

John A. Pearce II • Richard B. Robinson

STRATEGIC MANAGEMENT

Formulation, Implementation, and Control



12/e

Strategic Management

**Formulation, Implementation,
and Control**

Twelfth Edition

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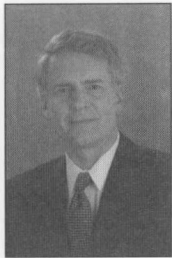
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To Susan McCartney Pearce, David Donham Pearce,
Mark McCartney Pearce, Sage Ast, Rowan Ast, Anjali Ast,
and Oakley Robinson—for the love, joy, and vitality that
they give to our lives.

About the Authors



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John A. Pearce II, Ph.D., holds the Villanova School of Business Endowed Chair in Strategic Management and Entrepreneurship at Villanova University. In 2009, he received the Fulbright Senior Specialist Award for work at Simon Fraser University's Segal Graduate School of Business in Vancouver, Canada. In 2004, he was the Distinguished Visiting Professor at ITAM in Mexico City. Previously, Professor Pearce was the Eakin Endowed Chair in Strategic Management at George Mason University and a State of Virginia Eminent Scholar. He received the 1994 Fulbright U.S. Professional Award, which he served at INTAN in Malaysia. Dr. Pearce has taught at Penn State University, West Virginia University, the University of Malta as the Fulbright Senior Professor in International Management, and at the University of South Carolina where he was Director of Ph.D. Programs in Strategic Management. He received a Ph.D. degree in Business Administration and Strategic Management from the Pennsylvania State University.

Professor Pearce is coauthor of 36 books and has authored more than 250 articles and refereed professional papers. The articles have appeared in journals that include *Academy of Management Executive*, *Academy of Management Journal*, *Academy of Management Review*, *Business Horizons*, *California Management Review*, *Journal of Applied Psychology*, *Journal of Business Venturing*, *Long-Range Planning*, *Organizational Dynamics*, *Sloan Management Review*, and *Strategic Management Journal*. Several of these publications have resulted from Professor Pearce's work as a principal on research projects funded for more than \$2 million.

Professor Pearce is the recipient of several awards in recognition of his accomplishments in teaching, research, scholarship, and professional service, including three Outstanding Paper Awards from the Academy of Management and the 2003 Villanova University Outstanding Faculty Research Award. A frequent leader of executive development programs and an active consultant to business and industry, Dr. Pearce's client list includes domestic and multinational firms engaged in manufacturing and service industries.



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Dr. Robinson has previously held executive positions with companies in the pulp and paper, hazardous waste, building products, lodging, and restaurant industries. He currently serves as a director or adviser to entrepreneurial companies that are global leaders in niche markets in the log home, building products, animation, and visualization software industries. Dr. Robinson also advises more than 250 students each year who undertake field consulting projects and internships with entrepreneurial companies worldwide.

Preface

This twelfth edition of *Strategic Management: Formulation, Implementation, and Control* is designed to accommodate the needs of strategy students worldwide in our fast changing twenty-first century. These are exciting times, and they are reflected in this book and the accompanying McGraw-Hill supplements. This preface describes what we have done to make the twelfth edition uniquely effective in preparing students for strategic decisions in tomorrow's fast-paced global business arena. They include NEW or revised chapter material, cases, and illustrations examining:

- Business ethics and corporate social responsibility.
- Globalization as a central theme integrated and illustrated throughout this book and in a separate chapter on the global business environment every business faces.
- Fundamental ways strategists enable innovation and entrepreneurship to shape their companies' futures more proactively.
- Structuring networked, boundaryless organizational structures to face twenty-first-century challenges.

Top Strategist Starbucks CEO Howard Schultz on CSR	Exhibit 3.9
	<p>Starbucks supports coffee farmers by paying premium prices for the highest quality coffee beans and by maintaining its position as the largest purchaser, roaster, and distributor of Fair Trade Certified™ coffee in North America (it is also among the largest worldwide). In addition, Starbucks is a long-time partner of Conservation International (CI). Together, the two organizations developed environmental and social practice standards (C.A.F.E. Practices) for coffee farmers and implemented a rewards system for farmers who adhere to these practices.</p> <p>The partnership has had a major impact on coffee farmers worldwide. For example, the Association of Kilimanjaro Specialty Coffee Growers, an association of 8,000 smallholder coffee growers in Tanzania, receives support from Starbucks because it is C.A.F.E.-certified. As a result, the association is able to add environmentally sustainable technology to increase coffee quality, which in turn improves the profitability of its farmer members.</p> <p>Since he came out of retirement to be reappointed as Starbucks' CEO in January 2008, Howard Schultz has taken action to further solidify the company's support of coffee farmers. Schultz partnered with Peter Seligmann, CI's chairman and CEO, to take support of coffee farmers to the next level by protecting the land surrounding coffee farms. The effort involves an effort to help the farmers get a piece of the fast-growing \$70 billion carbon finance business. Starbucks finances CI's efforts to work with local growers to protect the landscapes around the coffee farms. Farmers agree to preserve forests to replant trees so that they become eligible for carbon credits from companies that are voluntarily offsetting their emissions.</p> <p>Under Schultz's leadership, Starbucks has also extended its direct financial support of coffee farmers. In 2008, Starbucks, Transfair USA, and the Fairtrade Labeling Organizations (FLO) International</p>

- The accelerating pace of global and technological change with frameworks that help managers adapt its impact on their companies, markets, and the industry dynamics that result.
- Ways for strategists to identify and leverage their firm's strengths in rapidly changing industry circumstances.
- Contemporary examination of the challenges and advantages using global supply chains and outsourcing of strategic parts of a firm's product or service offerings.

Strategy in Action	Exhibit 4.3
Unions Seek Payback for Helping Obama	
<p>The labor unions that helped Barack Obama win the White House are looking for some payback. While Obama's support could help, unions' diminishing membership has made it tough to get their legislation passed. Unions represent about one in eight U.S. workers, down from about one in five 25 years ago.</p> <p>The biggest labor-business donnybrook in the new Congress will be over a bill that would do away with employers' right to demand secret-ballot elections to recognize unions. Instead, a company would have to recognize and bargain with a union once union cards were signed by 50 percent of the company's eligible workforce plus one additional employee.</p>	<p>The House passed the measure in 2007, but it died under a Republican filibuster in the Senate. President Bush had vowed to veto it, but Obama made it part of his platform.</p> <p>Labor leaders say employers have used secret-ballot elections, generally held on job sites, to coerce and intimidate workers into rejecting unions. Employers counter that workers are often coerced by their peers to sign union cards and that a secret-ballot election is the only way to determine their true desires.</p> <p>Source: Excerpted from "Unions Seek Payback for Helping Obama," <i>The Associated Press</i>, November 10, 2008, http://www.msnbc.msn.com/id/27649167/. Reprinted with permission of The Associated Press. Copyright © 2008. All rights reserved.</p>

- The increased and valued role of companies founded and/or run by women and minorities worldwide.

We are also pleased to offer:

- More than 20 new Top Strategist boxes highlighting leaders worldwide who are unique examples of good strategic leadership and thinking.
- 30 new, contemporary cases covering business situations from around the world in both large and small, entrepreneurial companies—6 short cases and 24 comprehensive cases are included in this twelfth edition's case selection.
- More than 50 new Strategy in Action boxes illustrating key concepts in each chapter.
- Literally hundreds of new, twenty-first-century examples woven into the text in each chapter.

The twelfth edition of *Strategic Management* is divided into 14 chapters. They provide a thorough, state-of-the-art treatment of the critical business skills needed to plan and manage strategic activities. While the text continues a solid academic connection, students will find the text material to be practical, skills oriented, and relevant to their jobs and entrepreneurial aspirations.

All of the material in this edition is based on a proven model-based treatment of strategic management that allows for self-study and an easy-to-understand presentation. We have also significantly reduced the page length in this edition, providing in turn a very focused presentation that is also the most cost-effective offering from McGraw-Hill/Irwin for twenty-first-century students and instructors of strategic management.

AN OVERVIEW OF OUR TEXT MATERIAL

The twelfth edition uses a model of the strategic management process as the basis for the organization of the text material. Adopters have identified this model as a key distinctive competence for our text because it offers a logical flow, distinct elements, and an easy-to-understand guide to strategic management. The model reflects strategic analysis at different organizational levels as well as the importance of innovation in the strategic management process. The model and parallel chapter organization provides a student-friendly approach to the study of strategic management.

Chapters

The first chapter provides an overview of the strategic management process and explains what students will find as they use this book. The remaining 13 chapters cover each part of the strategic management process and techniques that aid strategic analysis, decision making, implementation, control, and renewal. The literature and research in the strategic management area have developed at a rapid pace in recent years in both the academic and business press. The twelfth edition includes several upgrades designed to incorporate major developments from both these sources. While we include cutting-edge concepts, we emphasize straightforward, logical, and simple presentation so that students can grasp these new ideas without additional reading.

Strategy in Action Modules

Each chapter provides a key pedagogical feature, Strategy in Action modules, that have become standard in most strategy books. We have drawn on the work of prestigious business magazine field correspondents worldwide to fill more than 50 new Strategy in Action modules with short, hard-hitting current illustrations of key chapter topics. We are energized by the excitement, interest, and practical illustration value our students tell us they provide.

Top Strategists Boxes

Adding to the Strategy in Action modules, we have included one or more Top Strategist boxes in each chapter that tell the personal story about a company or industry leader whose behavior, practices, or actions illustrate a key concept in the strategic management process covered in that particular chapter. These boxes help personalize what we present in the chapter through a vignette about someone most students will recognize or have read about in the popular press.

CASES IN THE TWELFTH EDITION

We are pleased to offer 30 excellent cases in this edition. These cases present companies, industries, and situations that are easily recognized, current, and interesting. We have a good mixture of small and large firms; start-ups and industry leaders; global and domestically focused companies; and service, retail, manufacturing, technology, and diversified activities. We explore U.S.-based companies, European-based companies, Asian-based companies, and emerging Middle Eastern economies.

Six of the cases in this edition are short cases. They allow for flexibility in conducting class sessions where coverage of both a case and other material is desirable. We have found them useful at the start of a strategy course's case segment to jump-start students' grasp of what strategy is about—using short vignettes on companies very familiar to students presented as those companies face current strategic situations and decisions. So cases such as “Facebook vs. Twitter,” “Microsoft vs. Mozilla,” and “PetSmart vs. Petco” let students embark on case analysis in company settings with which they are already comfortable.

OUR WEB SITE

A substantial Web site has been designed to aid your use of this book. It includes areas accessible only to instructors and areas specifically designed to assist students. The instructor section includes supplement files, which include detailed teaching notes, PowerPoint slides, and case teaching notes for all 30 case studies, which keep your work area less cluttered and let you quickly obtain information. Students are provided company and related business periodical (and other) Web site linkages to aid and expedite their case research and preparation efforts. Practice quizzes are provided to help students prepare for tests on the text material and attempt to lower their anxiety in that regard. We expect students will find the Web site useful and interesting. Please visit us at www.mhhe.com/pearce12e.

SUPPLEMENTS

Components of our teaching package include a revised, comprehensive instructor's manual, test bank, Power Point presentation, and a computerized test bank. These are all available to qualified adopters of the text. Professors can also use a simulation game as a possible package with this text: the Business Strategy Game (Thompson/Stappenbeck). The Business Strategy Game provides an exercise to help students understand how the functional pieces of a business fit together. Students will work with the numbers, explore options, and try to unite production, marketing, finance, and human resource decisions into a coherent strategy.

Acknowledgments

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

We are particularly indebted to the talented case researchers who have produced the cases used in this book, as well as to case researchers dedicated to the revitalization of case research as an important academic endeavor. First-class case research is a major avenue through which top strategic management scholars should be recognized.

Several reviewers provided constructive suggestions and feedback which helped facilitate useful revisions, the addition of numerous current examples throughout the text, and a new case selection we find compelling. We extend particular thanks to three who offered exceptionally comprehensive coverage:

Michele V. Gee

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We are affiliated with two separate universities, both of which provide environments that deserve thanks. As the Villanova School of Business Endowed Chair at Villanova University, Jack is able to combine his scholarly and teaching activities with his coauthorship of this text. He is grateful to Villanova University, Dean James Danko, and his colleagues for the support and encouragement they provide.

Richard appreciates the support provided within the Moore School of Business by Dean Hildy Teegen, Deputy Dean Scott Koewer, Associate Dean Greg Neihaus, Dr. Brian Klaas, Mr. Dean Kress, Ms. Cheryl Fowler, and Ms. Carol Lucas.

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Leaders at McGraw-Hill/Irwin deserve our utmost thanks and appreciation. Gerald Saykes, John Black, John Biernat, and Craig Beytein contributed to our early success. The editorial leadership of Michael Ablassmeir helps to assure that it will continue in this twelfth edition. Development Editor Kelly Pekelder and Editorial Assistant Andrea Heirendt helped us to produce a much improved book. The McGraw-Hill/Irwin field organization deserves particular recognition and thanks for their ongoing worldwide adoption results for this text. We particularly wish to express appreciation to and acknowledge the hard work and excellent support provided to us by Sandy Wolbers, Kathleen Sutterlin, Stacey Flowerree, Brooke Briggs, Nick Miggans, Kevin Eichelberger, Colin Kelley, Steve Tomlin, Bryan Sullivan, Clark White, Meghan Manders, Lori Ziegenfuss, Jessica King, Rosalie Skears, Lisa Huinker, Bob Noel, Adam Rooke, John Wiese, Carlin Robinson, Courtney Kieffer, Rosario Valenti, Anni Lundgren, Deborah Judge-Watt, Nate Kehoe, David Wulff, Kim Freund, Joni

Thompson, and Mary Park. Their professionalism and dedication to the professors and instructors they serve sets a standard we have worked very hard to match by making the twelfth edition a text deserving of their representation.

We hope that you will find our book and ancillaries all that you expect. We welcome your ideas and recommendations about our material, and we wish you the utmost success in teaching and studying strategic management.

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Part One

Overview of Strategic Management

The first chapter of this book introduces strategic management, the set of decisions and actions that result in the design and activation of strategies to achieve the objectives of an organization. The chapter provides an overview of the nature, benefits, and terminology of and the need for strategic management. Subsequent chapters provide greater detail.

The first major section of Chapter 1, "The Nature and Value of Strategic Management," emphasizes the practical value and benefits of strategic management for a firm. It also distinguishes between a firm's strategic decisions and its other planning tasks.

The section stresses the key point that strategic management activities are undertaken at three levels: corporate, business, and functional. The distinctive characteristics of strategic decision making at each of these levels affect the impact of activities at these levels on company operations. Other topics dealt with in this section are the value of formality in strategic management and the alignment of strategy makers in strategy formulation and implementation. The section concludes with a review of the planning research on business, which demonstrates that the use of strategic management processes yields financial and behavioral benefits that justify their costs.

The second major section of Chapter 1 presents a model of the strategic management process. The model, which will serve as an outline for the remainder of the text, describes approaches currently used by strategic planners. Its individual components are carefully defined and explained, as is the process for integrating them into the strategic management process. The section ends with a discussion of the model's practical limitations and the advisability of tailoring the recommendations made to actual business situations.