

STRATEGIC
MANAGEMENT
AND **B**USINESS
POLICY

FOURTH EDITION

WHEELEN / HUNGER

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STRATEGIC MANAGEMENT AND BUSINESS POLICY



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DEDICATED TO

Kathy, Tom, Richard



Betty, Kari, Suzi, Lori, Merry

PREFACE

The corporate world is becoming a very different place. Mergers and acquisitions have transformed the landscape. International boundaries are fading in importance as businesses take on a more global perspective, and the technology of the “Information Age” is telescoping the time it takes to communicate and make decisions. Strategic management takes a panoramic view of this changing corporate terrain and dares to ask *why*.

As a capstone course, strategic management and business policy unites the various departments, majors, and subdisciplines usually found in a business school. Other courses deal in depth with procedures and activities designed to answer *how* corporations exist. Because strategic management itself is in a constant state of flux, and because the course takes a holistic approach, business policy is often a difficult course to teach and to take. Consequently, this book is organized around a strategic management model that prefaces each chapter and provides a structure for content and for complex case analyses by students.

Both the text and the cases have been class-tested in policy courses and revised based on feedback from those classes. In response to students and professors, we have emphasized primarily those concepts that have proven to be most useful in understanding strategic decision-making and in conducting case analysis. Our goal was to make the text as comprehensive as possible without getting bogged down in any one area. Footnote references are provided for those who wish to learn more about any particular topic. As in previous editions, all the cases are about actual corporations. The firms range in size and maturity from large, established multinationals to small, entrepreneurial ventures, and cover a broad range of issues and questions.

TIME-TESTED FEATURES

As with previous editions, approximately one-third of the book deals with the field of strategic management in the form of fourteen chapters and two-thirds deals with actual organizations in the form of forty-one cases. This mix is ideally suited to the methodology most used in the strategic management and business policy course. A model of the strategic management process is thoroughly presented in the first

chapter and provides an organizing principle for the entire book. The strategic audit, based on the popularly used strategic decision-making process, is explained in the second chapter and serves to aid in case analysis. To enable the reader to understand the roles and responsibilities of people in corporations who have to make strategic decisions, a special section is devoted to the board of directors and top management.

Special chapters dealing with strategic issues in multinational corporations, entrepreneurial ventures and small businesses, and not-for-profit organizations are included to give special emphasis to these types of organizations. International issues and examples, as well as stakeholder concerns, are integrated throughout the text. In contrast to other textbooks in this area, equal emphasis is placed on environmental scanning factors in the societal environment as well as factors in the task environment—an organization's particular industry.

The cases have been carefully chosen to ensure that they are not only timely, well-researched, and well-written, but also deal with important issues in interesting companies and industries. Many of the cases are about well-known, publicly held corporations—ideal subjects for further research by students wishing to “update” the cases.

FEATURES NEW TO THIS EDITION

This edition includes many of the same features and content that helped make previous editions successful. In addition to updating and fine-tuning these tested features, other additions and changes to both the chapters and the cases make the book more useful to students and professors, and more representative of the rapidly growing field of strategic management and business policy.

THE CHAPTERS

- **Increased coverage of strategy implementation (Chapters 8 and 9).** A second chapter has been added on strategy implementation to provide more information on organizational and job design as well as on managing organizational culture and action planning. Staffing issues after acquisitions and during re-trenchment have been expanded. The concept of the organizational life cycle includes Danny Miller's work on declining organizations.
- **Increased coverage of business and functional strategies (Chapter 7).** A separate chapter expands on Michael Porter's competitive strategies at the business unit level and on the many possible strategies at the corporation's functional level. New information on competitive tactics is also included.
- **A separate chapter on social responsibility and ethics (Chapter 3).** To better deal with the increasing interest in environmental concerns and stakeholder issues, not only has content on social responsibility been expanded, but concepts and theories dealing with ethics in strategic management have been added.

- **Increased coverage of industry analysis (Chapter 4).** Information on Porter's forces determining competitive intensity has been expanded and combined with literature on strategic groups, industry evolution, mobility barriers, and strategic types.
- **Heightened emphasis on strategic factors (Chapters 4, 5, and 6).** Techniques are presented to better analyze and synthesize information gained from environmental scanning and to consolidate it into the useful categories of strengths, weaknesses, opportunities, and threats.
- **Key concepts from Porter's *Competitive Advantage of Nations* (Chapter 11).** A new section on international trade using the concepts of Smith, Ricardo, and Porter, plus an expanded section on Hofstede's research on cultural values, have been added to the international chapter dealing with strategic issues in multinational corporations.
- **Boxed examples of Maytag Corporation added to Chapters 1–12.** Instead of a long integrative case at the end of each chapter, a short vignette of one company's (Maytag's) experience in strategic management serves to illustrate some of the issues in each chapter and to integrate the material.
- **Information on strategic decision making and strategic managers combined into one chapter (Chapter 2) and case analysis moved to a separate chapter (Chapter 14).** This serves to "tighten up" the material and place it where it is most useful to the reader.
- **A videotape on the Maytag Corporation made available to adopters of this book.** To enhance the value of the Maytag vignettes within the chapters, a videotape about the corporation is available. It includes a video presentation of the corporation's divisions and product lines (shown at the 1990 annual shareholders meeting).

THE CASES

- **Forty-one current, comprehensive cases of actual corporations (including two not-for-profit organizations) and industries in the midst of strategic change.** Of these cases, twenty-nine have been critiqued by expert referees of the North American Case Research Association and the Midwest Society for Case Research. Sixteen appear in either the *Case Research Journal* or *Annual Advances in Business Cases*. Of the forty-one cases, four classic, special-issue cases have been carried forward from the third edition of this book; 37 cases are new to this edition.
- **In addition to organizing the cases by specific topic areas, such as Strategic Managers, Environmental Issues, and Not-for-Profit, cases are categorized by industry.** The *eleven industries* represented are Entertainment/Hospitality, Information Technology, Software Technology, Fashion, Retailing, Transportation, Appliances/Furniture, Pharmacy, Restaurants, Food, and Greeting Cards.
- **Six cases deal specifically with issues in the emerging world economy.** They represent the regions of Eastern Europe, the European Community, Pacific Rim, and the North American Trade Zone.

- Two of the cases in this book, plus two more in the accompanying Instructor's Manual, are special industry notes dealing with the personal computer, home appliance, food service, and drug store industries. These industry notes may be used on their own for industry analysis or with the accompanying cases of Brooktrout Technology, Maytag, Shoney's, Wendy's, and Longs Drug Stores.
- Videotapes available to adopters of this book for use with specific cases. Videotaped interviews with the CEOs of Brooktrout Technology (Case 11), STM Technology (Case 13), and Maytag Corporation (Case 24) are available to use with class discussion of the cases.

OBJECTIVES

This book focuses on the following objectives, typically found in most strategic management and business policy courses:

- To develop *conceptual skills* so that a student is able to integrate previously learned aspects of corporations.
- To develop a *framework of analysis* to enable a student to identify central issues and problems in complex, comprehensive cases; to suggest alternative courses of action; and to present well-supported recommendations for future action.
- To develop an understanding of strategic management *concepts, research, and theories*.
- To develop an understanding of the *roles and responsibilities* of the board of directors, Chief Executive Officer, and other key managers in strategic management positions.
- To develop the ability to analyze and evaluate, both quantitatively and qualitatively, the *performance* of the people responsible for strategic decisions.
- To bridge the gap between theory and practice by developing an understanding of when and how to apply *concepts and techniques* learned in earlier courses on marketing, accounting, finance, management, production, and information systems.
- To improve *research capabilities* necessary to gather and interpret key environmental data.
- To develop a better understanding of the *present and future environments* in which corporations must function.
- To develop and refine *analytical and decision-making skills* for dealing with complex conceptual problems in an ethical manner.
- To develop an understanding of the *emerging world economy* and its potential impact on business activities in any location.

This book achieves these objectives by presenting and explaining concepts and theories useful in understanding the strategic management process. It critically

analyzes studies in the field of strategy to acquaint the student with the literature of this area and to help develop the student's research capabilities. It also describes the people who manage strategically and suggests a model of strategic management. It recommends the strategic audit as one approach to the systematic analysis of complex organizationwide issues. Through a series of comprehensive cases, it provides the student with an opportunity to apply concepts, skills, and techniques to real-world corporate problems. The book focuses on the business corporation because of its crucial position in the economic system of the world and in the material development of any society.

STRUCTURE

Part One is an overview of the subject, surveying the basic concepts needed to deal with strategic issues in modern corporations. Chapter 1 presents a descriptive model as well as key terms and concepts that will be used throughout the book. Chapter 2 focuses on strategic managers and on the strategic decision-making process—important building blocks needed for a basic understanding of strategic management.

Part Two discusses important concepts that arise from both the external and internal environments of a corporation. Chapter 3 introduces social responsibility and provides an ethical orientation to the study of strategic management. Chapter 4 discusses both the task and societal environments of a corporation, and suggests environmental scanning and forecasting as key corporate tasks. Industry analysis is emphasized as an important part of the scanning process. Chapter 5 examines the importance of a corporation's structure, culture, and resources to its strategic management.

Part Three deals with strategy formulation. It emphasizes long-range planning and the development of alternative courses of action at the corporate, business, and functional levels. Chapter 6 discusses situation analysis and corporate strategy. Chapter 7 examines competitive strategy and tactics as well as the many possible functional strategies.

Part Four considers the implementation of strategies and policies in terms of organizing, staffing, and directing. It also examines the process of evaluation and control. Chapter 8 explains strategy implementation in terms of programs, budgets, and procedures. It emphasizes implementation through the design of organizations and jobs. Chapter 9 also emphasizes strategy implementation, but does so by examining staffing and directing issues. Chapter 10 completes the strategic management model by focusing on evaluation and control. It considers the monitoring of corporate processes and the accomplishment of goals, as well as various methods and criteria used in evaluating performance.

Part Five summarizes and examines strategic issues in particular types of organizations. Chapter 11 looks at strategic issues in multinational corporations and deals with the implications of operating within an international environment. Chapter 12 discusses strategic issues in entrepreneurial ventures and small businesses. Chapter 13 examines the not-for-profit organization and explains how it differs from the typical business firm.

Part Six serves as an introduction to case analysis. It presents various approaches to case analysis and summarizes useful techniques of financial analysis.

Part Seven is composed of forty-one case studies of strategic situations in actual organizations. These cases were written by experienced case writers from around the world, whose contributions greatly enhance the quality of the book. The cases cover a wide range of situations, illustrating the material in Parts One through Five. There are two cases on strategic managers, four cases dealing with environmental and ethical issues, twenty-seven comprehensive strategy cases, six cases on the emerging world economy, and two cases dealing with not-for-profit organizations. The twenty-seven comprehensive strategy cases have been categorized into eleven industries. The six international cases have been grouped by geographic location from Eastern Europe to the Pacific Rim. *Thirty-seven cases are new to this edition.*

DECISION SUPPORT DISKETTES

The decision support software, Strategic Financial Analyzer (ST. FAN)[™], Version 2.0 (available with this book) was especially developed for students of strategic management and business policy. This software allows the instructor to introduce students to meaningful *computer-assisted strategic and financial analysis* from selected cases in the book. The software is used with the Lotus[®] 1-2-3[®] program on IBM[®]-compatible personal computers with two disk drives or with one disk drive and a hard drive. The software is “user friendly” and requires minimal knowledge of Lotus 1-2-3, programming, or microcomputers beyond the basic knowledge of “booting up.” The student can learn to use the software in less than one hour, from the instructions provided, so that the instructor need not be involved.

Students are not required to purchase a supplemental book to obtain ST. FAN. Instead, the text is available with the disks and instructions packaged in the back of the book. The order code for this package is #53285. The order code for the text without ST. FAN is #53281. Please contact the Marketing Manager for Business and Economics at Addison-Wesley or your bookstore for further details.

This software, *the most comprehensive software package available for students of strategic management*, will enhance the student’s knowledge of financial and strategic management analytical techniques. The Strategic Audit Worksheet allows the student to quickly organize and print out his/her strategic audit. This software links the classrooms with the methods that strategic managers use in their companies.

The software helps students to complete *on their own*, quickly and easily, the financial analysis of complex strategy/policy cases. It uses *historical financial information* (not the constant dollar format used in previous software) in the form of balance sheets and income statements from the cases to generate:

- Twenty-seven financial ratios (see Chapter 14).
- Common-size balance sheets and income statements (see Chapter 14).
- Scenario construction box, which enables the students to develop pro forma projected financial statements to accompany their recommendations (see

Chapter 7). *A special feature of this box is that it interacts directly with Lotus 1-2-3 for ease of operation.*

- A Strategic Audit Worksheet enabling students to do a complete S.W.O.T. analysis on the personal computer (see Figure 14.1 in Chapter 14).
- Worksheets for determining strategic factors (EFAS and IFAS from Chapters 4 and 5).

In addition, as a **special feature**, *the program automatically calculates financial ratios and develops common-size balance sheets and income statements for the pro forma projections generated by the students in their scenario construction.* This enables the student to check to see if his/her recommendation is feasible and in general agreement with the historical ratios and relationships.

Available separately from Addison-Wesley is a full-function *Student Edition of Lotus® 1-2-3®*. The Lotus Student Edition is compatible with the decision support disks available with this book.

Supplements

Instructor's Manual A comprehensive Instructor's Manual has been carefully constructed to accompany this book. It is composed of the following five parts.

Part A: Ideas for Instructors and Chapter Notes. Suggested course outlines, case sequences, and teaching aids are included in this part. A standardized format is provided for each chapter: chapter abstract, list of key concepts/terms, and suggested answers to discussion questions. A reprinted article, "Facts and Impacts: A Comparative Analysis of the 1992 European Community Pact and the U.S.-Canadian Free Trade Agreement," is included with the notes for Chapter 11 as an added instructional resource.

Part B. Multiple Choice Test Questions. (See Computerized Text Bank.)

Part C. Case Notes. A standardized format is provided for each case:

(1) case abstract, (2) case issues and subjects, (3) steps covered in the strategic decision-making process (see Figure 2.4), (4) case objectives, (5) suggested classroom approaches, (6) discussion questions, (7) case author's teaching note, (8) and a student-written strategic audit or paper. Financial analysis, a list of twenty-seven calculated financial ratios plus common-size balance sheets and income statements, is also included for the 20 cases on the decision-support STrategic FInancial ANalyzer (ST. FAN) diskettes. (This information is identical to that provided to the student for each case on the diskettes available with this textbook.)

Part D. Selected Student Papers. Additional student-written analyses of selected cases are included in a special section for those who wish to see examples of what they might expect from their students in an essay exam.

Part E. Transparency Masters. Selected figures and tables from the text chapters plus other masters highlighting key strategic management concepts and techniques are included in this part.

In addition to these five parts, the Instructor's Manual includes two industry notes (*Drug Store Industry* and *Food Service Industry*) plus one additional case (*Home Shopping Network—Condensed*). These cases *can be copied* from the Instructor's Manual and disseminated to students at *no charge* and *without* the need for additional *copyright permissions*.

Three videotapes Videotapes featuring Maytag Corporation (Case 24), Brooktrout Technology (Case 11), and STM Technology (Case 13) *are available free to adopters of this textbook*. These include a presentation of the Maytag Corporation's divisions and product lines (shown at the 1990 annual shareholders meeting) and interviews with Eric Giler, the founder and CEO of Brooktrout Technology, and Jerry Budinoff, founder and CEO of STM Technology, regarding each of their views of their respective company's performance.

Computerized Test Bank **Multiple-choice questions** (approximately 60 per chapter), prepared by John E. Merchant, California State University at Sacramento, are available free to adopters of this textbook in a computerized test bank on diskette. These questions cover the 14 chapters of the book.

Transparency Acetates Acetates of the transparency masters from the Instructor's Manual are available free to adopters of the text.

ST. FAN Decision Support Diskettes As described earlier, ST. FAN™ (Strategic Financial Analyzer), Version 2.0, is specially designed software for use with IBM-compatible personal computers. The disks include balance sheets and income statements from selected cases in the book plus a program that uses Lotus 1-2-3 to *calculate financial ratios* for these cases. This feature should allow students to reduce time spent on calculations and increase time spent on case analysis.

Student Edition of Lotus® 1-2-3® Available separately from Addison-Wesley, the Student Edition is a full-function, full-capacity version of Lotus 1-2-3. The Student Edition is compatible with the ST. FAN decision support disks.

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