all nine chapters include the following:

- New Global and Natural Environment boxed inserts.
- New examples throughout.
- New Visit the Net (VTN) Web sites provided in the page margins. Many universities now teach in Internet-ready classrooms and utilize Web sites during lectures. These sites are hot-linked at the [www.prenhall.com/david](http://www.prenhall.com/david) and [www.strategyclub.com](http://www.strategyclub.com) Web sites.
- Improved coverage of global issues and concerns.
- Expanded coverage of business ethics.
- All new current readings at the end of each chapter reveal new, relevant strategic-management research.
- More international flavor than ever. There is excellent new coverage of cultural and conceptual strategic-management differences across countries.
- New research and theories of seminal thinkers in strategy development such as Ansoff, Chandler, Porter, Hamel, Prahalad, Mintzberg, and Barney are included. Scholars such as these have brought strategic management to its present place in modern business. Practical aspects of strategic management are still center-stage and the trademark of this text.
- Substantial new material on business ethics throughout. Corporate fraud, scandals, and illegalities are numerous, so we in academia must be certain to emphasize that “good ethics is good business.” This notion is tied to the natural environment theme in this edition.

In addition to the changes listed above, some specific chapter by chapter changes in this twelfth edition are:

## Chapter 1

- There is a new Global Perspective boxed insert regarding the extent that U.S. firms dominate industries.
- There is a new Strategies in Action Table featuring McDonalds and American General.
- Experiential Exercises 1A and 1B have been overhauled.
- There are new examples throughout.

## Chapter 2

- Eight new vision statements are provided along with new “Author’s Comments” about each one.
- Six new mission statements are provided along with new “Author’s Comments” about each one.
- Updated Global Perspective is provided.