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Strategic Management and Competitive Advantage

CONCEPTS AND CASES

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Third Edition

Jay B. Barney
William S. Hesterly



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EDITION

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Strategic Management and Competitive Advantage

CONCEPTS AND CASES

Jay B. Barney



The University of Utah



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What's Out?

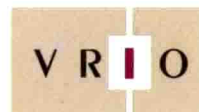
Models, concepts, and topics that don't pass a simple test:

"Does this help students analyze cases and real business situations?"

What's In?

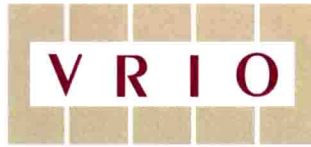
"VRIO" – an integrative framework (see next page for details).

- Broad enough to apply in analyzing a variety of cases and real business settings.
- Simple enough to understand and teach.



The Results?

Provides students with the tools they need to do strategic analysis.
Nothing more. Nothing less.



“VALUE. RARITY. IMITABILITY. ORGANIZATION.”

What Is It?

This book is not just a list of concepts, models and theories. It is the first undergraduate textbook to introduce a **theory-based, multi-chapter organizing framework** to add additional structure to the field of strategic management.

“VRIO” is a mechanism that integrates two existing theoretical frameworks: the positioning perspective and the resource-based view. It is the primary tool for accomplishing internal analysis. It stands for four questions one must ask about a resource or capability to determine its competitive potential:

- 1. The Question of Value:** Does a resource enable a firm to exploit an environmental opportunity, and/or neutralize an environmental threat?
- 2. The Question of Rarity:** Is a resource currently controlled by only a small number of competing firms?
- 3. The Question of Imitability:** Do firms without a resource face a cost disadvantage in obtaining or developing it?
- 4. The Question of Organization:** Are a firm’s other policies and procedures organized to support the exploitation of its valuable, rare, and costly-to-imitate resources?

What’s the Benefit of the VRIO Framework?

The VRIO framework is the organizational foundation of the text. **It creates a decision-making framework for students** to use in analyzing case and business situations.

Students tend to view concepts, models, and theories (in all of their coursework) as fragmented and disconnected. Strategy is no exception. This view encourages rote memorization, not real understanding. VRIO, by serving as a consistent framework, connects ideas together. This encourages real understanding, not memorization.

This understanding enables students to better analyze business cases and situations—the goal of the course.

The VRIO framework makes it possible to discuss the formulation and implementation of a strategy simultaneously, within each chapter.

Because the VRIO framework provides a simple integrative structure, we are actually able to address issues in this book that are largely ignored elsewhere—including discussions of vertical integration, outsourcing, real options logic, and mergers and acquisitions, to name just a few.

Other Benefits

Element	Description	Benefit	Example
Chapter Opening Cases	We have chosen firms that are familiar to most students. Opening cases focus on iTunes' success in the music download industry, how Ryanair has become the lowest cost airline in the world, how Victoria's Secret differentiated its products, how ESPN has diversified its operations, and so forth.	By having cases tightly linked to the material, students can develop strategic analysis skills by studying firms familiar to them.	2-3
Full Length Cases	This book contains selective, part-ending cases that underscore the concepts in each part. This provides a tight link to the chapter concepts to reinforce understanding of recent research. These are 1) decision oriented, 2) recent, 3) student-recognized companies, and 4) cases where the data are only partly analyzed.	Provides a tight link to chapter concepts, facilitating students' ability to apply text ideas to case analysis.	PC 1-1- PC 1-14
Strategy in Depth	For professors and students interested in understanding the full intellectual underpinnings of the field, we have included an optional <i>Strategy in Depth</i> feature in every chapter. Knowledge in strategic management continues to evolve rapidly, in ways that are well beyond what is normally included in introductory texts.	Customize your course as desired to provide enrichment material for advanced students.	288
Research Made Relevant	The <i>Research Made Relevant</i> feature highlights very current research findings related to some of the strategic topics discussed in that chapter.	Shows students the evolving nature of strategy.	49
Challenge Questions	These might be of an ethical or moral nature, forcing students to apply concepts across chapters, apply concepts to themselves, or extend chapter ideas in creative ways.	Requires students to think critically.	245
Problem Set	<i>Problem Set</i> asks students to apply theories and tools from the chapter. These often require calculations. They can be thought of as homework assignments. If students struggle with these problems they might have trouble with the more complex cases. These problem sets are largely diagnostic in character.	Sharpens quantitative skills, and provides a bridge between chapter material and case analysis.	128-129
Ethics and Strategy	Highlights some of the most important dilemmas faced by firms when creating and implementing strategies.	Helps students make better ethical decisions as managers.	210
Strategy in the Emerging Enterprise	Growing number of graduates work for small and medium-sized firms. This feature presents an extended example, in each chapter, of the unique strategic problems facing those employed in small and medium-sized firms.	This feature highlights the unique challenges of doing strategic analysis in emerging enterprises, and small and medium-sized firms.	22

This book is dedicated to my expanding family: my wife, Kim; our children, Lindsay, Kristian, and Erin; their spouses, Ryan, Amy, and Dave; and most of all, our seven grandchildren, Isaac, Dylanie, Audrey, Chloe, Lucas, Royal, and Lincoln. They all help me remember that no success could compensate for failure in the home.

Jay B. Barney
Columbus, Ohio

This book is for my family who has taught me life's greatest lessons about what matters most. To my wife, Denise; my sons, Drew, Ian, Austin, and Alex; my daughters, Lindsay and Jessica (and their husbands, Matt and John); and grandchildren, Ellie, Owen, Emerson, Cade, and Elizabeth.

William Hesterly
Salt Lake City, Utah

Preface



The first thing you will notice as you look through this edition of our book is that it continues to be much shorter than most textbooks on strategic management. There is not the usual “later edition” increase in number of pages and bulk. We’re strong proponents of the philosophy that, often, less is more. The general tendency is for textbooks to get longer and longer as authors make sure that their books leave out nothing that is in other books. We take a different approach. Our guiding principle in deciding what to include is: “Does this concept help students analyze cases and real business situations?” For many concepts we considered, the answer is no. But, where the answer is yes, the concept is in the book.

That doesn’t mean we haven’t changed the book in this third edition. The most obvious change—besides the new opening cases, examples, and cases for analysis—is that we have added another chapter—Chapter 11 on International Strategies. One consistent point of feedback we received on the first two editions of the book was that it was sometimes difficult to cover all the material in a chapter in a single lecture period. To make this easier, we have deleted the material on international management in each chapter and gathered it together in its own chapter—Chapter 11. Chapter 11 applies the same basic framework we use in all the chapters, but applies that framework to understanding international business options facing firms.

One thing that has not changed in the third edition is that we continue to have a point of view about the field of strategic management. In planning for this edition, we recalled our own educational experience and the textbooks that did and didn’t work for us then. Those few that stood out as the best did not merely cover all of the different topics in a field of study. They provided a framework that we could carry around in our heads, and they helped us to see what we were studying as an integrated whole rather than a disjointed sequence of loosely related subjects. This text continues to be integrated around the VRIO framework. As those of you familiar with the resource-based theory of strategy recognize, the VRIO framework addresses the central questions around gaining and sustaining competitive advantage. The VRIO logic of competitive advantage is applied in every chapter. It is simple enough to understand and teach yet broad enough to apply to a wide variety of cases and business settings.

Our consistent use of the VRIO framework does not mean that any of the concepts fundamental to a strategy course are missing. We still have all of the core ideas and theories that are essential to a strategy course. Ideas such as the five forces framework, value chain analysis, generic strategies, and corporate strategy are all in the book. Because the VRIO framework provides a single integrative structure, we are able to address issues in this book that are largely ignored elsewhere—including discussions of vertical integration, outsourcing, real options logic, and mergers and acquisitions, to name a few.

We also have designed flexibility into the book. Each chapter has four short sections that present specific issues in more depth. These sections allow instructors to adapt the book to the particular needs of their students. “Strategy in Depth” examines the intellectual foundations that are behind the way managers think about and practice strategy today. “Strategy in the Emerging Enterprise” presents examples of strategic challenges faced by new and emerging enterprises. “Ethics and Strategy” delves into some of the ethical dilemmas that managers face as they confront strategic decisions. “Research Made Relevant” includes recent research related to the topics in that chapter.

We have also included cases—including many new cases in this edition—that provide students an opportunity to apply the ideas they learn to business situations. The cases include a variety of contexts, such as entrepreneurial, service, manufacturing, and international settings. The power of the VRIO framework is that it applies across all of these settings. Applying the VRIO framework to many topics and cases throughout the book leads to real understanding instead of rote memorization. The end result is that students will find that they have the tools they need to do strategic analysis. Nothing more. Nothing less.

The third edition of this book does not change this central focus. That does not mean there aren't important changes. There are. Beyond updating the cases, examples, and research reported in the book, we have added a new chapter on international strategy. Global strategic issues have become so important, and our understanding of how to conceive and implement international strategies has become so developed, it was no longer possible to cover these ideas in a "Global Perspectives" feature and a section on international dimensions of strategy in each chapter. Now, instead, international strategies have their own chapter—written using the same organizing principles as the rest of the chapters in the book.

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on organizational economics, vertical integration, organizational forms, and entrepreneurial networks has appeared in top journals including the *Academy of Management Review*, *Organization Science*, *Strategic Management Journal*, *Journal of Management*, and the *Journal of Economic Behavior and Organization*. Currently, he is studying the sources of value creation in firms and also the determinants of who captures the value from a firm's competitive advantage. Recent papers in this area have appeared in the *Academy of Management Review* and *Managerial and Decision Economics*. Professor Hesterly's research was recognized with the Western Academy of Management's Ascendant Scholar Award in 1999. Dr. Hesterly has also received best paper awards from the Western Academy of Management and the Academy of Management. Dr. Hesterly has served on the editorial boards of *Strategic Organization*, *Organization Science*, and the *Journal of Management*. He has served as Department Chair and also as Vice-President and President of the faculty at the David Eccles School of Business at the University of Utah.

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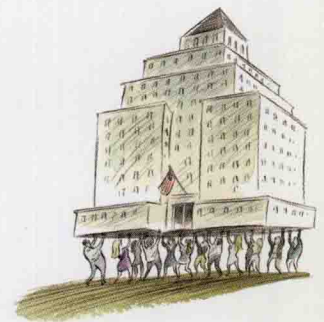
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