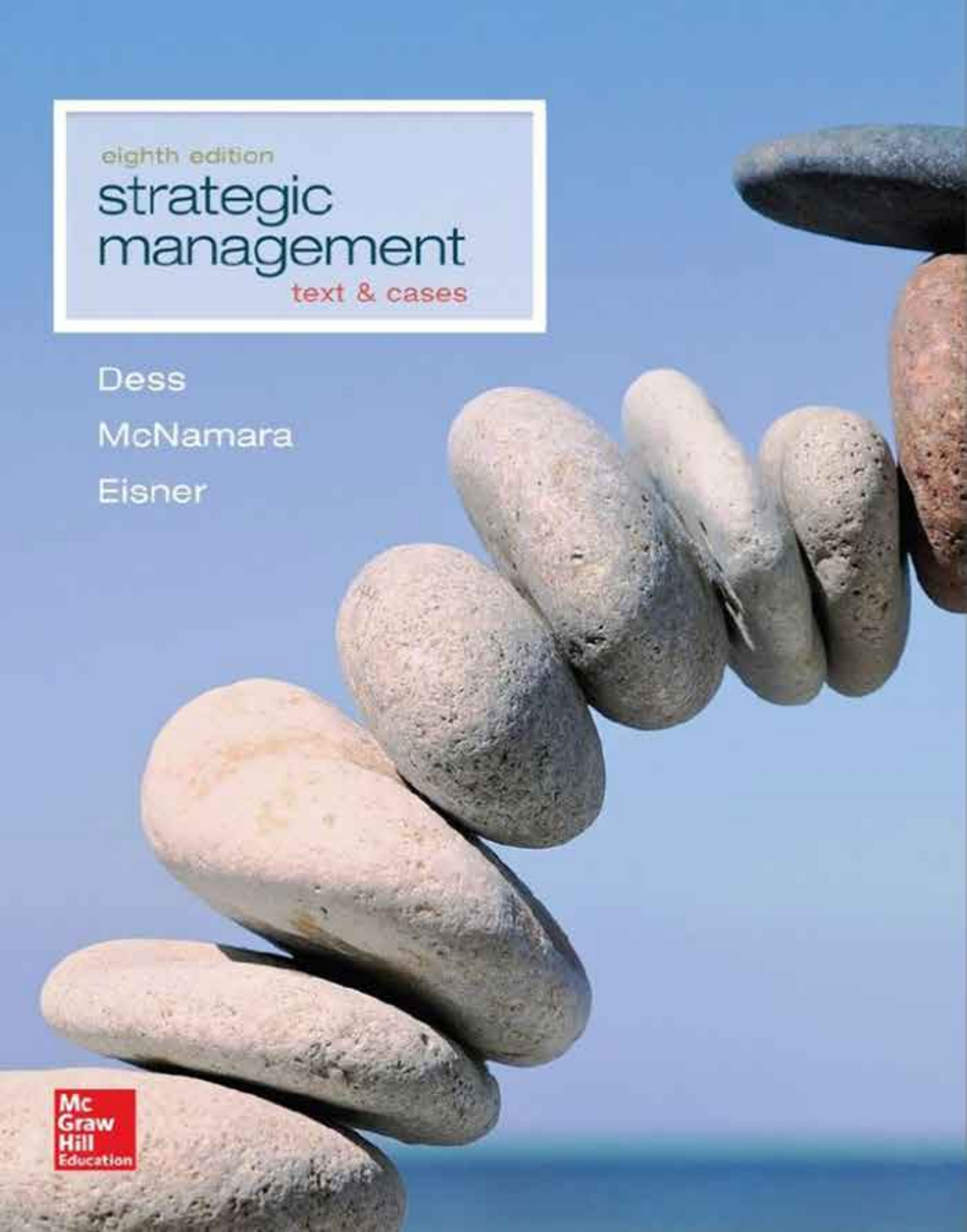
eighth edition
strategic management
text & cases
Dess
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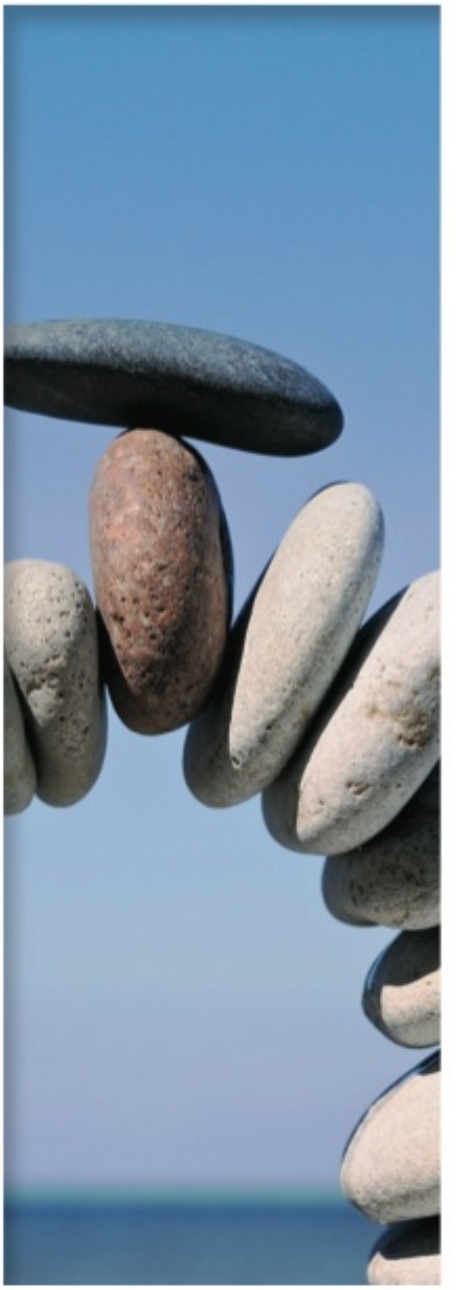

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dedication

To my family, Margie and Taylor; my parents, Bill and Mary Dess; and Michael Wood

–Greg

To my wonderful wife, Gaelen; my children, Megan and AJ; and my parents, Gene and Jane

–Gerry

To my family, Helaine, Rachel, and Jacob

–Alan

We'd like to thank Tom Lumpkin for his many valuable contributions to previous editions of *Strategic Management.* We certainly wish him the best with his scholarship, work as Co-Editor of *Strategic Entrepreneurship Journal,* and other professional endeavors.

about the authors

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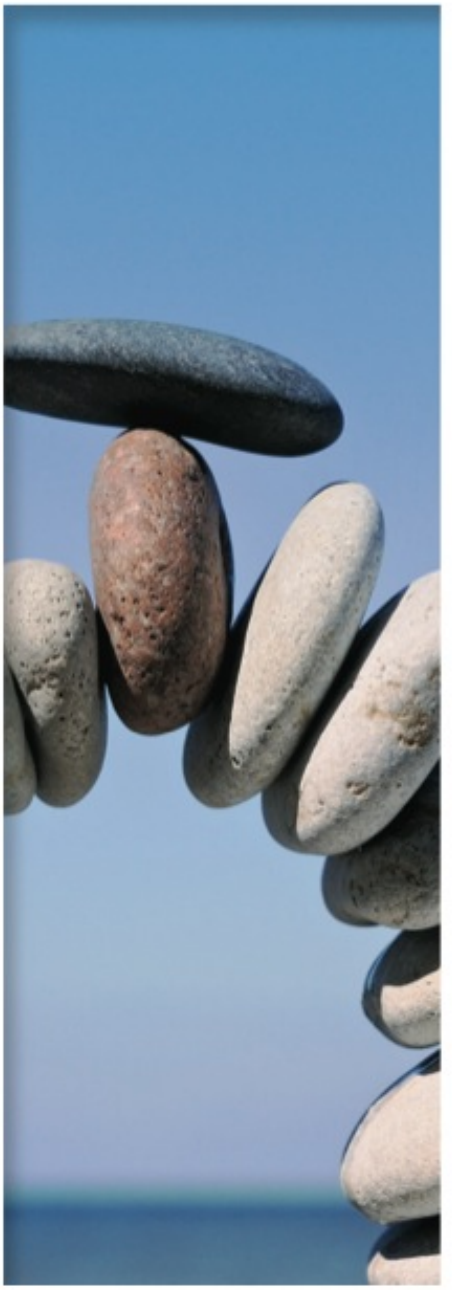

preface

Welcome to the Eighth Edition of *Strategic Management: Text and Cases!*

We are all very pleased with the constructive and positive feedback that we have received on our work. Here's some of the encouraging feedback we have received from our reviewers:

The content is current and my students would find the real-world examples to be extremely interesting. My colleagues would want to know about and I would make extensive use of the following features: "Learning from Mistakes," "Strategy Spotlights," "Issues for Debate," and I especially like the "Reflecting on Career Implications" feature. Bottom line: The authors do a great job of explaining complex material and at the same time their use of up-to-date examples promotes learning.

Jeffrey Richard Nystrom, University of Colorado at Denver

The application of key strategic management concepts to real-world examples throughout the book is superb. They engage the students and provide a way for them to understand the relevance of what can sometimes be abstract and complicated. The cases are engaging and challenging, providing an excellent way for students to perform strategic analysis and gain confidence in doing so.

Krista B. Lewellyn, University of Wyoming

There are many strengths: (1) explanations of concepts are clear and concise, yet comprehensive, (2) covers new developments in the field when new editions are published, and (3) covers the strategic analysis concepts (e.g., industry analysis, resources and capabilities, etc.) very well. Great textbook. I think it is the best in the market, and that is why I have used it for over seven years.

Moses Acquaah, University of North Carolina at Greensboro

The text is thorough and all-inclusive. I don't need to refer to another book as a backup. It addresses all aspects of strategic management from the initial inspiration of a vision to the nuts and bolts of putting the plan to work. It is well structured; it is clear not only how each chapter builds on the previous ones but also how analysis, formulation, and implementation are interrelated.

Lois Shelton, California State University, Northridge

I use *Strategic Management* in a capstone course required of all business majors, and students appreciate the book because it synergizes all their business education into a meaningful and understandable whole. My students enjoy the book's readability and tight organization, as well as the contemporary examples, case studies, discussion questions, and exercises.

William Sannwald, San Diego State University

It is the best-written textbook for the undergraduate course that I have come across. Application materials tie concepts to real-world practice.

Justin L. Davis, Ohio University

The Dess book overcomes many of the limitations of the last book I used in many ways: (a) presents content in a very interesting and engrossing manner without compromising the depth and comprehensiveness, (b) inclusion of timely and interesting illustrative examples, (c) includes an excellent array of long, medium, and short cases that can be used to balance depth and variety, and (d) EOC exercises do an excellent job of complementing the chapter content.

Sucheta Nadkami, University of Cambridge

We work hard to improve our work and we are most appreciative of the extensive and constructive feedback that many strategy professionals have graciously given us. We strive to incorporate their ideas into the Eighth Edition—and we acknowledge them by name later in the Preface.

We believe we have made valuable improvements throughout our many revised editions of *Strategic Management*. At the same time, we strive to be consistent and "true" to our original overriding objective: a book that satisfies three R's: relevant, rigorous, and readable. That is, our tagline (paraphrasing the well-known Secret deodorant commercial) is "Strong enough for the professor; made for the student." And we are pleased that we have received feedback (such as the comments on the previous page) that is consistent with what we are trying to accomplish.

To continue to earn the support of strategy instructors (and students!), we try to use an engaging writing style that minimizes unnecessary jargon and covers all of the traditional bases. We also integrate some central themes throughout the book—such as globalization, technology, ethics, environmental sustainability, and entrepreneurship—that are vital in understanding strategic management in today's global economy. We draw on short examples from business practice to bring concepts to life by providing 72 Strategy Spotlights (more detailed examples in sidebars).

Unlike other strategy texts, we provide three separate chapters that address timely topics about which business students should have a solid understanding. These are the role of intellectual assets in value creation (Chapter 4), entrepreneurial strategy and competitive dynamics (Chapter 8), and fostering entrepreneurship in established organizations (Chapter 12). We also provide an excellent and thorough chapter on how to analyze strategic management cases.

In developing *Strategic Management: Text and Cases,* we certainly didn't forget the instructors. As we all know, you have a most challenging (but rewarding) job. We did our best to help you. We provide a variety of supplementary materials that should help you in class preparation and delivery. For example, our chapter notes do not simply summarize the material in the text. Rather (and consistent with the concept of strategy), we ask ourselves: "How can we add value?" Thus, for each chapter, we provide numerous questions to pose to help guide class discussion, at least 12 boxed examples to supplement chapter material, and three detailed "teaching tips" to further engage students. For example, we provide several useful insights on strategic leadership from one of Greg's colleagues, Charles Hazzard (formerly Executive Vice President, Occidental Chemical). Also, we completed the chapter notes—along with the entire test bank—ourselves. That is, unlike many of our rivals, we didn't simply farm the work out to others. Instead, we felt that such efforts help to enhance quality and consistency—as well as demonstrate our personal commitment to provide a top-quality total package to strategy instructors. With the Eighth Edition, we also benefited from valued input by our strategy colleagues to further improve our work.

Let's now address some of the key substantive changes in the Eighth Edition. Then we will cover some of the major features that we have had in previous editions.

What's New? Highlights of the Eighth Edition

We have endeavored to add new material to the chapters that reflects the feedback we have received from our reviewers as well as the challenges today's managers face. Thus, we all invested an extensive amount of time carefully reviewing a wide variety of books, academic and practitioner journals, and the business press.

We also worked hard to develop more concise and tightly written chapters. Based on feedback from some of the reviewers, we have tightened our writing style, tried to eliminate redundant examples, and focused more directly on what we feel is the most important content in

each chapter for our audience. The overall result is that we were able to update our material, add valuable new content, and—at the same time—shorten the length of the chapters.

Here are some of the major changes and improvements in the Eighth Edition:

- **A new feature: "Insights from Executives."** We have conducted six interviews with executives from a wide variety of organizations. They have been extremely helpful in addressing issues that are salient to strategic management. We sincerely appreciate their participation, and we acknowledge each of them later in the Preface. For example, in Chapter 3, Lise Saari (Former Director of Global Employee Research, IBM) addresses some of the challenges facing organizations when it comes to recruiting and developing talent, and she considers why some human resource initiatives may fail. In Chapter 7, Terrie Campbell (Vice President of Strategic Marketing at Ricoh Americas Corporation) points out some of the challenges associated with adapting marketing strategies to local tastes and markets, and she explains how she can help ensure that managers and employees throughout Ricoh have a global perspective. And, in Chapter 8, David Drews (Executive Vice President and CFO of Project: WorldWide, a global network of marketing agencies) discusses the common drivers of new venture failures as well as the importance of social networks in creating competitive advantages.
- **A new feature: "Insights from Research."** We include this feature in six chapters of the Eighth Edition. In "Insights from Research," we summarize key research findings on a variety of issues and, more importantly, address their relevance for making organizations (and managers!) more effective. For example, in Chapter 2 we discuss findings from a meta-analysis (research combining many individual studies) to debunk several myths about older workers—a topic of increasing importance, given the changing demographics in many developed countries. In Chapter 4, we address a fascinating study that found that "dormant ties" (people we have not been in contact with for at least three years) can be extremely valuable. And, in Chapter 8, we explore useful research findings to consider when leading virtual teams.

  In each of the first 12 chapters, we include one of the two new Insights features to enrich our text.
- **Most of the 12 opening "Learning from Mistakes" vignettes that lead off each chapter are totally new.** Unique to this text, they are all examples of what can go wrong, and they serve as an excellent vehicle for clarifying and reinforcing strategy concepts. After all, what can be learned if one simply admires perfection?
- **Half of our "Strategy Spotlights" (sidebar examples) are brand new, and many of the others have been thoroughly updated.** Although we have reduced the number of Spotlights from the previous edition to conserve space, we still have a total of 72—by far the most in the strategy market. We focus on bringing the most important strategy concepts to life in a concise and highly readable manner. And we work hard to eliminate unnecessary detail that detracts from the main point we are trying to make. Also, consistent with our previous edition, many of the Spotlights focus on three "hot" issues that are critical in leading today's organizations: ethics, environmental sustainability, and crowdsourcing.

Key content changes for the chapters include:

- **Chapter 1 addresses challenges associated with making a business case for sustainability initiatives.** The ROI on sustainability projects is difficult to quantify for many reasons: Necessary data are often not available, many of the benefits

are intangible, and the projects may require a longer payback period. We provide examples from three companies that have endeavored to overcome such challenges by stressing the intangible benefits the firm may attain as well as the importance of taking a broader stakeholder perspective in evaluating such initiatives.

- **Chapter 2 discusses the value of "perceptual acuity" in assessing the environment.** The term *perceptual acuity* was coined by Ram Charan, an adviser to many Fortune 500 CEOs. He defines it as "the ability to sense what is coming before the fog clears." He provides examples of how some executives have enhanced their perceptual acuity by constantly meeting with people and searching out information.
- **Chapter 3 addresses the perils and challenges associated with integrating customers into their firm's value chain.** Clearly, firms can benefit by incorporating their customers into the value creation process. For example, firms can team up with customers to design and build products to satisfy their particular needs. Or firms can leverage the power of crowdsourcing. However, there can be downsides. For example, customers can "hijack" crowdsourcing efforts, and rather than offering constructive feedback, they may address serious concerns—or even ridicule the company!
- **Chapter 4 discusses how a firm's human capital can be enhanced by redefining jobs, as well as the importance of recognizing both inherent and acquired diversity.** Many successful firms are redefining the jobs of their most valuable talent by transferring some of their less critical tasks to lower-skilled employees either inside or outside the company. Hence, by redefining high-value knowledge jobs, organizations can not only successfully address skills shortages but also lower costs and enhance job satisfaction. In this chapter, we also distinguish between two types of diversity—inherent (e.g., race and gender) and acquired (e.g., traits gained by experience). Findings indicate that companies whose leaders exhibited such "two-dimensional diversity" not only enjoyed greater market share gains but also were more likely to capture new markets.
- **Chapter 5 discusses the value of data analytics as a means to achieve an integrated overall low-cost and differentiation strategy.** While it is a challenge to pursue both differentiation and low cost simultaneously, some successful firms are finding that using data analytics allows them to better customize their product and service offerings to customers while more efficiently and fully using the resources of the company. We illustrate the potential power of data analytics with examples from Pepsi and Kaiser Permanente.
- **Chapter 6 addresses research that highlights the importance of the effective allocation of corporate capital in the portfolio management of diversified firms and presents a discussion of the concept of an "acq-hire."** Recent research has supported the contention that the effective allocation of resources is a central and important role of corporate offices in diversified firms. However, studies have also found that many firms do not adjust their capital allocations in response to changes in the performance of units or the attractiveness of the markets in which units of the corporation compete. We discuss when the need to reallocate resources is critical, and we highlight that the effective use of corporate resources can be a source of competitive advantage for diversified firms. We also discuss the concept of an acq-hire, in which a firm purchases another firm primarily to hire key personnel from the target firm. We use Apple's acquisition of Beats as a prime example of this phenomenon.
- **Chapter 7 discusses an additional motive for international expansion—learning—and outlines concerns about how the rule of law has declined in the U.S. in recent years, increasing the political risk of operating in the U.S.** Expanding into new

geographic markets has, at times, been seen as an action that can distract managers from succeeding in the firm's home markets. We discuss how expansion into new markets provides a range of learning opportunities for firms, and we provide research evidence showing that international expansion often leads to improvements in home-market performance. Also, while the U.S. has long been seen as a business-friendly market, we discuss how changes in U.S. laws and regulations in recent years have made it a less attractive market for firms to enter or invest in.

- **Chapter 8 addresses two key issues associated with entrepreneurial firms: ways to deliberately search for entrepreneurial ideas and the personality traits of successful entrepreneurs.** We include a set of structured actions experienced entrepreneurs use to look for new entrepreneurial opportunities, including asking yourself questions about frustrations with current products or processes; having conversations with employees, customers, and suppliers; looking at shifts in other markets that could be translated to your market; and looking for ideas used in the past but forgotten and unexploited now. We also discuss how successful entrepreneurs differ from corporate managers on the Big Five personality traits.
- **Chapter 9 includes an extended discussion of nonmonetary incentive systems and a new discussion on the attentional focus of effective boards.** A number of studies have found that for employees who are satisfied with their base salary, nonfinancial motivators are more effective than cash incentives in building long-term employee motivation. We discuss three key ways firms can motivate their employees beyond the simple use of cash. We have also added a discussion of how the boards of directors of effective companies differ from the boards of ineffective firms in regard to the time they spend on board activities and how they focus their time.
- **Chapter 10 discusses the concept of a holacracy—an extreme version of a boundaryless organization.** To succeed in highly dynamic markets, according to some scholars and managers, firms need to ditch formal hierarchies and become more democratic. We discuss one type of structure that reflects this ideal, the holacracy. Most firms using this type of structure are small start-ups. There are obvious challenges in using a democratic structure in large firms. Zappos, the first large firm to try using a holacracy, is identified as a natural experiment to see if this new type of design has potential in larger firms.
- **Chapter 11 discusses the attributes of a learning organization. In this edition, we discuss how leadership development is a key aspect of a learning organization.** To learn and grow, firms need to continually build the leadership skills of their employees, but these efforts often go wrong. We outline four key attributes of effective leadership development programs.
- **Chapter 12 introduces the idea that firms can draw great value from failed innovations.** Failure is not fun or easy, but it can be very valuable. When firms innovate, they hope that they choose the most promising technological paths, but there is great uncertainty, and they often choose the wrong path. Interestingly, that may be the route to eventual success. We discuss why firms that initially choose the wrong technological path often turn out to be the ultimate winner in the market—if they respond well to the initial failure.
- **Chapter 13 introduces the value of asking heretical questions.** Such an approach can be valuable in case discussions because these questions help to challenge conventional wisdom. Although our discussion draws primarily on its application

to environmental sustainability initiatives, the approach has useful implications for challenges faced by managers in a wide variety of firms and industries.

- **Chapter 13 updates our Appendix: Sources of Company and Industry Information.** Here, we owe a big debt to Ruthie Brock and Carol Byrne, library professionals at the University of Texas at Arlington. These ladies have graciously provided us with comprehensive and updated information for the Eighth Edition that is organized in a range of issues. These include competitive intelligence, annual report collections, company rankings, business websites, and strategic and competitive analysis. Such information is invaluable in analyzing companies and industries.
- **We have worked hard to further enhance our excellent case package with a major focus on fresh and current cases on familiar firms.**
  - More than half of our cases are author-written (much more than the competition).
  - We have updated our users favorite cases, creating fresh stories about familiar companies to minimize instructor preparation time and "maximize freshness" of the content.
  - We have added 5 exciting new cases to the lineup including Avon, Tata, Starbucks, and Greenwood Resources.
  - We have also extensively updated 26 familiar cases including Apple, eBay, JetBlue, Johnson & Johnson, Zynga and many others.
  - Many videos to match the cases.

What Remains the Same: Key Features of Earlier Editions

Let's now briefly address some of the exciting features that remain from the earlier editions.

- **Traditional organizing framework with three other chapters on timely topics.** Crisply written chapters cover all of the strategy bases and address contemporary topics. First, the chapters are divided logically into the traditional sequence: strategy analysis, strategy formulation, and strategy implementation. Second, we include three chapters on such timely topics as intellectual capital/knowledge management, entrepreneurial strategy and competitive dynamics, and fostering corporate entrepreneurship and new ventures.
- **"Learning from Mistakes" chapter-opening cases.** To enhance student interest, we begin each chapter with a case that depicts an organization that has suffered a dramatic performance drop, or outright failure, by failing to adhere to sound strategic management concepts and principles. We believe that this feature serves to underpin the value of the concepts in the course and that it is a preferred teaching approach to merely providing examples of outstanding companies that always seem to get it right. After all, isn't it better (and more challenging) to diagnose problems than admire perfection? As Dartmouth's Sydney Finkelstein, author of *Why Smart Executives Fail,* notes: "We live in a world where success is revered, and failure is quickly pushed to the side. However, some of the greatest opportunities to learn—for both individuals and organizations—come from studying what goes wrong."* For example, we'll see how (and why!) Groupon's stock price went from a high of $26 a share when it debuted on NASDAQ in November 2011 to around $6 near the end of 2014. Clearly, imitation in the "daily deals"

*Personal communication, June 20, 2005.

industry was creating havoc. However, CEO Andrew Mason wasn't helping the situation with the questionable accounting practices that took place under his leadership, as well as his "goofball antics" (as noted by CNBC's Herb Greenberg). We'll also explore how Stroh's Brewing Company was undone by Peter Stroh, the fifth generation of the family to lead the firm, who took over as CEO in 1980. Rather than sticking to the tried-and-true business plan of catering to the needs of the Midwest working class, he undertook a disastrous series of acquisitions. And we'll look at the recent problems faced by Tesco, a large global retailer. In addition to its failed entry into the U.S. market and increasing pressure at home from hard-discounting rivals, Tesco has been tarred in the press by accounting irregularities and flawed corporate governance.

- **"Issue for Debate"—at the end of each chapter.** We find that students become very engaged (and often animated!) in discussing an issue that has viable alternate points of view. It is an exciting way to drive home key strategy concepts. For example, in Chapter 1, Seventh Generation is faced with a dilemma that confronts its values, and the firm must decide whether or not to provide its products to some of its largest customers. At issue: While the firm sympathizes (and their values are consistent) with the striking workers at the large grocery chains, should Seventh Generation cross the picket lines? In Chapter 4, some interesting trade-offs must be considered when a firm under financial duress has to make a choice: begin furloughs or lay off employees (David Cote, chairman and CEO of Honeywell, provides an insightful perspective). And, in Chapter 7, we address Medtronic's decision to acquire Covidien, an Irish-based medical equipment manufacturer, for $43 billion. Medtronic's primary motive: lower its taxes by moving its legal home to Ireland—a country that has lower rates of taxation on corporations. Some critics may see such a move as unethical and unpatriotic. Supporters would argue that the move will help the firm save on taxes and benefit its shareholders.
- **Throughout the chapters, we provide many excerpts from interviews with top executives from Adam Bryant's *The Corner Office*.** Such viewpoints provide valuable perspectives from leading executives and help to drive home the value and purpose of key strategy concepts. For example, we include the perspectives of Tim Brown (CEO of IDEO) on employee empowerment, Richard Anderson (CEO of Delta Airlines) on strategy analysis, and Gordon Bethune (former CEO of Continental Airlines) on the importance of incentive systems.
- **"Reflecting on Career Implications . . ."** We provide insights that are closely aligned with and directed to three distinct issues faced by our readers: prepare them for a job interview (e.g., industry analysis), help them with current employers or their career in general, or help them find potential employers and decide where to work. We believe this will be very valuable to students' professional development.
- **"Reflecting on Career Implications" for each chapter.** This feature—at the end of each chapter—will help instructors drive home the immediate relevance/value of strategy concepts. It focuses on how an understanding of key concepts helps business students early in their careers.
- **Consistent chapter format and features to reinforce learning.** We have included several features in each chapter to add value and create an enhanced learning experience. First, each chapter begins with an overview and a list of key learning objectives. Second, as previously noted, the opening case describes a situation in which a company's performance eroded because of a lack of proper application of strategy concepts. Third, at the end of each chapter there are four different types of questions/exercises that

should help students assess their understanding and application of material:

1. Summary review questions.
2. Experiential exercises.
3. Application questions and exercises.
4. Ethics questions.

Given the centrality of online systems to business today, each chapter contains at least one exercise that allows students to explore the use of the web in implementing a firm's strategy.

- **Key Terms.** Approximately a dozen key terms for each chapter are identified in the margins of the pages. This addition was made in response to reviewer feedback and improves students' understanding of core strategy concepts.
- **Clear articulation and illustration of key concepts.** Key strategy concepts are introduced in a clear and concise manner and are followed by timely and interesting examples from business practice. Such concepts include value-chain analysis, the resource-based view of the firm, Porter's five-forces model, competitive advantage, boundaryless organizational designs, digital strategies, corporate governance, ethics, and entrepreneurship.
- **Extensive use of sidebars.** We include 72 sidebars (or about six per chapter) called "Strategy Spotlights." The Strategy Spotlights not only illustrate key points but also increase the readability and excitement of new strategy concepts.
- **Integrative themes.** The text provides a solid grounding in ethics, globalization, environmental substainability, and technology. These topics are central themes throughout the book and form the basis for many of the Strategy Spotlights.
- **Implications of concepts for small businesses.** Many of the key concepts are applied to start-up firms and smaller businesses, which is particularly important since many students have professional plans to work in such firms.
- **Not just a textbook but an entire package.** *Strategic Management* features the best chapter teaching notes available today. Rather than merely summarizing the key points in each chapter, we focus on value-added material to enhance the teaching (and learning) experience. Each chapter includes dozens of questions to spur discussion, teaching tips, in-class group exercises, and about a dozen detailed examples from business practice to provide further illustrations of key concepts.

Teaching Resources

Instructor's Manual (IM)

Prepared by the textbook authors, along with valued input from our strategy colleagues, the accompanying IM contains summary/objectives, lecture/discussion outlines, discussion questions, extra examples not included in the text, teaching tips, reflecting on career implications, experiential exercises, and more.

Test Bank

Revised by Christine Pence of the University of California–Riverside, the test bank contains more than 1,000 true/false, multiple-choice, and essay questions. It has now been tagged with learning objectives as well as Bloom's Taxonomy and AACSB criteria.

- **Assurance of Learning Ready.** Assurance of Learning is an important element of many accreditation standards. Dess 8e is designed specifically to support your Assurance of Learning initiatives. Each chapter in the book begins with a list of numbered learning objectives that appear throughout the chapter. Every test bank question is also linked to one of these objectives, in addition to level of difficulty, topic area, Bloom's Taxonomy level, and AACSB skill area. *EZ Test,* McGraw-Hill's easy-to-use test bank software, can search the test bank by these and other categories, providing an engine for targeted Assurance of Learning analysis and assessment.
- **AACSB Statement.** The McGraw-Hill Companies is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, Dess 8e has sought to recognize the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in Dess 8e and the test bank to the general knowledge and skill guidelines found in the AACSB standards. The statements contained in Dess 8e are provided only as a guide for the users of this text. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While Dess 8e and the teaching package make no claim of any specific AACSB qualification or evaluation, we have labeled selected questions within Dess 8e according to the six general knowledge and skills areas.
- **Computerized Test Bank Online.** A comprehensive bank of test questions is provided within a computerized test bank powered by McGraw-Hill's flexible electronic testing program, *EZ Test Online* (*www.eztestonline.com*). *EZ Test Online* allows you to create paper and online tests or quizzes in this easy-to-use program. Imagine being able to create and access your test or quiz anywhere, at any time, without installing the testing software! Now, with *EZ Test Online,* instructors can select questions from multiple McGraw-Hill test banks or author their own and then either print the test for paper distribution or give it online.
- **Test Creation.**
  - Author/edit questions online using the 14 different question-type templates.
  - Create printed tests or deliver online to get instant scoring and feedback.
  - Create question pools to offer multiple versions online—great for practice.
  - Export your tests for use in *WebCT, Blackboard,* and Apple's *iQuiz.*
  - Compatible with *EZ Test Desktop* tests you've already created.
  - Sharing tests with colleagues, adjuncts, TAs is easy.
- **Online Test Management.**
  - Set availability dates and time limits for your quiz or test.
  - Control how your test will be presented.
  - Assign points by question or question type with drop-down menu.
  - Provide immediate feedback to students or delay until all finish the test.
  - Create practice tests online to enable student mastery.
  - Your roster can be uploaded to enable student self-registration.
- **Online Scoring and Reporting.**
  - Automated scoring for most of *EZ Test*'s numerous question types.
  - Allows manual scoring for essay and other open response questions.
  - Manual rescoring and feedback are also available.

- *EZ Test*'s grade book is designed to easily export to your grade book.
- View basic statistical reports.

- **Support and Help.**
  - User's guide and built-in page-specific help.
  - Flash tutorials for getting started on the support site.
  - Support website: *www.mhhe.com/eztest.*
  - Product specialist available at 1-800-331-5094.
  - Online training: *http://auth.mhhe.com/mpss/workshops/.*

PowerPoint Presentation

Prepared by Pauline Assenza of Western Connecticut State University, it consists of more than 400 slides incorporating an outline for the chapters tied to learning objectives. Also included are instructor notes, multiple-choice questions that can be used as Classroom Performance System (CPS) questions, and additional examples outside the text to promote class discussion.

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  - There are chapter quizzes for the first 12 chapters, consisting of 15–25 multiple-choice questions, testing students' overall comprehension of concepts presented in the chapter.
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  - The majority of the *Connect* exercises are automatically graded, thereby simplifying the task of evaluating each class member's performance and monitoring the learning outcomes.
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  - View scored work immediately and track individual or group performance with assignment and grade reports.
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  - Collect data and generate reports required by many accreditation organizations, such as AACSB.

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a guided tour

Learning Objectives

Learning Objectives numbered LO5.1, LO5.2, LO5.3, etc., with corresponding icons in the margins to indicate where learning objectives are covered in the text.

After reading this chapter, you should have a good understanding of the following learning objectives:

- **LO1.1** The definition of strategic management and its four key attributes.
- **LO1.2** The strategic management process and its three interrelated and principal activities.
- **LO1.3** The vital role of corporate governance and stakeholder management, as well as how "symbiosis" can be achieved among an organization's stakeholders.
- **LO1.4** The importance of social responsibility, including environmental sustainability, and how it can enhance a corporation's innovation strategy.
- **LO1.5** The need for greater empowerment throughout the organization.
- **LO1.6** How an awareness of a hierarchy of strategic goals can help an organization achieve coherence in its strategic direction.

Learning from Mistakes

What makes the study of strategic management so interesting? Today, many new start-ups become globally recognized names seemingly overnight. At the same time, we see many of yesteryear's high-flying firms struggling to regain some of their earlier elite status or even to survive. As colorfully noted by Arthur Martinez, Sears's former chairman: "Today's peacock is tomorrow's feather duster."[1]

Consider the following:[2]

- Only 74 of the original 500 companies in the S&P Index were still around 40 years later—a mortality rate of more than 10 per year. In 1935, firms in the S&P 500 would have an average lifetime of 90 years. By 2011, the average lifetime was down to 18 years.
- In March 2000, the top five stocks on the NASDAQ Stock Exchange were Cisco, Microsoft, Intel, Qualcomm, and Oracle. As of mid-2014, the top five were Apple, Google, Microsoft, Amazon.com, and Facebook.
- Until a few years ago, many customers were willing to pay more than $200 for a GPS unit. Today, most people use free navigation apps on their smartphones instead. In just 18 months, GPS makers have lost 85 percent of their market value, as noted by *The Economist*.
- Twenty years ago it was almost unimaginable that a South Korean firm would be a global car giant, that an Indian firm would be one of the world's largest technology outfits, or that a Chinese Internet colossus would list on an American stock exchange.

Maintaining competitive success or even surviving over long periods of time is indeed very difficult for companies of any size. As John Donahue, CEO of eBay, notes, "Almost every company has hot moments. But only great companies achieve strong, sustainable performance over time."[3] Next, let's take a look at Groupon, which, after its high-profile initial public offering (IPO) in 2011 that raised over $900 million, has struggled to live up to the initial expectations.

Andrew Mason met his earliest investor, Eric Lefkofsky, in 2003 when he was working as a web designer. Five years later, Lefkofsky provided $1 million to fund Mason's first entrepreneurial effort—a company called The Point—an interactive web platform that was originally intended to bring groups of like-minded people together behind a social cause like hunger or helping the homeless.

This idea didn't pan out; Mason and Lefkofsky pivoted into a more commercially friendly application of the same concept—Groupon. As we all know, Groupon would eventually grow into one of the most talked-about and hyped tech companies in recent history. In fact, *The Wall Street Journal* stated that it had "been called the fastest-growing company in history" before its 2011 IPO.

Today, Groupon has over 10,000 employees worldwide and has sold over 6 million group coupons. The company was so hot that at one point it rejected an all-cash $6 billion buyout offer from Google. The offer would have put $420 million and $1 billion in Mason's and Lefkofsky's pockets, respectively. But investors were confident that a company with as much heat and momentum as Groupon back in 2011 would certainly fetch far more value with an IPO. Unfortunately, by April 2015, Andrew Mason had

Learning from Mistakes

Learning from Mistakes vignettes are examples of where things went wrong. Failures are not only interesting but also sometimes easier to learn from. And students realize strategy is not just about "right or wrong" answers, but requires critical thinking.

4.3 STRATEGY SPOTLIGHT

HOW INHERENT AND ACQUIRED DIVERSITY AFFECT INNOVATION

A study explored two kinds of diversity: *inherent* and *acquired*. Its findings were based on a nationally representative survey of 1,800 professionals, 48 case studies, and numerous focus groups and interviews. Inherent diversity involves traits one was born with, such as gender, ethnicity, and sexual orientation. On the other hand, acquired diversity involves traits gained from experience, such as working in another country to understand cultural differences and selling to both male and female consumers to develop "gender smarts." Companies whose leaders exhibited at least three inherent and three acquired traits were viewed as having two-dimensional (2-D) diversity.

The study found that companies with 2-D diversity outinnovated and outperformed the others. Employees in such companies were 45 percent likelier to report their firm's market share grew over the previous year and 70 percent likelier to report the firm captured a new market.

What explains these results? Two-dimensional diversity unlocks innovation by creating a work environment where "outside the box" ideas are heard and minorities form a critical mass. Further, leaders value differences, and all employees can find senior people to go to bat for compelling ideas and can persuade those in charge of budgets to commit resources to develop those ideas.

Inherent diversity, however, is only half of the equation. Acquired diversity provides additional benefits since employees with diverse experiences can provide insights on the needs and preferences of different groups and cultures. They are also more open to the perspectives of the other members on the team. Since acquired diversity increases openness, it also enhances the value of inherent diversity. Minority team members will be more likely to contribute to team discussions, resulting in more creative problem solving. Six behaviors spur innovation across the board: ensuring everyone is heard; making it safe to propose novel ideas; giving team members decision-making authority; sharing credit for success; giving actionable feedback; and implementing feedback from the team.

Source: Hewlett, S. A., Marshall, M., & Sherbin, L. 2013. How diversity can drive innovation. *Harvard Business Review*, 91(12): 30; and Kirkpatrick, R. 2014. *The self-edge*. San Francisco: Jossey-Bass.

11.2 STRATEGY SPOTLIGHT **ETHICS**

INSTILLING ETHICS AND A FIRM'S VALUES: WALKING THE TALK

Firms often draft elaborate value statements and codes of conduct, yet many firms do not live up to their own standards—or, in other words, fail to "walk the talk." Take the positive example of N. R. Narayana Murthy, chairman and one of the founders of Infosys (a giant Indian technology company). In February 1984, shortly after the firm was founded, Infosys decided to import a super minicomputer so that it could start developing software for overseas clients. When the machine landed at Bangalore Airport, the local customs official refused to clear it unless the company "took care of him"—the Indian euphemism for demanding a bribe. A delay at customs could have threatened the project. Yet, instead of caving in to the unethical customs official's demands, Murthy kept true to his values and took the more expensive formal route of paying a customs duty of 135 percent with dim chances of successfully appealing the duty and receiving a refund.

Reflecting on these events, Murthy reasons, "We didn't have enough money to pay the duty and had to borrow it. However, because we had decided to do business ethically, we didn't have a choice. We would not pay bribes. We effectively paid twice for the machine and had only a slim chance of recovering our money. But a clear conscience is the softest pillow on which you can lay your head down at night. . . . It took a few years for corrupt officials to stop approaching us for favors."

Source: Rama, A. P. 2011. "Why don't we try to be India's most respected company?" *Harvard Business Review*, 89(11): 82.

Strategy Spotlight

These boxes weave themes of ethics, globalization, and technology into every chapter of the text, providing students with a thorough grounding necessary for understanding strategic management. Select boxes incorporate crowdsourcing, environmental sustainability, and ethical themes.

INSIGHTS

The "Insights" feature is new to this edition. "Insights from Executives" spotlight interviews with executives from worldwide organizations about current issues salient to strategic management. "Insights from Research" summarize key research findings relevant to maintaining the effectiveness of an organization and its management.

3.1 INSIGHTS FROM EXECUTIVES

LISE M. SAARI, PH.D., FORMER DIRECTOR OF GLOBAL EMPLOYEE RESEARCH, IBM

BIOSKETCH

INSIGHTS FROM RESEARCH

NEW TRICKS: RESEARCH DEBUNKS MYTHS ABOUT OLDER WORKERS

Overview

What the Research Shows

Financial Ratio	Semiconductors	Grocery Stores	Skilled-Nursing Facilities
Quick ratio (times)	1.9	0.6	1.3
Current ratio (times)	3.6	1.7	1.7
Total liabilities to net worth (%)	35.1	72.7	82.5
Collection period (days)	48.6	3.3	36.5
Assets to sales (%)	131.7	22.1	58.3
Return on sales (%)	2.4	1.1	3.1

Source: Dun & Bradstreet. *Industry Norms and Key Business Ratios, 2010–2011*. One Year Edition, SIC #3600–3699 (Semiconductors); SIC #5400–5499 (Grocery Stores); SIC #8000–8099 (Skilled-Nursing Facilities). New York: Dun & Bradstreet Credit Services.

EXHIBIT 3.10
How Financial Ratios Differ across Industries

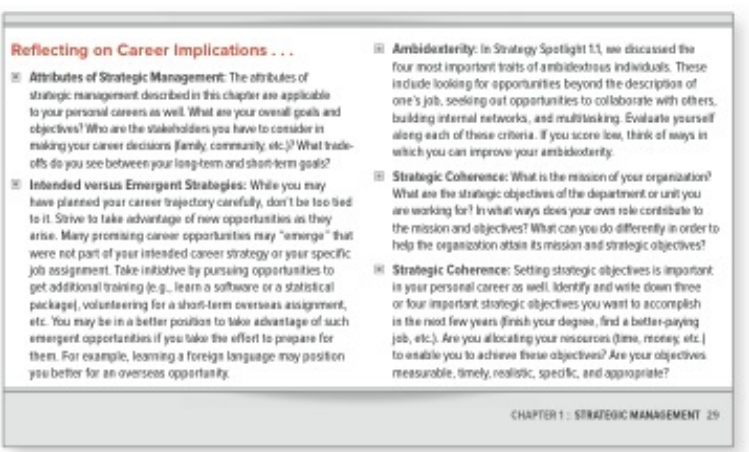
Comparing your firm with all other firms in your industry assesses relative performance. Banks often use such comparisons when evaluating a firm's creditworthiness. Exhibit 3.10 includes a variety of financial ratios for three industries: semiconductors, grocery stores, and skilled-nursing facilities. Why is there such variation among the financial ratios for these three industries? There are several reasons. With regard to the collection period, grocery stores operate mostly on a cash basis, hence a very short collection period. Semiconductor manufacturers sell their output to other manufacturers (e.g., computer

Exhibits

Both new and improved exhibits in every chapter provide visual presentations of the most complex concepts covered to support student comprehension.

Reflecting on Career Implications

This section before the summary of every chapter consists of examples on how understanding of key concepts helps business students early in their careers.



Reflecting on Career Implications . . .

- **Attributes of Strategic Management:** The attributes of strategic management described in this chapter are applicable to your personal careers as well. What are your overall goals and objectives? Who are the stakeholders you have to consider in making your career decisions (family, community, etc.)? What trade-offs do you see between your long-term and short-term goals?
- **Intended versus Emergent Strategies:** While you may have planned your career trajectory carefully, don't be too tied to it. Strive to take advantage of new opportunities as they arise. Many promising career opportunities may "emerge" that were not part of your intended career strategy or your specific job assignment. Take initiative by pursuing opportunities to get additional training (e.g., learn a software or a statistical package), volunteering for a short-term overseas assignment, etc. You may be in a better position to take advantage of such emergent opportunities if you take the effort to prepare for them. For example, learning a foreign language may position you better for an overseas opportunity.
- **Ambidexterity:** In Strategy Spotlight 1.1, we discussed the four most important traits of ambidextrous individuals. These include looking for opportunities beyond the description of one's job, seeking out opportunities to collaborate with others, building internal networks, and multitasking. Evaluate yourself along each of these criteria. If you score low, think of ways in which you can improve your ambidexterity.
- **Strategic Coherence:** What is the mission of your organization? What are the strategic objectives of the department or unit you are working for? In what ways does your own role contribute to the mission and objectives? What can you do differently in order to help the organization attain its mission and strategic objectives?
- **Strategic Coherence:** Setting strategic objectives is important in your personal career as well. Identify and write down three or four important strategic objectives you want to accomplish in the next few years (finish your degree, find a better-paying job, etc.). Are you allocating your resources (time, money, etc.) to enable you to achieve these objectives? Are your objectives measurable, timely, realistic, specific, and appropriate?

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Cases

Updated case lineup provides 9 new cases. The majority of the remaining cases have been revised to "maximize freshness" and minimize instructor preparation time. New cases for this edition include well-known companies such as Tata Starbucks, the Casino Industry, and General Motors.

CASES

CASE 12

TATA STARBUCKS: HOW TO BREW A SUSTAINABLE BLEND FOR INDIA*

CASES

CASE 19

THE GLOBAL CASINO INDUSTRY*

EXHIBIT 1 Top Casino Revenue Locations, 2014 ($ billions)

Location	Revenue
Macau	$48.6
United States	38.0
Singapore	6.6
Australia	4.3
South Korea	2.6

CASES

CASE 32

GENERAL MOTORS*

EXHIBIT 1 Income Statement ($ millions)

	Year Ending December				
	2010	2011	2012	2013	2014
Revenue	135,592	150,276	152,256	155,427	155,929
Gross profit	16,800	19,109	18,813	18,064	13,808

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