

STRATEGIC MANAGEMENT

FOURTH EDITION

Fred R. David

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Fourth Edition

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Preface

A SPECIAL NOTE TO PROFESSORS

This textbook meets all AACSB guidelines for the business policy and strategic management course. Previous editions of this text have been used at more than 300 colleges and universities. Although the structure of this edition parallels the last, great improvements have been made in readability and coverage. Every page has undergone rethinking and rewriting to streamline, update, and improve the caliber of presentation.

All but five of the cases are updated or new and all of the chapters have been improved in this edition. The latest strategic-management research is incorporated throughout. There are scores of new examples, new international inserts, new coverage of Porter's five-forces model, new emphasis on the natural environment, additional material on business ethics, new coverage of computer information systems, a new appendix on the *Strategy Analyst* and *Case Analyst* software for students, and extensive new ancillary materials. All in all, the changes in this edition add up to the biggest revision ever made on this popular text.

This is the only business policy text on a two-year revision cycle, reflecting the author's and publisher's commitment to keeping up-to-date. This cycle allows a continuous stream of fresh, current cases; virtually all the cases in this edition are from 1991 and some are from 1992. Markets, economics, and global factors affecting strategic decisions are changing more rapidly than ever and the body of knowledge that comprises strategic management increases continually. The two-year revision cycle allows the chapter material to stay current.

Special Features

New Collection of Cases. This business policy casebook has a total of thirty-five cases. Fifty percent of the cases are new and 35 percent are updated from the previous edition; the remaining 15 percent are classic cases unchanged from the third edition. These cases facilitate understanding and offer students the variety of a number of different industries. They are organized clearly by type of industry and size of firm. A breakdown of the cases is as follows:

- Seventeen service-oriented cases, such as Audubon Zoo—1992 and Citicorp—1991.
- Seventeen manufacturing-oriented cases, such as Borden—1991 and WTD Industries—1992.
- Eleven international cases, such as Material Handling Engineering—1991 and Weyerhaeuser Corporation—1991.
- Four nonprofit cases, such as Classic Car Club of America—1992 and The Concert Choir of New Orleans—1992.
- Ten small business strategy cases, such as the Arden Group—1990 and Circus Circus Enterprises—1991.

All cases have been class tested to ensure that they are interesting, challenging, and effective for illustrating strategic-management concepts. Most were written exclusively for this text and are designed to reflect current strategic-management problems and practices. This collection of cases complements virtually any approach in teaching business policy or strategic management.

New Features in the Chapters

Three new themes permeate all the chapters of this edition:

1. Strategic management must be a people process to be successful.
2. Global considerations affect virtually all strategic decisions.
3. Preserving the natural environment is an important strategic issue.

A summary of specific changes in each chapter is given below:

- Chapter 1—More emphasis is devoted to business ethics, intuitive thinking, and empowering managers and employees through participation in strategic-management activities.
- Chapter 2—The examples of strategies in action are all new. There is also new coverage on reverse buyouts and strategic management in small businesses, nonprofit organizations, and governmental agencies.
- Chapter 3—More than twenty mission statements are presented and evaluated. The natural environment is added as a dimension to be considered in developing a mission statement.
- Chapter 4—Greater coverage is provided on Porter's five-forces model, information technology, competitive intelligence gathering, the competitive advantage of nations, the process of external assessment, and the natural environment. New External Factor Evaluation Matrices are provided.
- Chapter 5—Computer information systems has been strengthened as a major business function. More emphasis is also given to product quality, customer service, and organizational culture. New Competitive Profile Matrices are provided.
- Chapter 6—Expanded coverage is given to behavioral and cultural aspects of strategy analysis and choice. New examples are provided for most matrices.
- Chapter 7—Important topics include organizational structure, linking performance and pay to strategies, developing a supportive corporate culture, empowering employees through participation, creating Employee Stock Ownership Plans (ESOPs), and operating in a green (environmental) manner.

- Chapter 8—Expanded coverage is given to finance/accounting and marketing issues central to strategy implementation. New material on “going public” is provided.
- Chapter 9—New coverage is provided for conducting an environmental audit. Emphasis is given to contingency planning and using computers to evaluate strategies.
- Chapter 10—Totally revamped, this chapter gives up-to-date coverage of the proposed U.S.–Mexico Free Trade Agreement, the united European Economic Community, the dismantled Soviet Union, and the new Japan. Increased emphasis on culture is also provided.

New Global Perspectives. This edition provides a Global Perspective boxed insert in each chapter to illustrate that global factors affect virtually all strategic decisions. The concluding chapter on international strategic management issues has been expanded and updated. Guidelines for being a successful competitor are provided. Comparing American culture to foreign cultures is given special emphasis.

New Natural Environment Perspectives. This edition also provides a Natural Environment boxed insert in each chapter to highlight the benefits of conducting manufacturing and marketing operations in an environmentally sound manner. The strategic efforts of both companies and countries to preserve the natural environment are described.

New Appendix on “Using the Software.” A new appendix in this edition gives students all the information needed to use the *Strategy Analyst* and *Case Analyst* software materials that are available free upon adoption of this text. In previous editions, this material appeared only in the Instructor’s Manual. This new software instructional material appears in Part Six after the guidelines for making an oral case presentation and fifty “special tips” for business policy students.

Updated Cohesion Case on Hershey Foods Corporation. Thoroughly revised to include global, ethical, and natural environment issues, the Cohesion Case focuses on Hershey Foods Company in 1991. Based in Hershey, Pennsylvania, this well-known multinational company manufactures and markets candy and pasta products. Appearing at the end of Chapter 1, the Cohesion Case allows student to apply strategic-management concepts and techniques to a real organization as chapter material is covered. Learning exercises at the end of each chapter apply textual material to the Cohesion Case. This integrative of “cohesive” approach readies students for case analysis. Hershey Foods encourages professors and students to call (1-800-468-1714) for additional information about the company.

Forty-three Experiential Exercises. This edition features a total of forty-three end-of-chapter Experiential Exercises, including twenty-one exercises that apply text material to the Cohesion Case and ten that apply textual material to a college or university. In addition, four exercises focus on the *Strategy Analyst* and *Case Analyst* software and eight involve outside library or research activities. The Experiential Exercises are relevant, interesting, challenging, contemporary, and enjoyable.

AACSB Guidelines. AACSB guidelines advocate that business policy texts become more practitioner-oriented. The exercises and writing style of this text focus on applications and skills development. This continues to be a trademark of this text.

The AACSB also encourages greater emphasis on business ethics. Business ethics is introduced in the first chapter and permeates the entire text.

Respect for the natural environment is emerging as an important concern for consumers, companies, society, and the AACSB. Environmental issues are thus discussed throughout the text and cases.

The new international emphasis described above is aimed at meeting AACSB guidelines for internationalizing business courses and curriculum.

Paperback Editions Available. For instructors who desire a text containing only concepts or only cases, separate paperback editions of the chapters and case sections of this text are available. *Concepts of Strategic Management* (Fourth Edition) contains all ten chapters of this text, as well as the Cohesion Case, Experiential Exercises and the appendix. *Cases in Strategic Management* (Fourth Edition) includes all thirty-four cases, the Cohesion Case, the case analysis material, and the new appendix.

New Ancillary Materials

Comprehensive Case Solutions Manual. Prepared by the author, the *Case Solutions Manual* provides comprehensive teacher's notes for each case. The teacher's notes feature detailed analyses, classroom discussion questions with answers, an external and internal assessment, specific recommendations, strategy-implementation material, and an epilogue for each case. Diskettes for the *Case Analyst* and *Strategy Analyst* software are provided on the back cover of the *Case Solutions Manual*.

Elaborate Instructor's Manual. Prepared by the author, the *Instructor's Manual* provides lecture notes and teaching tips for all sections of each chapter, as well as additional examples and references for each chapter. This manual includes answers to all end-of-chapter Experiential Exercises and Review Questions, as well as fifteen additional Experiential Exercises not in the text. An elaborate set of 154 transparency masters is included in this manual. Also included is a glossary with definitions of all end-of-chapter key terms and concepts. Sample course syllabi and a test bank of 1,372 questions with answers also are provided.

Seventeen Color Case Video Segments. To accompany the Cohesion Case, a 21-minute color video prepared by Hershey Foods Corporation is available to adopters free of charge from Macmillan. Shown near the beginning of the course, the Hershey Foods video can arouse students' interest in studying the Cohesion Case and completing Experiential Exercises that apply chapter material to this case.

In addition, a collection of sixteen other color case video segments is available free of charge from Macmillan. The segments average 15 minutes each and were professionally prepared by firms used in cases in this text. The videos are provided to accompany the following cases: The Limited, Promus Corporation, Winnebago Industries, Playboy Enterprises, Weyerhaeuser Corporation, WTD Industries, Dell Computer, TranSouth Financial Corporation, Square D Company, Banc One, Manville Corporation, Audubon Zoo, Baby Superstore, W.L. Gore, Ponderosa, and Harley-Davidson.

Updated Case Analyst Software. Free for all adopters of this text, *Case Analyst* is a diskette that contains income statement and balance sheet data from all cases in the

text. Information on the disk is organized in Lotus 1-2-3 format. The text gives clear instructions so that IBM-compatible spreadsheet packages can be used to access the data files. Special instructions are given for the EXCEL and ENABLE spreadsheet products.

Packaged on the back cover of the *Case Solutions Manual*, the *Case Analyst* diskette is not copyright protected. Rather, professors are encouraged to make copies of the disk for students who have access to a personal computer and who want to generate pro forma financial statements for the cases being analyzed. Exceptionally fast and user-friendly, *Case Analyst* shows students the impact their recommendations will have on the firms' financial condition. Familiarity with spreadsheets is needed to use *Case Analyst* initially.

Improved Strategy Analyst Software. The *Strategy Analyst* software is designed to assist students in analyzing cases. The program allows students to develop and print nine strategic-management matrices, such as the Competitive Profile Matrix, Internal Factor Evaluation (IFE) Matrix, Boston Consulting Group (BCG) Matrix, and Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix. Free for all adopters, this software is packaged inside the back cover of the *Case Solutions Manual*. Clear instructions for using *Strategy Analyst* are given in the text. No prior experience with computers, spreadsheets, databases, or programming is needed to use *Strategy Analyst*.

Transparency Masters and Color Acetates. A total of 154 transparency masters and 20 color acetates are available with this text. Half of the transparencies are from exhibits and figures in the text, while the other half are from sources outside the text.

Printed and Computerized Test Bank. The test bank for this text includes 740 True/False questions, 428 multiple choice questions, and 209 essay questions for the text chapters. Sample comprehensive tests for Chapters 1–5 and Chapters 6–10 are also given, and answers to all objective questions are provided. The test questions given in the *Instructor's Manual* are also available on computerized test software to facilitate preparing and grading tests.

A SPECIAL NOTE TO STUDENTS

Welcome to business policy. This is a challenging and exciting course that will allow you to function as the owner or chief executive officer of different organizations. Your major task in this course will be to make strategic decisions and to justify those decisions through oral and written communication. Strategic decisions determine the future direction and competitive position of an enterprise for a long time. Decisions to expand geographically or to diversify are examples of strategic decisions.

Strategic decision making occurs in all types and sizes of organizations, from General Motors to a small hardware store. Many people's lives and jobs are affected by strategic decisions, so the stakes are very high. An organization's very survival is often at stake. The overall importance of strategic decisions makes this course especially exciting and challenging. You will be called upon in business policy to demonstrate how your strategic decisions could be successfully implemented.

In this course you can look forward to making strategic decisions both as an individual and as a member of a team. No matter how hard employees work, an organization is in real trouble if strategic decisions are not made effectively. Doing the right things

(effectiveness) is more important than doing things right (efficiency). For example, Days Inns of America was a prosperous company in the 1980s, but ineffective strategies led to its bankruptcy and demise in the 1990s.

You will have the opportunity in this course to make actual strategic decisions, perhaps for the first time in your academic career. Do not hesitate to take a stand and defend specific strategies that you determine to be the best. The rationale for your strategic decisions will be more important than the actual decision, because no one knows for sure what the best strategy is for a particular organization at a given point in time. This fact accents the subjective, contingency nature of the strategic-management process. Use the concepts and tools presented in this text, coupled with your own intuition, to recommend strategies that you can defend as being most appropriate for the organizations that you study. You will also need to integrate knowledge acquired in previous business courses. For this reason, business policy is often called a capstone course; you may want to keep this book for your personal library.

This text is practitioner-oriented and applications-oriented. It presents strategic-management concepts that will enable you to formulate, implement, and evaluate strategies in all kind of profit and nonprofit organizations. The end-of-chapter Experiential Exercises allow you to apply what you've read in each chapter to the Hershey Foods Cohesion Case and to your own university.

Be sure to use *Case Analyst* and *Strategy Analyst* because this software will save you time in performing analyses and will make your work look professional. Read and follow the guidelines provided in the appendices for using the software and for making oral presentations. Work hard in policy this term and have fun. Good luck!

ACKNOWLEDGMENTS

Many persons have contributed time, energy, ideas, and suggestions for improving this text over four editions. The strength of this text is largely attributed to the collective wisdom, work, and experiences of business policy professors, strategic-management researchers, students, and practitioners. Names of particular individuals whose published research is referenced in the fourth edition of this text are listed alphabetically in the Name Index. To all individuals involved in making this text so popular and successful, I am indebted and thankful.

Special persons and reviewers who contributed valuable material and suggestions for this edition are as follows: Dave Bradbard, Winthrop University; Charles Kuehl, University of Missouri (St. Louis); Robert Losik, New Hampshire College; Rich Priesmeyer, St. Mary's University; Mark Starik, George Washington University; Tim Stearns, Marquette University; Andrew Varanelli, Pace University; Charles Watson, Miami University (Ohio); and Lucretia Zienert, Francis Marion University.

I would like to thank my colleagues and friends at Auburn University, Mississippi State University, East Carolina University, and Francis Marion University, who provide an excellent academic setting for teaching, research, and writing. Professors at these schools who shaped development of this text are Bill Holley, Achilles Armenakis, and Bob Neibuhr at Auburn University; Johnny Giglioni, Dennis Ray, and Dan Cochran at Mississippi State University; Louis Eckstein, Tilton Wilcox, and Buc Keush at East

Carolina University; and Tom Stanton, Jerry Kinard, Don Kelley, Jim Fenton, Bob Pugh, Lucretia Zienert, and Bob Barrett at Francis Marion University.

Individuals who develop cases for the North American Case Research Association Meeting, the Midwest Society for Case Research Meeting, the Eastern Casewriters Association Meeting, the European Case Research Association Meeting, and Harvard Case Services are vitally important for continued progress in the field of strategic management. From a research perspective, there is no question that writing business policy cases represents a valuable scholarly activity among faculty. Extensive research is required to structure business policy cases in a way that exposes strategic issues, decisions, and behavior. Pedagogically, business policy cases are essential for students in learning how to apply concepts, evaluate situations, formulate strategies, and resolve implementation problems. Without a continuous stream of up-to-date business policy cases, the strategic-management course and discipline would lose much of its energy and excitement.

The following individuals wrote cases that were selected for inclusion in this text. These persons helped develop the most current compilation of cases ever assembled in a business policy text: Claire Anderson, Old Dominion University; Robert Anderson, College of Charleston; Mary Astone, Auburn University; Jill Austin, Middle Tennessee State University; Stephen Barndt, Pacific Lutheran University; Lynn Brumfield, Middle Tennessee State University; Reba Carelton, Middle Tennessee State University; Susanah Chance, Iowa State University; Bruce Coleman, Michigan State University; Jim Fenton, Francis Marion University; Caroline Fisher, Loyola University; Phil Fisher, University of South Dakota; Michelle Greene, Francis Marion University; Walter Greene, Pan American University; Stuart Hinrichs, Iowa State University; Diane Hoadley, University of South Dakota; Alan Hoffman, Bentley College; Bill House, University of Arkansas; Neil Jacobs, Northern Arizona University; Mike Keeffe, Southwest Texas State University; Tracy Kramer, University of Alabama; Jim Krueger, Northern State University; Ted Legatski, Sam Houston State University; Dean Lewis, Sam Houston State University; Bob Lonis, University of Alabama; Charles Manz, Arizona State University; Bill Middlebrook, Southwest Texas State University; Kent Nassen, Iowa State University; Sharon Oswald, Auburn University; Ben Oviatt, Georgia State University; Paul Reed, Sam Houston State University; John Ross, Southwest Texas State University; George Rubenson, Salisbury State University; Arthur Sharplin, McNeese State University; Frank Shipper, Arizona State University; Charles Shrader, Iowa State University; Mathew Sonfield, Hofstra University; Art Strickland, University of Alabama; Joe Thomas, Middle Tennessee University; Phillis Thomas, Middle Tennessee University; Randall White, Auburn University at Montgomery; and Lucretia Zienert, Francis Marion University.

Macmillan employees and salespersons have worked diligently behind the scenes to make this text a leader in the business policy market. Charles Stewart, Jonathan Lawrence, Tom Nixon, and Mary Harlan, for example, have supported this text immensely. I appreciate the continued hard work of all Macmillan employees and salespersons.

I also want to thank you, the reader, for investing time and effort reading and studying this text. As we approach the twenty-first century together, this book will help you formulate, implement, and evaluate strategies for organizations with which you become associated. I hope you come to share my enthusiasm for the rich subject area of strategic management and for the systematic learning approach taken in this text.

Finally, I want to welcome and invite your suggestions, ideas, thoughts, and comments and questions regarding any part of this text or the ancillary materials. Please call me at 803-661-1419 or write me at the School of Business, Francis Marion University, Florence, South Carolina 29501. I appreciate and need your input to continually improve this text in future editions. Drawing my attention to specific errors or deficiencies in coverage or exposition will especially be appreciated. Thank you for using this text.

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