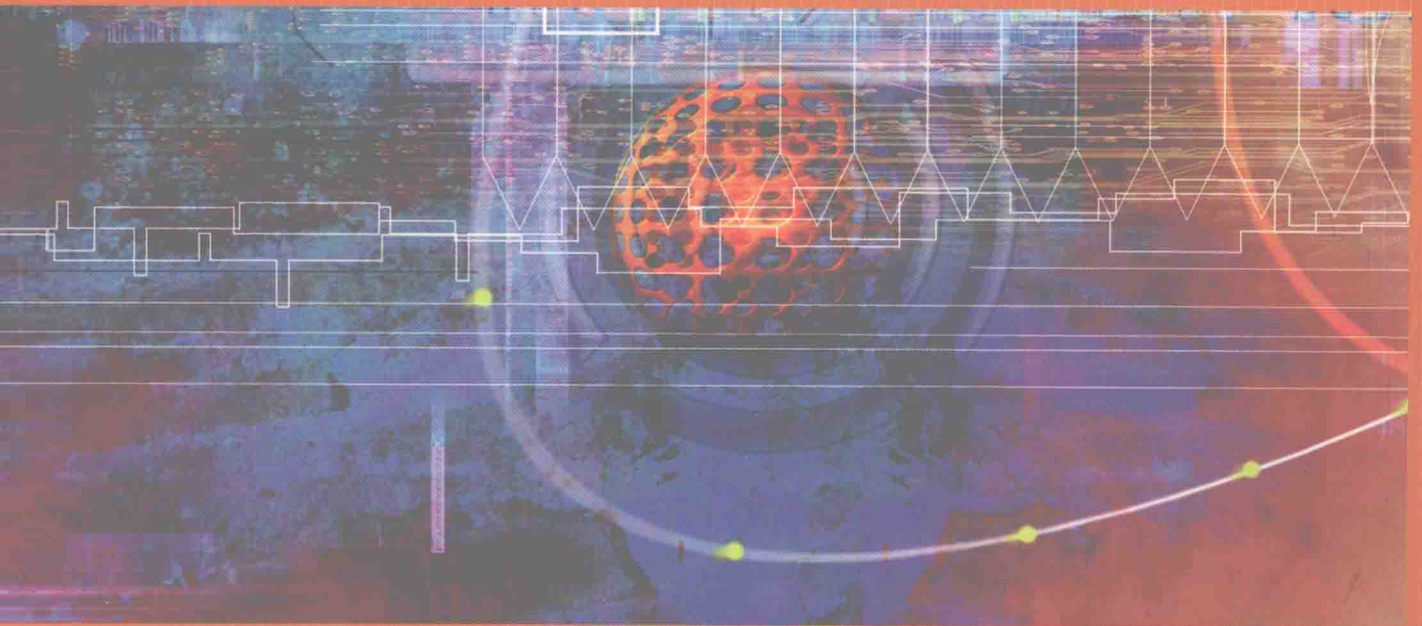


2  
SECOND EDITION

# FOUNDATIONS IN STRATEGIC MANAGEMENT



JEFFREY S. HARRISON

CARON H. ST. JOHN

*Foundations in Strategic Management, 2e*  
By Jeffrey S. Harrison and Caron H. St. John

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## PLOT YOUR OWN COURSE

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*Foundations in Strategic Management* treats core topics and current issues in the field directly and concisely without compromising learning. With less than 200 pages and just eight chapters, it flows at a brisk pace. While it is half the size of standard texts, *Foundations* covers all major strategic management topics, including classic and modern theory; draws on the contributions of leading authors in the field; and interlaces all its presentations with current debates, current perspectives, and current examples. *Foundations* gives you strategy at its most essential along with the option to build a course to your own particular specifications: to add your own readings, to run a simulation, to select your own cases, to experiment with exercises—in short, to customize your course to suit your teaching style and goals.

Three theoretical foundations, above all other concerns, influenced the shape of this book:

- (1) the traditional strategic management process model, with its emphasis on situation analysis (SWOT), formulation, implementation, and control.
- (2) the resource-based model of strategic management, with its emphasis on acquiring and managing resources that develop sustainable competitive advantages.
- (3) stakeholder theory, with its emphasis on the organization as the center of a network of contacts with whom it forms mutually beneficial relationships.

Underlying our discussions with these principles kept us on task. In our efforts to deliver content responsive to the very challenging goals you have undoubtedly already set for your students, we searched for a more perceptive way of understanding strategic management and have reason to hope we have found it.

*Foundations* covers all major strategic management topics, including classic and modern theory; draws on the contributions of leading authors in the field; and interlaces all its presentations with current debates, current perspectives, and current examples. While it is easy to be dismissive of strategic management texts that appear to prefer volume to virtue, we like to think that the value of the insights you are able to offer your students far outweighs the wisdom buried in any book, whatever its size.

## CURRENT TOPICS

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Issues of current relevance—including resource-based theory, stakeholder management, ethics and enterprise strategy, transactions cost theory, agency theory, restructuring, global competitiveness, and strategic alliances—are treated with depth and sophistication and incorporate cutting-edge research findings. Aided by more traditional discussions of environmental analysis, organizational analy-

sis, joint ventures, mergers and acquisitions, leveraged buyouts (LBOs), manufacturing strategy, and crisis management, the field's newest trends stay linked to our focus on strategic management; that is, on strategies and strategic decisions that seek to create a future for an organization with long-range, or "strategic," planning as a central concern. Issues of e-business and the new economy are reflected throughout the text in examples, concepts, assumptions, and inferences. Examples of strategy formulation and implementation focus on both e-businesses such as Amazon.com or Buy.com, and more traditional companies facing new challenges. Chapter-opening case vignettes feature companies as varied as Cisco Systems, Napster, AOL, Coca-Cola, and Jollibee, demonstrating to students the impact of technology and globalization on business and corporate strategy.

## ACADEMICALLY SOLID, GLOBALLY ENGAGED

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*Foundations* pays particular attention to the fundamentals of strategic management and takes a traditional approach to topical organization. Chapter 1 covers the strategic management process. Chapter 2 discusses the external environment, including both the task and the broad environment. Chapter 3 treats the internal environment, internal resources, and strategic direction. Chapter 4 discusses business-level strategy. Corporate-level strategy is tackled in Chapter 5. Chapter 6 focuses on the implementation of functional strategy and organizational structure. Chapter 7 treats strategic control and restructuring. Chapter 8 covers, in more depth, the important topic of global strategy, although international concepts and examples are integrated throughout the text.

Each chapter references global businesses, as well as specific global strategy issues facing all companies in today's ever-changing business environment. In Chapter 8, individual attention is given to implementation issues with respect to global strategy, but these topics also find themselves integrated into the rest of the chapters where applicable, ensuring that the international perspective is more than skin deep. Domestic firms with international ventures and non-U.S.-based organizations are used both as examples of strategic management theory and as meaningful counterweights to domestic-only operations. Many strategy-formulation topics also include global implementation tactics. This mix is especially true in Chapters 2 and 3, where we describe formulation activities together with their implementation.

As we have alluded, instructors of strategic management face significant challenges in fitting all the material they may want to cover into a single capstone course. We are mindful of these challenges and believe we have written a text that is uniquely supportive of them. Perhaps due to frustration, some instructors have altogether dropped use of any published text; but we hope to regain their allegiance with our coordinated yet flexible approach to teaching the strategic management course, combining a concise concepts text with resourceful instructor ancillaries.

### For Instructors

**Instructor's Manual with Test Bank.** The Instructor's Manual with Test Bank (ISBN 0-324-07150-7) includes questions to prompt class discussion, outlines of chapter material, supplementary lecture materials, video recommendations, notes on the chapter-opening case vignettes, and a bank of test questions.

**PowerPoint™ Presentation Slides.** Over 150 PowerPoint slides, with accompanying summaries in PowerPoint's NotesView, are available to supplement course content. To download now, visit *Foundations'* supporting Web site at <http://harrison.swcollege.com>.

## For Students

**Strategize! Experiential Exercises in Strategic Management.** Written by Julie I. Siciliano, of Western New England College, and C. Gopinath, of Suffolk University, *Strategize!* (ISBN 0-324-06653-8) provides a series of "Strategy Sessions" through which students can evaluate strategic management theories in incremental and structured ways in advance of applying them to resolve strategic business case problems. Constructed around 17 unique action-oriented Strategy Sessions, *Strategize!* presents a range of experiential exercises and projects for use in class or out. (An accompanying Instructor's Manual is available, ISBN 0-324-07189-2.)

## ACKNOWLEDGMENTS

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We hope you enjoy this text and find that it accommodates your individual needs.

*Jeff Harrison*  
*Caron St. John*

## A FINAL NOTE TO STUDENTS

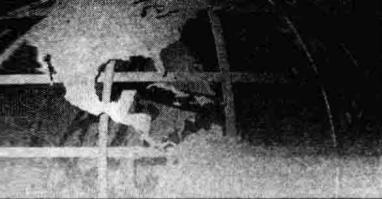
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Although we recognize that most students of strategic management will not become chief executives of major corporations in the very near future, you should likewise recognize that strategy is not just for those who achieve top-leadership positions. The decision-making tools you develop during this course are extremely relevant to all organizational levels, including many career-entry positions as well as to your own career planning. You won't be long on the job before you discover that the techniques of strategic management, such as those required to pull together an industry or organizational analysis, are highly applicable to all types of organizations, including small entrepreneurial firms and nonprofits. In addition, the material contained in this book will help you understand, appreciate, and think critically about trends of current and future importance to the business community—all formidable skills.

Studying strategic management will help you become better prepared to deal and stay fully engaged with important issues in our increasingly complex, increasingly global business environment, regardless of your position or of the industry in which you work. We strongly encourage you to apply the concepts of strategic management to your own employment and career planning decisions. Many of our students have told us that their understanding of strategic management impressed recruiters and allowed them to ask perceptive questions during interviews. Your understanding of strategic management should not be the artifact of a short stay in a classroom. Don't be tempted to treat it as such.

**Dedication:**

To Our Parents



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# **Foundations in Strategic Management**

*2nd edition*

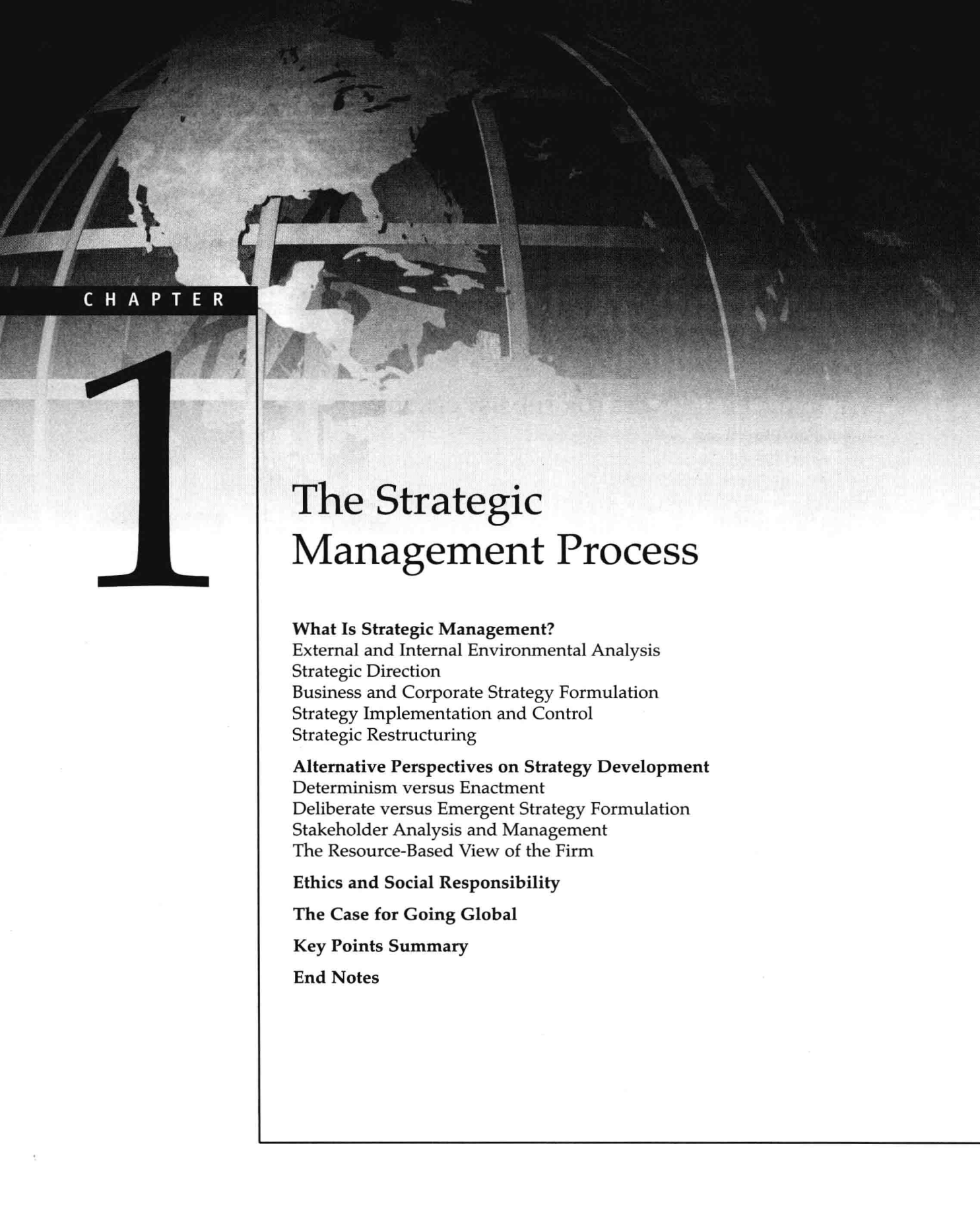
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CHAPTER

# 1

## The Strategic Management Process

### **What Is Strategic Management?**

External and Internal Environmental Analysis

Strategic Direction

Business and Corporate Strategy Formulation

Strategy Implementation and Control

Strategic Restructuring

### **Alternative Perspectives on Strategy Development**

Determinism versus Enactment

Deliberate versus Emergent Strategy Formulation

Stakeholder Analysis and Management

The Resource-Based View of the Firm

### **Ethics and Social Responsibility**

The Case for Going Global

Key Points Summary

End Notes

## Cisco Systems

**Cisco Systems began selling network routers in 1986. Today it sells over 150 types of networking products, including dial-in access servers, switches, hubs, cable boxes, home modems, and caching engines. On March 27, 2000, Cisco became the most valuable business on earth, with a market capitalization of \$531 billion. That title was soon lost to General Electric, but the remarkable thing about Cisco is that it gained the title only 10 years after going public. In those 10 years, the value of Cisco's stock climbed approximately 100,000 percent and the company is still growing by about 30 percent per year. Cisco is now considered one of America's great success stories, along with companies such as Wal-Mart, Intel, and General Electric.**

John Chambers, CEO of Cisco and a native of Charleston, West Virginia, considers himself to be "old school." He is very trusting of

his executives and partners and prefers a handshake over a written contract. He overcame dyslexia through dogged determination and hard work, eventually completing an MBA at Indiana University. After working for IBM and Wang, Chambers joined Cisco in 1991, becoming CEO in 1995. In his first five years as CEO, Chambers presided over the creation of over \$480 billion in stockholder wealth.

With a CEO that simply won't take no for an answer, much of Cisco's growth has come from the acquisition of literally dozens of network product companies. Although most companies experience disappointing results from their acquisitions, Cisco has prospered. Some of these acquisitions, such as the \$5.7 billion acquisition of ArrowPoint Communications, are staggering. Cisco acquires not only products from these acquisitions, but knowledge that can be applied across all of its other businesses. Cisco's acqui-

sition strategy is considered one of the most successful in recent history. Cisco is also very active in forming strategic alliances with other companies.

Cisco's success has come in spite of many challenges from its external environment, including probing government regulators and fierce competitors. In 1998, the FTC investigated charges that Cisco had colluded with Lucent and Nortel. Now Cisco General Counsel Dan Scheinman meets with Justice Department officials to explain Cisco's behavior in an effort to preempt government actions. Also, competitors such as Lucent Technologies provide a formidable and ongoing threat to Cisco's dominant industry position. For example, Cisco acquired semiconductor vendor StratumOne followed a few weeks later by Lucent's deal to buy terabit router vendor Nexabit Networks. Both of these acquisitions were expected to enhance router speed.

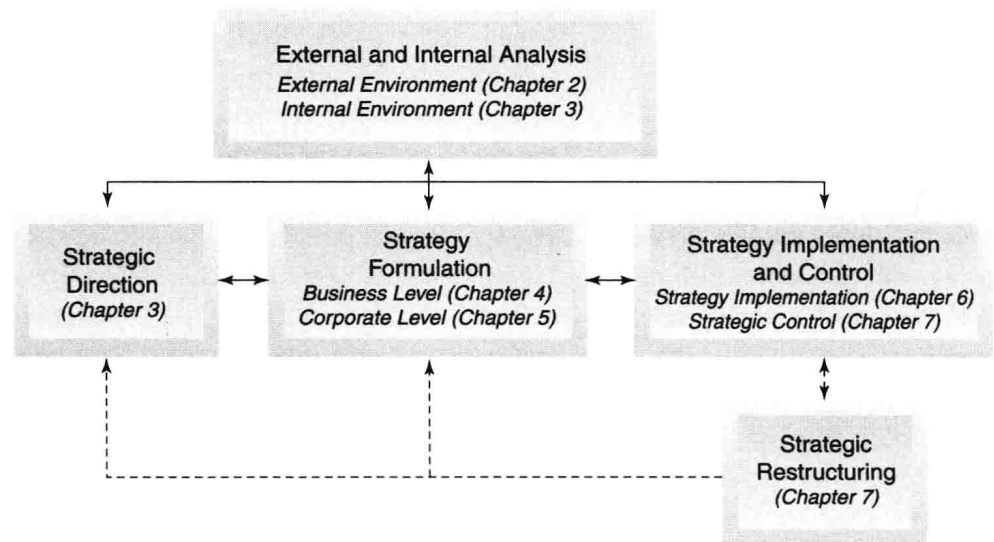
Looking ahead, Chambers expects voice, data, and video streams to converge. Consequently, Cisco has begun making acquisitions in the telecommunications equipment market.<sup>1</sup>

The most successful organizations are able to acquire and manage resources and capabilities that provide competitive advantages. For example, Cisco has been able to acquire, through acquisitions and strategic alliances, products and skills that have led it to a dominant position in its industry. The resources and capabilities Cisco acquires are carefully fostered and applied to all of its business areas. The processes associated with acquiring and managing organizational resources and relationships with constituencies all fall within the management area generally referred to as Strategic Management.

## WHAT IS STRATEGIC MANAGEMENT?

**Strategic management** is the process through which organizations analyze and learn from their internal and external environments, establish strategic direction, create strategies that are intended to help achieve established goals, and execute those strategies, all in an effort to satisfy key organizational constituencies, which are called stakeholders. A simple model of the strategic management process is illustrated in Exhibit 1.1. The model is not rigid, but simply represents a useful sequence in which to discuss the central topics of strategic management. For example, while the activities may occur in the order specified in the model, especially if a firm is engaging in a formal strategic planning program, they may also be carried out in some other order or simultaneously. Also, the dotted arrows in Exhibit 1.1 indicate that organizations often cycle back to earlier activities during the strategic management process.

**Exhibit 1.1 The Strategic Management Process**



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## External and Internal Environmental Analysis

External environmental analysis, discussed in Chapter 2, involves evaluation of the broad and task environments to determine trends, threats, and opportunities and to provide a foundation for strategic direction. The **broad environment** consists of domestic and global environmental forces such as socio-cultural, technological, political, and economic trends. The broad environment forms the context within which the firm and its task environment exist. The **task environment** consists of external stakeholders. **External stakeholders** are groups or individuals outside the organization that are significantly influenced by or have a major impact on the organization.<sup>2</sup> Examples of external stakeholders include customers, suppliers, competitors, government agencies and administrators, and a variety of other external groups that have a stake in the organization. Many of the stakeholders and forces that have the potential to be most important to organizations are shown in Exhibit 1.2. All of the external stakeholders should be analyzed at both the domestic and international levels. In all of the countries in which a company operates, managers must interact with government agencies, competitors, and activist groups, and manage the organization within the countries' socio-cultural, political, economic, and technological context. Thus, Exhibit 1.2 contains both a global and a domestic dimension.

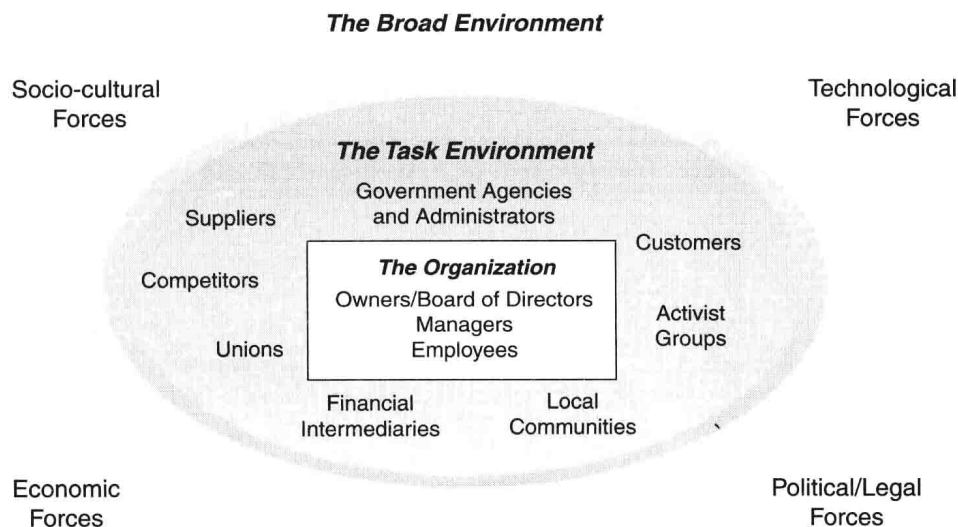
**Internal stakeholders**, which include managers, employees, and the owners and their representatives (e.g., board of directors), also have a stake in the outcomes of the organization. A fully developed internal analysis also includes a broader evaluation of all of the organization's resources and capabilities to determine strengths, weaknesses, and opportunities for competitive advantage, and to identify organizational vulnerabilities that should be corrected. Internal analysis is the subject of Chapter 2.

As illustrated by the downward pointing arrows in Exhibit 1.1, analysis of the external and internal environments provides an organization with a foundation

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### Exhibit 1.2 The Organization and Its Environments

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for all of the other tasks of strategic management. For example, an organization's managers should formulate strategies based on internal strengths and weaknesses and in the context of the opportunities and threats found in its external environment. In addition, strategic direction is an outcome of melding the desires of key organizational stakeholders with environmental realities.

### Strategic Direction

Strategic direction pertains to the longer-term goals and objectives of the organization. At a more fundamental level, strategic direction defines the purposes for which an organization exists and operates. This direction is often contained in a *mission* statement. Unlike shorter-term goals and strategies, the mission is an enduring part of planning processes within the organization. Often missions describe the areas or industries in which an organization operates. For example, the mission of the New York Stock Exchange is as follows:

Support the capital-raising and asset-management processes by providing the highest-quality and most cost-effective, self-regulated marketplace for the trading of financial instruments; promote confidence in and understanding of that process; and serve as a forum for discussion of relevant national and international policy issues.<sup>3</sup>

A well-established strategic direction provides guidance to the managers and employees who are largely responsible for carrying it out as well as a greater understanding of the organization for the external stakeholders with whom the organization interacts. Since strategic direction is an important part of the internal organization, it is also discussed in Chapter 3.

### Business and Corporate Strategy Formulation

A *strategy* is an organizational plan of action that is intended to move an organization toward the achievement of its shorter-term goals and, ultimately, toward the achievement of its fundamental purposes. Strategy formulation is often divided into three types—corporate, business, and functional, as shown in Exhibit 1.3.

*Business strategy formulation*, discussed in Chapter 4, pertains to domain direction and navigation, or how businesses compete in the areas they have se-

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#### Exhibit 1.3 Strategy Formulation in a Multibusiness Organization

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