Brief Contents

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Preface

Why the Need for This New Edition?

The world is dramatically different than it was two years ago. The global economic recovery has created a business environment that is quite different and more complex than it was when the previous edition of this text was published. Thousands of businesses are now flourishing and consumers are again buying discretionary products. Tight credit markets remain, as do high unemployment and high food prices, but millions of new entrepreneurs have entered the business world globally. Democracy is taking hold in the Middle East, and China has replaced Japan as the world's second largest in gross domestic product. Business firms today are leaner and meaner than ever, so gaining and sustaining competitive advantage is harder than ever. Intense price competition, rapid technological change, and social networking have altered marketing to its core. Opportunities and threats abound today all over the world, including Africa. This new edition reveals how to conduct effective strategic planning in this new world order.

Since the prior edition, thousands of liquidations, bankruptcies, divestitures, mergers, alliances, and partnerships captured the news. Private equity firms returned to the spotlight by taking hundreds of firms public and acquiring hundreds more. Corporate scandals highlighted the need for improved business ethics and corporate disclosure of financial transactions. Downsizing, rightsizing, and reengineering contributed to a permanently altered corporate landscape. Thousands of firms began doing business globally, and thousands more closed their global operations. Thousands prospered, and yet thousands failed in the last two years as more industries commoditized, making strategic management an even more important factor in being successful. Long-held competitive advantages, such as print media, news, and entertainment, eroded in recent years, and new avenues for competitive advantage formed. This new edition captures the complexity of this new business environment.

There is less room for error today in the formulation and implementation of a strategic plan. This new edition provides an effective approach for developing a clear strategic plan. Changes made in this edition are aimed squarely at illustrating the effect of new business concepts and techniques on strategic-management theory and practice. Due to the magnitude of recent changes affecting companies, cultures, and countries, every page of this edition has been updated. This textbook is one of the most widely read strategic-management books in the world, perhaps the most widely read. This text is now published in 10 languages.

What Is New in This Edition?

This 14th edition is positioned to be the leader and best choice globally for teaching strategic management. Here is a summary of what is new in this edition:

- Chapter 11, "Global/International Issues," is expanded 70 percent. There is extensive new coverage of cultural and conceptual strategic-management differences across countries. Doing business globally has become a necessity in most industries because nearly all strategic decisions today are affected by global issues and concerns. Every case company in this edition does business globally, providing students ample opportunity to evaluate and consider international aspects of doing business.
- An updated Cohesion Case on Adidas (2011)—this is one of the most successful, well-known, and best managed global companies in the world—students apply strategy concepts to Adidas at the end of each chapter through new Assurance of Learning Exercises.
- New or improved Assurance of Learning Exercises appear at the end of all chapters to apply chapter concepts; the exercises prepare students for strategic-management case analysis.
- A new "Special Note to Students" paragraph is provided at the end of every chapter to guide students in developing and presenting a case analysis that reveals recommendations for how a firm can best gain and sustain competitive advantage. The whole notion of how to gain and sustain competitive advantage is strengthened throughout this edition. Note the brand new subtitle heading for this book: "A Competitive Advantage Approach."
- A brand-new boxed insert at the beginning of each chapter showcases a company doing strategic management exceptionally well.
- Nearly all brand-new examples throughout the chapters.
- Extensive new narrative on strategic management theory and concepts in every chapter to illustrate the new business world order.
- New review questions at the end of each chapter.
- Brand-new color photographs bring this new edition to life and illustrate companies and concepts.
- All new current readings at the end of each chapter; new research and theories of seminal thinkers in strategy development, such as Ansoff, Chandler, Porter, Hamel, Prahalad, Mintzberg, and Barney, are provided in the chapters; practical aspects of strategic management, however, are still center stage and the trademark of this text.
- Chapter 10, "Business Ethics/Social Responsibility/Environmental Sustainability," is expanded 40 percent, providing extensive new coverage of ethics and sustainability because this text emphasizes that "good ethics is good business." Unique to strategic-management texts, the sustainability discussion is strengthened to promote and encourage firms to conduct operations in an environmentally sound manner. Respect for the natural environment has become an important concern for consumers, companies, society, and AACSB-International.

Chapters: Time-Tested Features

This edition continues to offer many special time-tested features and content that have made this text so successful for over 20 years. Historical trademarks of this text that are strengthened in this edition are described below.

- This text meets AACSB-International guidelines that support a practitioner orientation rather than a theory/research approach. It offers a skills-oriented approach to developing a vision and mission statement; performing an external audit; conducting an internal assessment; and formulating, implementing, and evaluating strategies.
- The author's writing style is concise, conversational, interesting, logical, lively, and supported by numerous current examples throughout.
- A simple, integrative strategic-management model appears in all chapters and on the inside front cover of the text. This model is widely used for strategic planning among consultants and companies worldwide. At the start of each chapter, the section of the comprehensive strategy model covered in that chapter is highlighted and enlarged so students can see the focus of each chapter in the basic unifying comprehensive model. One reviewer said, "One thing I have admired about David's text is that he follows the fundamental sequence of strategy formulation, implementation, and evaluation. There is a basic flow from vision/mission to internal/external environmental scanning to strategy development, selection, implementation, and evaluation. This has been, and continues to be, a hallmark of the David text. Many other strategy texts are more disjointed in their presentation, and thus confusing to the student, especially at the undergraduate level."
- A Cohesion Case follows Chapter 1 and is revisited at the end of each chapter. This Cohesion Case allows students to apply strategic-management concepts and techniques to a real organization as chapter material is covered, which readies students for case analysis in the course.
- End-of-chapter Assurance of Learning Exercises effectively apply concepts and techniques in a challenging, meaningful, and enjoyable manner. Several exercises apply text material to the Cohesion Case, textual material to a college or university, and send students into the business world to explore important strategy topics. The exercises are relevant, interesting, and contemporary.
- There is excellent pedagogy in this text, including notable quotes and objectives to open each chapter, and key terms, current readings, discussion questions, and experiential exercises to close each chapter.
- There is excellent coverage of strategy formulation issues, such as business ethics, global versus domestic operations, vision/mission, matrix analysis, partnering, joint venturing, competitive analysis, governance, and guidelines for conducting an internal/external strategy assessment.
- There is excellent coverage of strategy implementation issues such as corporate culture, organizational structure, outsourcing, marketing concepts, financial analysis, and business ethics.
- A systematic, analytical approach is presented in Chapter 6, including matrices such as the SWOT, BCG, IE, GRAND, SPACE, and QSPM.
- The chapter material is again published in a four-color format.

Instructor's Resource Center

At www.pearsonglobaleditions.com/david, instructors can access a variety of print, digital, and presentation resources available with this text in downloadable format. Registration is simple and gives you immediate access to new titles and new editions. As a registered faculty member, you can download resource files and receive immediate access and instructions for installing course management content on your campus server.

If you ever need assistance, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit http://247.pearsoned.com/ for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available for download to adopting instructors:

- Instructor's Manual
- Case Instructor's Manual
- Test Bank
- TestGen® Computerized Test Bank
- PowerPoints

Author Website

The Strategic Management Club Online at www.strategyclub.com contains templates and links to help students save time in performing analyses and make presentations look professional.

Special Note to Professors

Thank you for considering this text. This new edition provides exceptionally up-to-date coverage of strategic-management concepts, theory, research, and techniques. Every sentence and paragraph has been scrutinized, modified, clarified, deleted, streamlined, updated, and/or improved to enhance the content and caliber of presentation. The basic structure of this edition stays with 11 chapters, but there are many new examples, concepts, readings, exercises, and review questions in every chapter—and an updated Cohesion Case on Adidas. The improvements in readability and coverage are dramatic. Every chapter features strategic-management concepts and practices presented in a clear, focused, and relevant manner with hundreds of new examples integrated throughout.

The skills-oriented, practitioner perspective that historically has been the foundation of this text is enhanced and strengthened in this edition. New and expanded coverage of strategic-management theories and research in the text reflect companies' new perspective on doing business. To survive and prosper in this global economic recovery, organizations must build and sustain competitive advantage. This text is now trusted around the world to provide future and present managers the latest skills and concepts needed to effectively formulate and efficiently implement a strategic plan—a game plan, if you will—that can lead to sustainable competitive advantage for any type of business.

The reviewers and I believe you will find this edition to be the best strategic-management textbook available for communicating both the excitement and value of strategic management. Concise and exceptionally well organized, this text is now published in English, Chinese, Spanish, Thai, German, Japanese, Farsi, Indonesian, Indian, and Arabic. A version in Russian is being negotiated. On five continents, this text is widely used in colleges and universities at both the graduate and undergraduate levels. In addition, thousands of companies, organizations, and governmental bodies use this text as a management guide, making it perhaps the most widely used strategic planning book in the world.

This textbook meets all AACSB-International guidelines for the strategic-management course at both the graduate and undergraduate levels, and previous editions have been used at more than 500 colleges and universities.

A Sample of Universities Presently Using This Textbook

You can trust this textbook to meet all your needs. Although very widely used around the world, a sample of colleges and universities using the prior (13th) edition of this text in English in the United States is given here:

Albany State University
Alcorn State University
Alvernia University
Ambassador College
American International College
Anderson University
Angelo State University
Aquinas College
Bellevue University
Belmont Abbey College
Benedictine University
Briar Cliff University
Brooklyn College
California State University–Long Beach
California Lutheran University
Carnegie Mellon University
Catawba College
Central Connecticut State University
Central Washington University
Chatam University
Chicago State University
Claflin University
Clarion University of Pennsylvania
Clarkson College
Cleveland State University
Columbia College
Concordia University
Delaware State University
Depaul University–Loop Campus
Dominican University
Eastern Michigan University
Eastern Oregon University
Eastern Washington University
East Stroudsburg University
Elmhurst College
Faulkner University
Florida Institute of Technology
Fort Valley State College
Francis Marion University
Fresno Pacific University
Frostburg State University
George Fox University
Georgetown College
George Washington University
Georgia Southwestern State University
Hampton University
Harding University
Hofstra University
Indiana University–Kokomo
Indiana Wesleyan University
Iona College
Jackson Community College
Jamestown College
John Brown University
Johnson & Wales University–Charlotte
Johnson & Wales University–Denver
Johnson & Wales University–Providence
Kansas State University
Keene State College
Kellogg Community College
La Salle University
Limestone College

Loyola College, Bush Center
Loyola University, Maryland
Madonna University
Marshall University
Mercer University
Mesa State College
Miami-Dade College
Middle Georgia College
Millersville University
Millsaps College
Morgan State University
Morrison College of Reno
Mount Hood Community College
Murray State University
New England College
New Mexico State University
New York University
North Carolina Wesleyan College
Norfolk State University
North Central College
Northwest Arkansas Community College
Oakland University
Ohio Dominican University
Ohio State University–Main Campus
Oklahoma State University
Oral Roberts University
Pace University–Pleasantville
Palm Beach State College
Park University
Penn State University–Abington
Penn State University–University Park
Philadelphia University
Point Park University
Queens College of CUNY
Quinnipiac University
Rider University
Robert Morris College
Roger Williams University
Saint Cloud State University
Saint Leo University
Saint Mary's College
Saint Xavier University
Sam Houston State University
San Antonia College
Savannah State University
Seton Hall University
Siena Heights University
South Carolina State University
Southern New Hampshire University
Southern University–Baton Rouge
Southern Utah University
Southern Wesleyan University
Southwest Baptist University
St. Bonaventure University
St. Joseph College
St. Louis University
St. Thomas University
Texarkana College
Texas A&M University–Commerce
Texas A&M University–Texarkana
Texas Tech University
Three Rivers Community College
Troy University–Dothan
Troy University–Main Campus
Troy University–Montgomery
University of Alabama–Birmingham
University of Arkansas–Fayetteville
University of Colorado–Boulder
University of Hawaii–Manoa
University of Louisiana–Monroe
University of Maine–Augusta
University of Maine–Fort Kent
University of Maryland–College Park
University of Miami
University of Michigan–Flint
University of Minnesota–Crookston
University of Mobile
University of Nevada–Las Vegas
University of New Orleans
University of North Texas–Dallas
University of Pennsylvania
University of San Francisco
University of Texas–El Paso
University of Texas–Pan American
University of Texas–San Antonio
University of The Incarnate Word

University of Toledo
University of Nevada–Reno
University of New Orleans
University of North Texas
University of Toledo
Valley City State University
VCCS
Virginia State University
Virginia Tech–Blacksburg
Wagner College
Washington University
Webster University
Western Connecticut State University
Western Kentucky University
Western Michigan University
Widener University
William Jewell College
Williams Baptist College
Winona State University
Winston-Salem State University

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Many special persons and reviewers contributed valuable material and suggestions for this edition. I would like to thank my colleagues and friends at Auburn University, Mississippi State University, East Carolina University, and Francis Marion University. I have served on the management faculty at all these universities. Scores of students and professors at these schools helped shape the development of this text. Many thanks go to the following 23 reviewers whose comments shaped this 14th edition:

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Individuals who develop cases for the North American Case Research Association Meeting, the Midwest Society for Case Research Meeting, the Eastern Case Writers 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, writing strategic-management cases represents a valuable scholarly activity among faculty. Extensive research is required to structure strategic-management cases in a way that exposes strategic issues, decisions, and behavior. Pedagogically, strategic-management cases are essential for students in learning how to apply concepts, evaluate

situations, formulate a "game plan," and resolve implementation problems. Without a continuous stream of updated cases, the strategic-management course and discipline would lose much of its energy and excitement.

Professors who teach this course supplement lecture with simulations, guest speakers, experiential exercises, class projects, and/or outside readings. Case analysis, however, is typically the backbone of the learning process in most strategic-management courses across the country. Case analysis is almost always an integral part of this course.

Analyzing strategic-management cases gives students the opportunity to work in teams to evaluate the internal operations and external issues facing various organizations and to craft strategies that can lead these firms to success. Working in teams gives students practical experience solving problems as part of a group. In the business world, important decisions are generally made within groups; strategic-management students learn to deal with overly aggressive group members and also timid, noncontributing group members. This experience is valuable as strategic-management students near graduation and enter the working world full time.

Students can improve their oral and written communication skills as well as their analytical and interpersonal skills by proposing and defending particular courses of action for the case companies. Analyzing cases allows students to view a company, its competitors, and its industry concurrently, thus simulating the complex business world. Through case analysis, students learn how to apply concepts, evaluate situations, formulate strategies, and resolve implementation problems. Instructors typically ask students to prepare a three-year strategic plan for the firm. Analyzing a strategic-management case entails students applying concepts learned across their entire business curriculum. Students gain experience dealing with a wide range of organizational problems that impact all the business functions.

The following people wrote cases that were selected for inclusion in this 14th edition. These persons helped develop the most current compilation of cases ever assembled in a strategic-management text:

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PowerPoints—Brad Cox

Scores of Pearson employees and salespersons have worked diligently behind the scenes to make this text a leader in strategic management. I appreciate the continued hard work of all those professionals, such as Sally Yagan, Kim Norbuta, Claudia Fernandes, and Ilene Kahn.

I also want to thank you, the reader, for investing the time and effort to read and study this text. It will help you formulate, implement, and evaluate strategies for any organization 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, comments, and questions regarding any part of this text or the ancillary materials. Please call me at 910-612-5343, e-mail me at freddavid9@gmail.com, or write me at the School of Business, Francis Marion University, Florence, SC 29501. I sincerely appreciate and need your input to continually improve this text in future editions. Your willingness to draw 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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Source: Helen Sessions/Alamy

"NOTABLE QUOTES"

"If we know where we are and something about how we got there, we might see where we are trending—and if the outcomes which lie naturally in our course are unacceptable, to make timely change."
—*Abraham Lincoln*

"Without a strategy, an organization is like a ship without a rudder, going around in circles. It's like a tramp; it has no place to go."
—*Joel Ross and Michael Kami*

"Plans are less important than planning."
—*Dale McConkey*

"The formulation of strategy can develop competitive advantage only to the extent that the process can give meaning to workers in the trenches." —*David Hurst*

"Most of us fear change. Even when our minds say change is normal, our stomachs quiver at the prospect. But for strategists and managers today, there is no choice but to change."
—*Robert Waterman Jr.*

"If a man takes no thought about what is distant, he will find sorrow near at hand. He who will not worry about what is far off will soon find something worse than worry."
—*Confucius*

"Integrity = Longevity"
—*Michael Johnson, CEO of Herbalife*

PART 1 OVERVIEW OF STRATEGIC MANAGEMENT

1

The Nature of Strategic Management

CHAPTER OBJECTIVES

After studying this chapter, you should be able to do the following:

1. Describe the strategic-management process.
2. Explain the need for integrating analysis and intuition in strategic management.
3. Define and give examples of key terms in strategic management.
4. Discuss the nature of strategy formulation, implementation, and evaluation activities.
5. Describe the benefits of good strategic management.
6. Discuss the relevance of Sun Tzu's *The Art of War* to strategic management.
7. Discuss how a firm may achieve sustained competitive advantage.

ASSURANCE OF LEARNING EXERCISES

Assurance of Learning Exercise 1A
Examine Recent and Future Acquisitions for Nokia

Assurance of Learning Exercise 1B
Gathering Strategy Information on Adidas AG

Assurance of Learning Exercise 1C
Getting Familiar with SMCO

Assurance of Learning Exercise 1D
Becoming a Certified Strategic Planner

Assurance of Learning Exercise 1E
Strategic Planning at Nestlé

Assurance of Learning Exercise 1F
Interviewing Local Strategists

When CEOs from the big three American automakers, Ford, General Motors (GM), and Chrysler, showed up without a clear strategic plan to ask congressional leaders for bailout monies, they were sent home with instructions to develop a clear strategic plan for the future. Austan Goolsbee, one of President Obama's top economic advisers, said, "Asking for a bailout without a convincing business plan was crazy." Goolsbee also said, "If the three auto CEOs need a bridge, it's got to be a bridge to somewhere, not a bridge to nowhere."[1] This textbook gives the instructions on how to develop a clear strategic plan—a bridge to somewhere rather than nowhere.

This chapter provides an overview of strategic management. It introduces a practical, integrative model of the strategic-management process; it defines basic activities and terms in strategic management.

This chapter also introduces the notion of boxed inserts. A boxed insert at the beginning of each chapter reveals how some firms are doing really well competing in a weak global economy. The firms showcased are prospering as their rivals weaken. Each boxed insert examines the strategies of firms doing great amid high unemployment, rising interest rates, unavailability of credit, rising consumer demand, and intense price competition.

The boxed insert beginning each chapter showcases excellent strategic management. The first company featured for excellent performance is Nokia.

Excellent Strategic Management Showcased

NOKIA CORPORATION

Headquartered in Helsinki, Finland, Nokia is the world's leading supplier of mobile phones, fixed telecom networks, and related customer services. About 1.4 billion people globally connect to one another with a Nokia voice-optimized mobile phone or an Internet-connected smartphone. Nokia customers also have access to maps and navigation, a growing catalog of digital music, and an online Apps store. In fact, Nokia's NAVTEQ is a leader in comprehensive digital mapping and navigation services, and Nokia Siemens Networks is one of the leading providers of telecommunications infrastructure hardware, software and professional services globally.

Given that Nokia is continuously developing its digital mapping services, it is no surprise that they are a founding member of the Car Connectivity Consortium. Established in March 2011, Nokia joined eleven other companies to develop global standards and solutions for smartphone and in-vehicle connectivity. The 'Terminal Mode' standard allows high-performing mobile devices to connect to vehicle-based systems such as digital displays, steering wheel buttons, and car audios systems. Founding members include vehicle manufacturers Daimler, General Motors, Honda, Hyundai Motor Company, Toyota, and Volkswagen; system suppliers Alpine and Panasonic; and consumer electronics makers LG Electronics, Nokia and Samsung.

With increasing competition from the likes of Apple and Blackberry, Nokia has been making important strategic decisions. Its joint venture with Siemens, Nokia Siemens Networks, paid $975 million in cash for the acquisition of the wireless network infrastructure assets of Motorola Solutions in April, 2011. The acquisition strengthened the company's position in North America and Japan, adding approximately 6,900 employees across 52 countries. The acquisition covers a number of research and development facilities, including sites in the United States, China, Russia, India, and the UK.

Source: Based on information at www.nokia.com.

Adidas is featured as the new Cohesion Case because it is a well-known global firm undergoing strategic change and is very well managed. By working through Adidas related Assurance of Learning Exercises at the end of each chapter, you will be well prepared to develop an effective strategic plan for any company assigned to you this semester. The end-of-chapter exercises apply chapter tools and concepts.

What Is Strategic Management?

Once there were two company presidents who competed in the same industry. These two presidents decided to go on a camping trip to discuss a possible merger. They hiked deep into the woods. Suddenly, they came upon a grizzly bear that rose up on its hind legs and snarled. Instantly, the first president took off his knapsack and got out a pair of jogging shoes. The second president said, "Hey, you can't outrun that bear." The first president responded, "Maybe I can't outrun that bear, but I surely can outrun you!" This story captures the notion of strategic management, which is to achieve and maintain competitive advantage.

Defining Strategic Management

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and information systems to achieve organizational success. The term *strategic management* in this text is used synonymously with the term *strategic planning*. The latter term is more often used in the business world, whereas the former is often used in academia. Sometimes the term *strategic management* is used to refer to strategy formulation, implementation, and evaluation, with *strategic planning* referring only to strategy formulation. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; *long-range planning,* in contrast, tries to optimize for tomorrow the trends of today.

The term *strategic planning* originated in the 1950s and was very popular between the mid-1960s and the mid-1970s. During these years, strategic planning was widely believed to be the answer for all problems. At the time, much of corporate America was "obsessed" with strategic planning. Following that "boom," however, strategic planning was cast aside during the 1980s as various planning models did not yield higher returns. The 1990s, however, brought the revival of strategic planning, and the process is widely practiced today in the business world.

A strategic plan is, in essence, a company's game plan. Just as a football team needs a good game plan to have a chance for success, a company must have a good strategic plan to compete successfully. Profit margins among firms in most industries are so slim that there is little room for error in the overall strategic plan. A strategic plan results from tough managerial choices among numerous good alternatives, and it signals commitment to specific markets, policies, procedures, and operations in lieu of other, "less desirable" courses of action.

The term *strategic management* is used at many colleges and universities as the title for the capstone course in business administration. This course integrates material from all business courses. The Strategic Management Club Online at www.strategyclub.com offers many benefits for strategic management students.

Stages of Strategic Management

The *strategic-management process* consists of three stages: strategy formulation, strategy implementation, and strategy evaluation. *Strategy formulation* includes developing a vision and mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue. Strategy-formulation issues include deciding what new businesses to enter, what businesses to abandon, how to allocate resources, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover.

Because no organization has unlimited resources, strategists must decide which alternative strategies will benefit the firm most. Strategy-formulation decisions commit an organization to specific products, markets, resources, and technologies over an extended period of time. Strategies determine long-term competitive advantages. For better or worse, strategic decisions have major multifunctional consequences and enduring effects on an organization. Top managers have the best perspective to understand fully the ramifications of strategy-formulation decisions; they have the authority to commit the resources necessary for implementation.

Strategy implementation requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance.

Strategy implementation often is called the "action stage" of strategic management. Implementing strategy means mobilizing employees and managers to put formulated strategies into action. Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice. Successful strategy implementation hinges upon managers' ability to motivate employees, which is more an art than a science. Strategies formulated but not implemented serve no useful purpose.

Interpersonal skills are especially critical for successful strategy implementation. Strategy-implementation activities affect all employees and managers in an organization. Every division and department must decide on answers to questions such as "What must we do to implement our part of the organization's strategy?" and "How best can we get the job done?" The challenge of implementation is to stimulate managers and employees throughout an organization to work with pride and enthusiasm toward achieving stated objectives.

Strategy evaluation is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. All strategies are subject to future modification because external and internal factors are constantly changing. Three fundamental strategy-evaluation activities are (1) reviewing external and internal factors that are the bases for current strategies, (2) measuring performance, and (3) taking corrective actions. Strategy evaluation is needed because success today is no guarantee of success tomorrow! Success always creates new and different problems; complacent organizations experience demise.

Strategy formulation, implementation, and evaluation activities occur at three hierarchical levels in a large organization: corporate, divisional or strategic business unit, and functional. By fostering communication and interaction among managers and employees across hierarchical levels, strategic management helps a firm function as a competitive team. Most small businesses and some large businesses do not have divisions or strategic business units; they have only the corporate and functional levels. Nevertheless, managers and employees at these two levels should be actively involved in strategic-management activities.

Peter Drucker says the prime task of strategic management is thinking through the overall mission of a business:

> …that is, of asking the question, "What is our business?" This leads to the setting of objectives, the development of strategies, and the making of today's decisions for tomorrow's results. This clearly must be done by a part of the organization that can see the entire business; that can balance objectives and the needs of today against the needs of tomorrow; and that can allocate resources of men and money to key results.[2]

Integrating Intuition and Analysis

Edward Deming once said, *"In God we trust. All others bring data."* The strategic-management process can be described as an objective, logical, systematic approach for making major decisions in an organization. It attempts to organize qualitative and quantitative information in a way that allows effective decisions to be made under conditions of uncertainty. Yet strategic management is not a pure science that lends itself to a nice, neat, one-two-three approach.

Based on past experiences, judgment, and feelings, most people recognize that *intuition* is essential to making good strategic decisions. Intuition is particularly useful for making decisions in situations of great uncertainty or little precedent. It is also helpful when highly interrelated variables exist or when it is necessary to choose from several plausible alternatives. Some managers and owners of businesses profess to have extraordinary abilities for using intuition alone in devising brilliant strategies. For example, Will Durant, who organized GM, was described by Alfred Sloan as "a man who would proceed on a course of action guided solely, as far as I could tell, by some intuitive flash of brilliance. He never felt obliged to make an engineering hunt for the facts. Yet at times, he was astoundingly correct in his judgment."[3] Albert Einstein acknowledged the importance of intuition when he said, "I believe in intuition and inspiration. At times I feel certain that I am right while not knowing the reason. Imagination is more important than knowledge, because knowledge is limited, whereas imagination embraces the entire world."[4]

Although some organizations today may survive and prosper because they have intuitive geniuses managing them, most are not so fortunate. Most organizations can benefit from strategic management, which is based upon integrating intuition and analysis in decision making. Choosing an intuitive or analytic approach to decision making is not an either–or proposition. Managers at all levels in an organization inject their intuition and judgment into strategic-management analyses. Analytical thinking and intuitive thinking complement each other.

Operating from the I've-already-made-up-my-mind-don't-bother-me-with-the-facts mode is not management by intuition; it is management by ignorance.[5] Drucker says, "I believe in intuition only if you discipline it. 'Hunch' artists, who make a diagnosis but don't check it out with the facts, are the ones in medicine who kill people, and in management kill businesses."[6] As Henderson notes:

> The accelerating rate of change today is producing a business world in which customary managerial habits in organizations are increasingly inadequate. Experience alone was an adequate guide when changes could be made in small increments. But intuitive and experience-based management philosophies are grossly inadequate when decisions are strategic and have major, irreversible consequences.[7]

In a sense, the strategic-management process is an attempt both to duplicate what goes on in the mind of a brilliant, intuitive person who knows the business and to couple it with analysis.

Adapting to Change

The strategic-management process is based on the belief that organizations should continually monitor internal and external events and trends so that timely changes can be made as needed. The rate and magnitude of changes that affect organizations are increasing dramatically, as evidenced by how the global economic recession has caught so many firms by surprise. Firms, like organisms, must be "adept at adapting" or they will not survive.

For 30 years, Lowe's Company and Home Depot Inc. have been and remain fierce competitors trying to adapt better than the other to changing consumer needs. Home Depot is the larger firm and is reporting faster growing revenues and profits, but Lowe's CEO Robert Niblock says his company is moving quickly to showcase tools and appliances on the Internet as expertly as in stores. Lowe's revenues are about $49 billion annually compared to Home Depot's $68 billion. Home Depot's CEO Frank Blake has recently added 19 centralized distribution centers so store workers can spend more time waiting on shoppers. Both firms are hiring thousands of part-time workers, transitioning away from full-time employees, to keep labor costs down and create a price competitive advantage.

The second-largest bookstore chain in the United States, Borders Group, declared bankruptcy in 2011 as the firm had not adapted well to changes in book retailing from traditional bookstore shopping to customers buying online, preferring digital books to hard copies, and even renting rather than buying books. Borders is second in number of stores behind Barnes & Noble, which also is struggling to survive in an industry rapidly going digital and moving away from brick-and-mortar stores. Based in Ann Arbor, Michigan, Borders Group operates 676 stores nationwide, but was on the brink of financial collapse before being acquired in July 2011 by Direct Brands, a division of Phoenix, Arizona–based Najafi Companies.

To survive, all organizations must astutely identify and adapt to change. The strategic-management process is aimed at allowing organizations to adapt effectively to change over the long run. As Waterman has noted:

> In today's business environment, more than in any preceding era, the only constant is change. Successful organizations effectively manage change, continuously adapting their bureaucracies, strategies, systems, products, and cultures to survive the shocks and prosper from the forces that decimate the competition.[8]

Online social networking, rising food prices, and high energy prices are external changes that are transforming business and society today. On a political map, the boundaries between countries may be clear, but on a competitive map showing the real flow of financial and industrial activity, the boundaries have largely disappeared. The speedy flow of information has eaten away at national boundaries so that people worldwide readily see for themselves how other people live and work. We have become a borderless world with global citizens, global competitors, global customers, global suppliers, and global distributors! U.S. firms are challenged by large rival companies in many industries. To say U.S. firms are being challenged in the automobile industry is an understatement. But this situation is true in many industries.

The need to adapt to change leads organizations to key strategic-management questions, such as "What kind of business should we become?" "Are we in the right field(s)?" "Should we reshape our business?" "What new competitors are entering our industry?" "What strategies should we pursue?" "How are our customers changing?" "Are new technologies being developed that could put us out of business?"

The Internet has changed the way we organize our lives; inhabit our homes; and relate to and interact with family, friends, neighbors, and even ourselves. The Internet promotes endless comparison shopping, which thus enables consumers worldwide to band together to demand discounts. The Internet has transferred power from businesses to individuals. Buyers used to face big obstacles when attempting to get the best price and service, such as limited time and data to compare, but now consumers can quickly scan hundreds of vendor offerings. Both the number of people shopping online and the average amount they spend is increasing dramatically. Digital communication has become the name of the game in marketing. Consumers today are flocking to blogs, short-post forums such as Twitter, video sites such as YouTube, and social networking sites such as Facebook, Myspace, and LinkedIn instead of television, radio, newspapers, and magazines. Facebook and Myspace recently unveiled features that further marry these social sites to the wider Internet. Users on these social sites now can log on to many business shopping sites with their IDs from their social site so their friends can see what items they have purchased on various shopping sites. Both of these social sites want their members to use their IDs to manage all their online identities. Most traditional retailers have learned that their online sales can boost in-store sales as they utilize their websites to promote in-store promotions.

Key Terms in Strategic Management

Before we further discuss strategic management, we should define nine key terms: competitive advantage, strategists, vision and mission statements, external opportunities and threats, internal strengths and weaknesses, long-term objectives, strategies, annual objectives, and policies.

Competitive Advantage

Strategic management is all about gaining and maintaining *competitive advantage*. This term can be defined as "anything that a firm does especially well compared to rival firms." When a firm can do something that rival firms cannot do, or owns something that rival firms desire, that can represent a competitive advantage. For example, having ample cash on the firm's balance sheet can provide a major competitive advantage. Some cash-rich firms are buying distressed rivals. For example, Dish Network Corp. in mid-2011 acquired (for $1 billion) the satellite company DBSD North America based in Reston, Virginia, which was operating under bankruptcy protection. The acquisition gave Dish Network access to varied broadband spectrums. Dish Network is also trying to acquire bankrupt satellite operator Terrestar Networks, which would allow Dish Network to launch mobile video or satellite Internet services.

Having less fixed assets than rival firms also can provide major competitive advantages in a global recession. For example, Apple has no manufacturing facilities of its own, and rival Sony has 57 electronics factories. Apple relies exclusively on contract manufacturers for production of all of its products, whereas Sony owns its own plants. Less fixed assets has enabled Apple to remain financially lean with virtually no long-term debt. Sony, in contrast, has built up massive debt on its balance sheet.

CEO Paco Underhill of Envirosell says, “Where it used to be a polite war, it’s now a 21st-century bar fight, where everybody is competing with everyone else for the customers’ money.” Shoppers are “trading down,” so Nordstrom is taking customers from Neiman Marcus and Saks Fifth Avenue, T.J. Maxx and Marshalls are taking customers from most other stores in the mall, and Family Dollar is taking revenues from Wal-Mart.[9] Getting and keeping competitive advantage is essential for long-term success in an organization. In mass retailing, big-box companies such as Wal-Mart, Best Buy, and Sears are losing competitive advantage to smaller stores, so there is a dramatic shift in mass retailing to becoming smaller. For example, Best Buy opened 150 of its small-format Best Buy Mobile stores in 2011. Home Depot is selling off portions of its parking lots to fast-food chains and auto repair shops. Sears in Greensboro, North Carolina, just leased 34,000 square feet of its space to Whole Foods Market, which is set to open in 2012. As customers shift more to online purchases, less brick and mortar is definitely better for sustaining competitive advantage in retailing. Even Wal-Mart began in mid-2011 to open Wal-Mart Express stores of less than 40,000 square feet each, rather than 185,000-square-foot Supercenters. Office Depot’s new 5,000-square-foot stores are dramatically smaller than their traditional stores.

Normally, a firm can sustain a competitive advantage for only a certain period due to rival firms imitating and undermining that advantage. Thus it is not adequate to simply obtain competitive advantage. A firm must strive to achieve *sustained competitive advantage* by (1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources; and by (2) effectively formulating, implementing, and evaluating strategies that capitalize upon those factors.

An increasing number of companies are gaining a competitive advantage by using the Internet for direct selling and for communication with suppliers, customers, creditors, partners, shareholders, clients, and competitors who may be dispersed globally. E-commerce allows firms to sell products, advertise, purchase supplies, bypass intermediaries, track inventory, eliminate paperwork, and share information. In total, e-commerce is minimizing the expense and cumbersomeness of time, distance, and space in doing business, thus yielding better customer service, greater efficiency, improved products, and higher profitability.

The social network company Myspace was acquired in June 2011 by Specific Media based in Irvine, California. Previously owned by Beverly Hills-based News Corp., Myspace is being battered by the rapid rise of rival Facebook. Myspace’s customer base dropped to 80 million at the start of 2011 from well over 100 million a year earlier, while Facebook customers at the same time numbered 500 million, up from about 350 million. Analyst Jeremiah Owyang at market research firm Altimeter Group said: “The end was in sight for Myspace before former CEO Chris DeWolfe left. The company did not innovate for years, while Facebook did. It comes down to culture and leadership. Myspace did not evolve its business model. It stuck with its young demographic, and made minimal changes until it was too late.”[10]

Strategists

Strategists are the individuals who are most responsible for the success or failure of an organization. Strategists have various job titles, such as chief executive officer, president, owner, chair of the board, executive director, chancellor, dean, or entrepreneur. Jay Conger, professor of organizational behavior at the London Business School and author of *Building Leaders,* says, “All strategists have to be chief learning officers. We are in an extended period of change. If our leaders aren’t highly adaptive and great models during this period, then our companies won’t adapt either, because ultimately leadership is about being a role model.”

Strategists help an organization gather, analyze, and organize information. They track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans. Strategic planners usually serve in a support or staff role. Usually found in higher levels of management, they typically have considerable authority for decision making in the firm. The CEO is the most visible and critical strategic manager. Any manager who has responsibility for a unit or division, responsibility for profit and loss outcomes, or direct authority over a major piece of the business is a strategic manager (strategist). In the last five years, the position of chief strategy officer (CSO) has emerged as a new addition to the top management ranks of many organizations, including Sun Microsystems, Network Associates, Clarus, Lante, Marimba, Sapient, Commerce One, BBDO, Cadbury Schweppes, General Motors, Ellie Mae, Cendant, Charles Schwab, Tyco, Campbell Soup, Morgan Stanley, and Reed-Elsevier. This corporate officer title represents recognition of the growing importance of strategic planning in business. Franz Koch, the CSO of German sportswear company Puma AG, was promoted to CEO of Puma in mid-2011. When asked about his plans for the company, Mr. Koch said on a conference call "I plan to just focus on the long-term strategic plan."

Strategists differ as much as organizations themselves, and these differences must be considered in the formulation, implementation, and evaluation of strategies. Some strategists will not consider some types of strategies because of their personal philosophies. Strategists differ in their attitudes, values, ethics, willingness to take risks, concern for social responsibility, concern for profitability, concern for short-run versus long-run aims, and management style. The founder of Hershey Foods, Milton Hershey, built the company to manage an orphanage. From corporate profits, Hershey Foods today cares for over a thousand boys and girls in its School for Orphans.

Vision and Mission Statements

Many organizations today develop a *vision statement* that answers the question "What do we want to become?" Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentence. For example, the vision statement of Stokes Eye Clinic in Florence, South Carolina, is "Our vision is to take care of your vision."

Mission statements are "enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms."[11] It addresses the basic question that faces all strategists: "What is our business?" A clear mission statement describes the values and priorities of an organization. Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities. A mission statement broadly charts the future direction of an organization. A mission statement is a constant reminder to its employees of why the organization exists and what the founders envisioned when they put their fame and fortune at risk to breathe life into their dreams.

External Opportunities and Threats

External opportunities and *external threats* refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future. Opportunities and threats are largely beyond the control of a single organization—thus the word *external*. A few opportunities and threats that face many firms are listed here:

- Availability of capital can no longer be taken for granted.
- Consumers expect green operations and products.
- Marketing moving rapidly to the Internet.
- Commodity food prices are increasing.
- Political unrest in the Middle East is raising oil prices.
- Computer hacker problems are increasing.
- Intense price competition is plaguing most firms.
- Unemployment and underemployment rates remain high.
- Interest rates are rising.
- Product life cycles are becoming shorter.
- State and local governments are financially weak.
- Turmoil and violence in Mexico is increasing.
- Winters are colder and summers hotter than usual.
- Home prices remain exceptionally low.
- Global markets offer the highest growth in revenues.

The types of changes mentioned above are creating a different type of consumer and consequently a need for different types of products, services, and strategies. Many companies in many industries face the severe external threat of online sales capturing increasing market share in their industry.

Other opportunities and threats may include the passage of a law, the introduction of a new product by a competitor, a national catastrophe, or the declining value of the dollar. A competitor's strength could be a threat. Unrest in the Middle East, rising energy costs, or social media networking could represent an opportunity or a threat.

A basic tenet of strategic management is that firms need to formulate strategies to take advantage of external opportunities and to avoid or reduce the impact of external threats. For this reason, identifying, monitoring, and evaluating external opportunities and threats are essential for success. This process of conducting research and gathering and assimilating external information is sometimes called *environmental scanning* or industry analysis. Lobbying is one activity that some organizations utilize to influence external opportunities and threats.

Internal Strengths and Weaknesses

Internal strengths and *internal weaknesses* are an organization's controllable activities that are performed especially well or poorly. They arise in the management, marketing, finance/accounting, production/operations, research and development, and management information systems activities of a business. Identifying and evaluating organizational strengths and weaknesses in the functional areas of a business is an essential strategic-management activity. Organizations strive to pursue strategies that capitalize on internal strengths and eliminate internal weaknesses.

Strengths and weaknesses are determined relative to competitors. *Relative deficiency or superiority is important information*. Also, strengths and weaknesses can be determined by elements of being rather than performance. For example, a strength may involve ownership of natural resources or a historic reputation for quality. Strengths and weaknesses may be determined relative to a firm's own objectives. For example, high levels of inventory turnover may not be a strength to a firm that seeks never to stock-out.

Internal factors can be determined in a number of ways, including computing ratios, measuring performance, and comparing to past periods and industry averages. Various types of surveys also can be developed and administered to examine internal factors such as employee morale, production efficiency, advertising effectiveness, and customer loyalty.

Long-Term Objectives

Objectives can be defined as specific results that an organization seeks to achieve in pursuing its basic mission. *Long-term* means more than one year. Objectives are essential for organizational success because they state direction; aid in evaluation; create synergy; reveal priorities; focus coordination; and provide a basis for effective planning, organizing, motivating, and controlling activities. Objectives should be challenging, measurable, consistent, reasonable, and clear. In a multidimensional firm, objectives should be established for the overall company and for each division.

Strategies

Strategies are the means by which long-term objectives will be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures. Strategies currently being pursued by some companies are described in Table 1-1.

Strategies are potential actions that require top management decisions and large amounts of the firm's resources. In addition, strategies affect an organization's long-term prosperity, typically for at least five years, and thus are future-oriented. Strategies have multifunctional or multidivisional consequences and require consideration of both the external and internal factors facing the firm.

Annual Objectives

Annual objectives are short-term milestones that organizations must achieve to reach long-term objectives. Like long-term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized. They should be established at the corporate, divisional, and functional levels in a large organization. Annual objectives should be stated in terms of management, marketing, finance/accounting, production/operations, research and

TABLE 1-1 Sample Strategies in Action in 2011

Skype
Headquartered in Luxembourg and acquired by Microsoft Corporation in 2011, Skype offers software applications that enable users to make voice calls over the Internet as well as video conferencing, instant messaging, and file transfer. Wildly popular among people who regularly make international calls, Skype audio conferences support up to 25 people at a time, including the host. Skype 3.0, recently released for Apple's iOS platform, offers video chat for the iPhone, iPad, and iPod Touch devices. Skype recently acquired Qik, a mobile video streaming and storage company, and partnered with Sony and Panasonic to create Skype-ready Blu-ray players. Skype now accounts for more than 25 percent of all international calls, up from 13 percent in 2009. The mobile-based video call market is expected to exceed $1 billion by 2015.
Sbarro Inc.
The fast-food Italian eatery located in many mall food courts around the world is struggling to survive and swamped in debt. Based in Melville, New York, Sbarro is closing weak stores among its 1,000 total in 40 countries, including Qatar, Egypt, and New Zealand. Sbarro has hired bankruptcy and restructuring lawyers to help the firm survive as many consumers have switched, for various reasons, to other mall fast food choices, such as Chick-fil-A. Sbarro needs a clear strategic plan to survive.
Target Corp.
The Minneapolis-based mass retailer expanded into Canada for the first time in 2012, converting about 150 of its acquired Zellers stores into Target stores. With 1,752 stores in the United States, Target is a latecomer to Canada; Wal-Mart and Sears have been in Canada for years. Most of Target's new Canadian stores will be in highly urban areas such as Vancouver, Montreal, Ottawa, Edmonton, and Calgary. Reportedly about 70 percent of Canadians are already familiar with the Target brand.
Caesars Entertainment
Formerly named Harrah's Entertainment, this gaming company for the first time ever is establishing noncasino hotels in Asia, following in the footsteps of its major competitor MGM Resorts International. Both firms are shut out from gaining gambling licenses to operate in Macau and Singapore. Since the U.S. gaming market remains sluggish, Caesars is anxious to take advantage of high growth in China, India, and Vietnam. Caesars plans initially to "manage rather than own" the hotels that soon will use its brand name across Asia.

development, and management information systems (MIS) accomplishments. A set of annual objectives is needed for each long-term objective. Annual objectives are especially important in strategy implementation, whereas long-term objectives are particularly important in strategy formulation. Annual objectives represent the basis for allocating resources.

Policies

Policies are the means by which annual objectives will be achieved. Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives. Policies are guides to decision making and address repetitive or recurring situations.

Policies are most often stated in terms of management, marketing, finance/accounting, production/operations, research and development, and MIS activities. Policies can be established at the corporate level and apply to an entire organization at the divisional level and apply to a single division, or they can be established at the functional level and apply to particular operational activities or departments. Policies, like annual objectives, are especially important in strategy implementation because they outline an organization's expectations of its employees and managers. Policies allow consistency and coordination within and between organizational departments.

Substantial research suggests that a healthier workforce can more effectively and efficiently implement strategies. Smoking has become a heavy burden for Europe's state-run social welfare systems, with smoking-related diseases costing well over $100 billion a year. Smoking also is a huge burden on companies worldwide, so firms are continually implementing policies to curtail smoking. Table 1-2 gives a ranking of some countries by percentage of people who smoke.

Hotel/motels in the United States are rapidly going "smoke-free throughout" with more than 13,000 now having this policy. The American Hotel and Lodging Association says there are 50,800

TABLE 1-2 Percentage of People Who Smoke in Selected Countries

Country	Percentage
Greece	50
Russia	High
Austria	
Spain	
U.K.	
France	
Germany	
Italy	
Belgium	
Switzerland	Low
USA	19

Source: Based on Christina Passariello, "Smoking Culture Persists in Europe, Despite Bans," *Wall Street Journal*, January 2, 2009, A5.

hotel/motels in the United States with 15 or more rooms. All Marriotts are now nonsmoking. Almost all car rental companies are exclusively nonsmoking, including Avis, Dollar, Thrifty, and Budget. These four rental car companies charge a $250 cleaning fee if a customer smokes in their rental vehicle.

The Strategic-Management Model

The strategic-management process can best be studied and applied using a model. Every model represents some kind of process. The framework illustrated in Figure 1-1 is a widely accepted, comprehensive model of the strategic-management process.[12] This model does not guarantee success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic-management process are shown in the model, which appears in all subsequent chapters with appropriate areas shaped to show the particular focus of each chapter. These are three important questions to answer in developing a strategic plan:

Where are we now?

Where do we want to go?

How are we going to get there?

Identifying an organization's existing vision, mission, objectives, and strategies is the logical starting point for strategic management because a firm's present situation and condition may preclude certain strategies and may even dictate a particular course of action. Every organization has a vision, mission, objectives, and strategy, even if these elements are not consciously designed, written, or communicated. The answer to where an organization is going can be determined largely by where the organization has been!

The strategic-management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. For instance, third-world countries coming online could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives could require a change in policy; or a major competitor's change in strategy could require a change in the firm's mission. Therefore, strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semiannually. The strategic-management process never really ends.

Note in the *strategic-management model* that business ethics/social responsibility/environmental sustainability issues impact all activities in the model as described in full in Chapter 10. Also, note in the model that global/international issues also impact virtually all strategic decisions today, as described in detail in Chapter 11.