

# STRATEGIC MANAGEMENT AND BUSINESS POLICY

**WHEELEN • HUNGER**

*Fifth Edition*



*Fifth Edition*

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## **DEDICATED TO**

Kathy, Tom, Richard

Betty, Kari, Suzi, Lori, Merry, and  
Smokey

### **Special Dedication by Tom Wheelen:**

*Kathryn Elizabeth McGrath Wheelen (1895–1972)*

My mother was born April 23, 1895, in Fitchburg, Massachusetts, to William E. McGrath (1865–1939) and Catherine McCarthy (1867–1932). Both parents were born in Ireland. She had two sisters, Mary and Margaret. The year 1995 would mark her 100th birthday. She graduated from Fitchburg High School in 1913. She worked for Webber Lumber Company as a clerk. She married Thomas L. Wheelen in 1933 and became President of Thomas Wheelen Company (circa 1879) in 1938 when her husband died. She had excellent business acumen, true concern for others, and many true friends of all ages. She had a strong and underlying belief system that allowed her to survive many years of serious illnesses. She always remained positive and very grateful for her life. The births of her three grandchildren, Kathryn, Thomas, and Richard, were true highlights and joys of her life. She never gave up and enjoyed life.

Tá grá thú.

**T**he 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 that are 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 complex case analyses by students.

**Both the text and the cases have been class-tested in policy courses and revised on the basis of feedback from students, reviewers, and instructors.** In response to comments, we have emphasized primarily those concepts that have proved 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. Endnote 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.

## Objectives

This book focuses on the following objectives, which are 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 who are 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 that are 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.

## Time-Tested Features

This edition includes many of the same features and content that helped to make previous editions successful. Some of these are the following:

- A **strategic management model** runs throughout the entire book as a unifying concept (all chapters).
- The **strategic audit**, a way to operationalize the strategic decision-making process, serves as a checklist in case analysis (Chapter 2).
- Internal and external strategic factors are emphasized through the use of specially designed External Factor Analysis Summary (EFAS) and Internal Factor Analysis Summary (IFAS) **tables** (Chapters 4 and 5).
- **Top management** and the **Board of Directors** are examined in detail in their roles as strategic managers (Chapter 2).
- **Suggestions for in-depth case analysis** provide a complete listing of financial ratios, recommendations for oral and written analysis, and ideas for further research (Chapter 15).
- Special chapters deal with strategic issues in **multinational corporations**, **entrepreneurial ventures and small businesses**, and **not-for-profit organizations** (Chapters 11, 13, 14, respectively).
- A chapter on **social responsibility and ethics** deals with these increasingly salient concerns in strategic decision making (Chapter 3).
- Equal emphasis is placed on **environmental scanning** of the societal environment as well as on industry strategic factors. Topics include forecasting and Miles and Snow's typology in addition to Porter's industry analysis (Chapter 4).
- **Company Spotlight Maytag Corporation** boxes illustrate the issues in each chapter and serve to integrate the material (Chapters 1–15).

- **Corporate strategy** is explained for the single business firm in an easy-to-understand model using growth, stability, and retrenchment strategies and then presented for the multibusiness firm in terms of portfolio analysis and the SWOT (TOWS) matrix (Chapter 6).
- **Business (competitive) and functional strategies** as well as **competitive tactics** are explained and evaluated in a separate chapter (Chapter 7).
- Two chapters deal with issues in **strategy implementation**, such as organizational and job design plus strategy-manager fit, action planning, and corporate culture (Chapters 8 and 9).
- A separate chapter on **evaluation and control** explains the importance of measurement and incentives to organizational performance (Chapter 10).
- **Timely, well-researched, and class-tested cases** deal with interesting companies and industries. Many of the cases are about well-known, publicly held corporations—ideal subjects for further research by students who wish to “update” the cases.
- **An Industry Note for Use in Industry Analysis** of the major home appliance industry in 1993 is included for use by itself or with the Maytag and Whirlpool cases. A second industry note on the retailing industry is included in the accompanying CASE Instructor’s Manual, to be used either on its own or in conjunction with the cases on Nordstrom, Kmart, Wal-Mart, and Blockbuster Video.

## New Features For This Edition

In addition to updating and fine-tuning of time-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.

### New Chapter

#### Strategic Issues in Managing Technology and Innovation (Chapter 12)

This is the first strategic management textbook to provide a chapter on these topics. This new chapter emphasizes the importance of technology and innovation to strategic managers. Cases such as those on Microsoft, Maytag, and Invacare enable readers to apply these concepts to actual situations.

### New Topics

#### New Concepts and Approaches in Strategic Management

- Resource-based view of the firm (Chapter 5)
- Reengineering (Chapter 8)
- Total quality management (Chapter 8)
- Benchmarking (Chapter 10)
- Economic value-added measures (Chapter 10)
- International transfer pricing (Chapter 11)

## New Features

### Key Theory Capsules

Boxed inserts highlight and explain key theories underlying strategic management. This feature adds emphasis to the theories without interrupting the flow of the text material.

- *Agency theory* (corporate governance, Chapter 2)
- *Transaction cost economics* (vertical integration versus outsourcing, Chapter 6)
- *Population ecology, resource dependence, and institution theory* (organization change, Chapter 8)
- *Absolute and comparative advantage* (international trade, Chapter 11)

### Introductory Vignettes and In Conclusion . . .

Brief descriptions of current situations in actual organizations introduce and conclude chapter material to add life to the concepts that are explained in each chapter.

### Points to Remember

- Summary sentences end each chapter and add emphasis to key concepts.
- Brief bulleted sentences help the reader to better remember chapter essentials. Key points are more memorable than the usual summary and conclusion paragraph.

## New Methodologies

### Strategic Factor Analysis Summary (Chapter 6)

This Strategic Factor Analysis Summary (SFAS) table is designed to integrate previously identified external (EFAS) and internal (IFAS) factors into a combined list of strategic factors facing a corporation.

### Integrated SWOT (TOWS) Analysis (Chapter 6)

This table connects EFAS and IFAS factors with the development of a SWOT/TOWS analysis. This illustrates how an analysis of strategic factors can help to generate possible alternative strategies.

### Strategic Audit Worksheet (Chapter 15)

This worksheet is based on the time-tested strategic audit and is designed to help students *organize* and *structure* daily case preparation in a brief period of time. The worksheet works exceedingly well for checking the level of daily student case preparation, especially for open class discussions of cases. Examples are shown in Part B of the Instructor's Manual.

## Strategy Cases

### Thirty-three Cases New to This Edition

All 37 cases are current (1991–1993), high-quality cases of actual corporations and industries that are in the midst of strategic change. Thirty-three are new to this



edition. The case authors graciously allowed us to edit their cases for this book. Many of these cases have been critiqued by expert referees of the North American Case Research Association, the Society for Case Research, and the World Association for Case Method Research and Application and appear in the *Case Research Journal*, *Journal of Business Cases*, *International Journal of Case Studies and Research*, and *Annual Advances in Business Cases*.

### **Twenty-six Comprehensive Strategy Cases Grouped by Industry**

Twenty-six comprehensive, multi-issue strategy cases are grouped into the nine industries of (1) Grocery/Merchandising, (2) Fast Food Restaurants, (3) Major Home Appliances, (4) Computers/Software, (5) Beverages/Food, (6) Mass Merchandising/Retailing, (7) Athletic Shoes, (8) Health Care Industry, and (9) Commercial Aircraft. The firms profiled in these cases range from entrepreneurial small businesses to large multinational corporations. This is useful to the instructor who wishes to assign a series of cases in one industry.

### **Six Special Issues Cases**

Six cases are categorized into the specific topic areas of Strategic Managers, Environmental Issues, and Not-for-Profit. These cases are somewhat shorter than the more comprehensive, multi-issue strategic management cases. They help an instructor to emphasize the particular topics of corporate governance, social responsibility and ethics, and the not-for-profit organization.

### **Five Special International Cases**

Five cases deal specifically with strategic issues in Eastern Europe, the European Community, and the North American Trade Zone. Although most of the multi-issue comprehensive cases in the book have some multinational aspects, these cases focus on international issues to help an instructor put special emphasis on this area.

## **Videos**

### **Videos to Accompany Cases and Chapters**

A video consisting of eight segments is available to adopters of this edition for use with various chapters and cases.

## **Supplements**

### **Instructor's Manuals**

Two comprehensive Instructor's Manuals have been carefully constructed to accompany this book. The first one accompanies the text chapters. The second one accompanies the cases.

### **TEXT Instructor's Manual**

To aid in discussing the 15 chapters dealing with strategic management concepts, the TEXT Instructor's Manual includes the following:

1. *Suggestions for teaching strategic management*: discusses various teaching methods and includes suggested course syllabi.
2. *Video guide*: presents summaries of free videos and suggestions for classroom use.
3. *Chapter notes*: includes summaries of each chapter, lists of key concepts and terms, and suggested answers to discussion questions.
4. *Multiple-choice test bank questions*: contains approximately 50 questions for each of the 15 chapters summing to over 700 questions from which to choose.
5. *Transparency masters*: includes over 170 transparency masters of figures and tables in the text as well as other exhibits.

### **CASE Instructor's Manual**

To aid in case method teaching, the CASE Instructor's Manual includes detailed suggestions for use, teaching objectives, and examples of student analyses for each of the 37 cases. 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.*
4. *Case objectives.*
5. *Suggested classroom approaches.*
6. *Discussion questions.*
7. *Case author's teaching note.*
8. *Student-written strategic audit or paper.*
9. *EFAS, IFAS, and SFAS exhibits.*
10. *Financial analysis (ratios and common-size income statements).*

This is the most comprehensive Instructor's Manual in strategic management. The CASE Instructor's Manual also includes the industry note *Retailing 1993: Emerging from the Chaos*. This note can be used independently for industry analysis or with the cases on Nordstrom, Kmart, Wal-Mart, and Blockbuster Video. This industry note can be copied from the Instructor's Manual by book adopters and disseminated to students at no charge and without the need for additional copyright permissions.

### **Computerized Test Bank—Test Generator**

Multiple-choice questions are available free to adopters of this textbook in a computerized test bank on a 3½" diskette for IBM-compatible personal computers. These questions are the same ones listed in the test bank portion of the TEXT Instructor's Manual and cover all 15 chapters of the book with over 700 questions. This Test Generator allows instructors to personalize exams and easily add, edit, or delete questions from the test bank. The order of questions may be scrambled, and multiple versions of the test may be prepared. Answer sheets are generated for each test designed.

## Videos

A videotape cassette containing eight segments featuring company and industry vignettes for use with various chapters and cases is available free to adopters of this textbook. One of the videos features Maytag Corporation (Case 13). The video was presented at Maytag Corporation's 1993 annual shareholders meeting (as mentioned in the case) on the consolidation of the Jenn-Air and Magic Chef product lines into one sales/marketing organization. Other videos examine issues in various industries and companies, such as The Body Shop's view of social responsibility, drug prices (which can be used with Case 3, "Burroughs Wellcome and AZT," Coca-Cola's global marketing, technology transfer in VCRs, the successful use of focused differentiation competitive strategy in local breweries, strategy implementation at Au Bon Pain fast food restaurants, and Chrysler's use of platform teams and concurrent engineering to improve its strategy implementation. These videos can accompany various chapters in the text to provide examples of strategic management issues and concepts.

## Transparency Acetates

A collection of over 170 acetates of the transparency masters from the TEXT Instructor's Manual are available free to adopters of the text.

## Recommended Software

In conjunction with the fifth edition of *Strategic Management and Business Policy*, Addison-Wesley recommends utilizing the fisCAL business analysis software for IBM computers and its companion handbook, *Profiting from Financial Statements*, available from the Halcyon Group. Upon adoption, instructors will receive a copy of the software free of charge, as well as a diskette containing all of the financial data from the Wheelen/Hunger cases. Bookstore orders for students should be directed to Halcyon by contacting Thomas J. Bullock at the Halcyon Group, One Halcyon Place, P.O. Box 1249, Folly Beach, South Carolina, 29439. Any and all technical support for instructors using this software should also be directed to Halcyon.

## Acknowledgments

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