

FIFTEENTH EDITION

# Concepts in Strategic Management and Business Policy

Globalization, Innovation and Sustainability



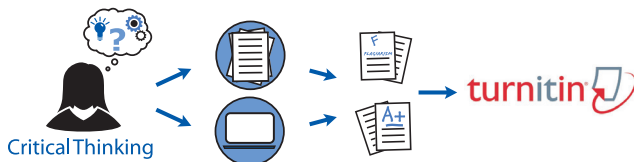
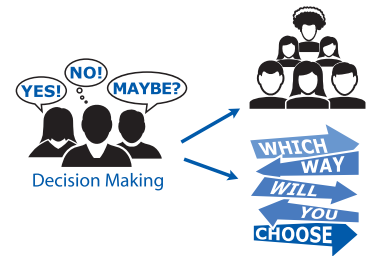
Thomas L. Wheelen  
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Charles E. Bamford

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Concepts in Strategic  
Management  
and Business Policy

GLOBALIZATION, INNOVATION, AND SUSTAINABILITY

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FIFTEENTH EDITION

# Concepts in Strategic Management and Business Policy

GLOBALIZATION, INNOVATION,  
AND SUSTAINABILITY

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# Dedicated to

## TOM WHEELLEN AND DAVID HUNGER

*Tom originated this book in the late 1970s and with his friend David Hunger brought the first edition to fruition in 1982. What a ride it was! We lost both of these extraordinary men in rapid succession. After battling bone cancer, Tom died in Saint Petersburg, Florida, on December 24, 2011. David died in St. Joseph, Minnesota on April 10, 2014 after fighting cancer himself. It was Tom's idea from the very beginning to include the latest research and useful material written in such a way that the typical student could read and understand the book without outside assistance. That has been a key reason for the success of the book through its many editions. Tom and David worked in adjoining offices at the McIntire School of Commerce at the University of Virginia where their lifelong collaboration blossomed. Tom's last months were spent working with the two new co-authors to map out the direction for the 14th edition and we were fortunate to work with David through the early part of the 14th edition update until his fight against his cancer took priority. We thank you both and bid you a fond farewell! This 15th edition is for you!*

*Alan N. Hoffman  
Charles E. Bamford*

## SPECIAL DEDICATION TO DAVID HUNGER

*A special dedication in honor of David Hunger to his colleagues, friends, and students—*

*It is our hope and prayer that you found, and continue to find, some joy in your study of Strategic Management and Business Policy and, perhaps, experience a sense of the passion behind the subject matter presented in this textbook. It was originated by two men who were the best of friends and colleagues, Dr. Tom Wheelen (May 30, 1935 – December 24, 2011) and our Dad, Dr. J. David Hunger (May 17, 1941 – April 10, 2014). This will be the first edition we will see without a handwritten note in the front and a dedication to us all. Dad came alive discussing strategy, case management, theory, entrepreneurship, and the daily happenings in the field of management. Even relaxing at the end of the day, he could be found thumbing through a Business Week or journal. Colleagues always knew when he was in their presentations because he was fully engaged, offering questions and happy to share in an animated dialogue. Students speak fondly of being in his class. His dedication to the field never ended. Even up to a month before he died (still undergoing chemotherapy) he insisted on travelling by train from Minnesota to Chicago for a Case Research Conference to run a panel. We are so proud and thankful that Drs. Alan Hoffman and Chuck Bamford knew Tom and Dad and are carrying the torch forward. As his 4 daughters and 6 grandchildren,*

*we miss him daily. We lost him far too soon. Finally, our mom, Betty Hunger, who lived with the authorship of this textbook for three quarters of their 45 years together and joked that it was their 5th child, wishes to express just how much she misses Dad and looks forward to seeing him again.*

*Betty, Kari and Jeff, Madison and Megan, Suzi and Nick, Summer and Kacey,  
Lori and Derek, Merry and Dylan, and Edan and Greyson.*

*We love you David/Dad/GrandDad.*

*To Will Hoffman, the greatest son in the world.... and to our saint Wendy Appel.  
.... and to Jodi L. Silton, thank you for your kindness and understanding.*

*Alan Hoffman*

*To Yvonne, for your support, advice, encouragement, love, and confidence. To my children Ada,  
Rob, and Sean and my grandchildren Silas, Isaac, and Clara.*

*Chuck Bamford*



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# Preface

Welcome to the 15th edition of *Strategic Management and Business Policy*! All of the chapters have been updated and we have added one new chapter on Global Strategy. In addition, we have added 13 brand-new cases (**Target, American Red Cross, Sonic Restaurants, Harley Davidson, Staples, Chipotle, Uber, Pandora Internet Radio, Snap-on Tools, Google, Pepsi, Town Sports International, and JC Penney**). Many of the cases are exclusive to this edition! Although we still make a distinction between full-length and mini cases, we have interwoven them throughout the book to better identify them with their industries.

The theme that runs throughout all 13 chapters of this edition continues our view from the 14th edition that there are three strategic issues that comprise the cornerstone all organizations must build upon to push their businesses forward. Those are ***globalization, innovation, and sustainability***. Each chapter incorporates specific vignettes about these three themes. We strive to be the most comprehensive and practical strategy book on the market, with chapters ranging from corporate governance and social responsibility to competitive strategy, functional strategy, and strategic alliances.

## FEATURES NEW TO THIS 15TH EDITION

This edition of the text has:

- A completely new Chapter (9) on Global Strategy. While we discuss globalization in every chapter of the book, including a Global Issues section in each chapter, we have called out a stand-alone chapter to address the key issues of entry, international coordination, stages of international development, international employment, and measurement of performance.
- New and updated vignettes on sustainability (which is widely defined as business sustainability), globalization (which we view as an expectation of business), and innovation (which is the single most important element in achieving competitive advantage) appear in every chapter of the text.
- Every example, chapter opening, and story has been updated. This includes chapter opening vignettes examining companies such as: Tesla, Pizza Hut, Bombardier, Wal\*Mart, Caterpillar, and United Airlines among many others.
- Resource-based analysis and more specifically the VRIO framework (Chapter 5) has been added to the toolbox of students' understanding of core competencies and competitive advantage with a significant addition of material and a practical example.

- Extensive additions have been made to the text from both strategy research and practical experience.
- Thirteen new comprehensive cases have been added to support the 14 popular full-length cases and 6 mini-cases carried forward from past editions. Of the 33 cases appearing in this book, 19 are exclusive and do not appear in other books.
- One of the new cases deals with privacy (**Google and the Right to Be Forgotten**).
- One of the new cases deals with governance (**American Red Cross**).
- One of the new cases deals with conscious capitalism (**Chipotle**).
- Two of the new cases deal with international issues (**Uber, Harley Davidson**).
- One of the new cases involves Internet companies (**Pandora Internet Radio**).
- One of the new cases deals with Sports and Leisure (**Town Sports Int'l**).
- One of the new cases deals with Apparel (**J.C. Penney**).
- Three of the new cases deal with Food and Beverages (**Pepsi, Sonic Restaurants**).
- Two of the new cases deal with Retailing (**Target, Staples**).
- One of the new cases deals with Manufacturing (**Snap-on Tools**).

## HOW THIS BOOK IS DIFFERENT FROM OTHER STRATEGY TEXTBOOKS

This book contains a **Strategic Management Model** that runs through the first 12 chapters and is made operational through the **Strategic Audit**, a complete case analysis methodology. The Strategic Audit provides a professional framework for case analysis in terms of external and internal factors and takes the student through the generation of strategic alternatives and implementation programs.

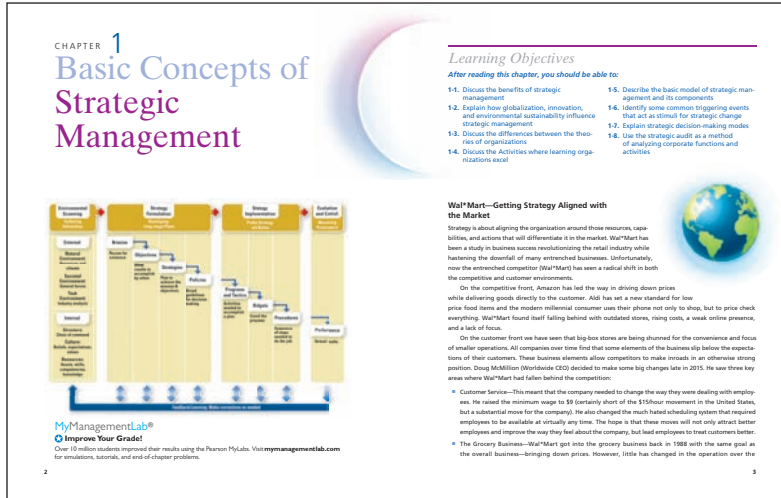
To help the student synthesize the many factors in a complex strategy case, we developed three useful techniques:

- **The External Factor Analysis (EFAS) Table in Chapter 4**
  - This reduces the external opportunities and threats to the 8 to 10 most important external factors facing management.
- **The Internal Factor Analysis (IFAS) Table in Chapter 5**
  - This reduces the internal strengths and weaknesses to the 8 to 10 most important internal factors facing management.
- **The Strategic Factor Analysis Summary (SFAS) Matrix in Chapter 6**
  - This condenses the 16 to 20 factors generated in the EFAS and IFAS tables into the 8 to 10 most important (strategic) factors facing the company. These strategic factors become the basis for generating alternatives and act as a recommendation for the company's future direction.

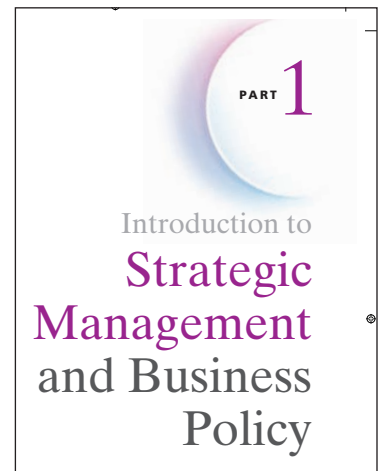
**Suggestions for case analysis** are provided in **Appendix 13.B (end of Chapter 13)** and contain step-by-step procedures on how to use a strategic audit in analyzing a case. This appendix includes an example of a student-written strategic audit. Thousands of students around the world have applied this methodology to case analysis with great success. *The Case Instructor's Manual* contains examples of student-written strategic audits for each of the full-length comprehensive strategy cases.

## FEATURES

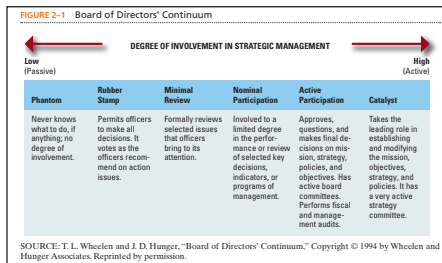
This edition contains many of the same features and content that helped make previous editions successful. Some of the features include the following:



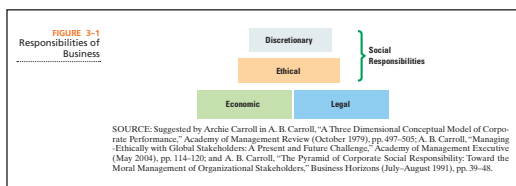
- A **strategic management model** runs throughout the first 12 chapters as a unifying concept. (Explained in *Chapter 1*)



- The **strategic audit**, a way to operationalize the strategic decision-making process, serves as a checklist in case analysis. (*Chapter 1*)



- **Corporate governance** is examined in terms of the roles, responsibilities, and interactions of top management and the board of directors. (*Chapter 2*)



- **Social responsibility and managerial ethics** are examined in detail in terms of how they affect strategic decision making. They include the process of stakeholder analysis and the concept of social capital. (*Chapter 3*)

- Equal emphasis is placed on **environmental scanning** of the societal environment as well as on the task environment. Topics include forecasting and Miles and Snow's typology in addition to competitive intelligence techniques and Porter's industry analysis. (*Chapter 4*)
- **Core and distinctive competencies** are examined within the framework of the resource-based view of the firm and utilizing the VRIO framework. (*Chapter 5*)
- **Organizational analysis** includes material on business models, supply chain management, and corporate reputation. (*Chapter 5*)
- Internal and external strategic factors are emphasized through the use of specially designed **EFAS, IFAS, and SFAS tables**. (*Chapters 4, 5, and 6*)
- **Functional strategies** are examined in light of **outsourcing**. (*Chapter 8*)

Pierre Beaudoin stepped down in 2015 as the company continued to spiral downward. The C-Series has yet to make any real penetration in the market with orders of less than 250 planes (and none in the past 1½ years) as of 12/31/15 compared to 3,072 orders for Boeing's 737 and 4,471 for Airbus's 320. As the investment of billions in the program was underway, the company decided to launch two new business jets further stretching resources.

The company has invested over \$5 billion in the C-Series alone and has had a net negative cash burn for the past five years. The stock is now worth one-tenth of what it was in 2011 and the company is asking for a bailout from the Canadian government as they lay off nearly 10% of their workforce.

SOURCES: S. Deveau & F. Tomesco, "Why Bombardier Is Struggling to Build Bigger Planes," *Bloomberg Business*, February 4, 2016; A. Petroff, "Bombardier Cutting 7,000 Jobs," *CNN Money*, February 17, 2016 (<http://money.cnn.com/2016/02/17/news/companies/bombardier-job-cuts-canada-europe/index.html>); <http://www.bombardier.com/en/about-us/history.html>; F. Tomesco, "Quebec eyes fresh Bombardier aid absent federal investment," *The Globe and Mail*, February 10, 2016, <http://www.theglobeandmail.com/report-on-business/quebec-eyes-fresh-bombardier-aid-absent-federal-investment/article28701038/>

### A Resource-Based Approach to Organizational analysis—Vrio

5-1. Apply the resource-based view of the firm and the VRIO framework to determine core and distinctive competencies.

Scanning and analyzing the external environment for opportunities and threats is necessary for the firm to be able to understand its competitive environment and its place in that environment. It is the absolute starting place for strategic analysis. However, in order for the organization to thrive, the senior leadership team must look within the corporation itself to identify *internal strategic factors*—critical strengths and weaknesses that are likely to determine whether a firm will be able to take advantage of opportunities while avoiding threats. This internal scanning, thus, is called an **organizational analysis**, is concerned with identifying, developing, and taking advantage of an organization's resources and competencies.

#### CORE AND DISTINCTIVE COMPETENCIES

**Resources** are an organization's assets and are thus the basic building blocks of the organization. They include *tangible assets* (such as its plant, equipment, finances, and location), *human assets* (the number of employees, their skills, and motivation), and *intangible assets* (such as its technology [patents and copyrights], culture, and reputation). **Capabilities** refer to a corporation's ability to exploit its resources. They consist of business processes and routines that manage the interaction among resources to turn inputs into outputs. For example, a company's marketing capability can be based on the interaction among its marketing specialists, distribution channels, and salespeople. A capability is functionally based and is resident in a particular function. Thus, there are marketing capabilities, manufacturing capabilities, and human resource management capabilities. When these capabilities are constantly being changed and reconfigured to make them more adaptive to an uncertain environment, they are called *dynamic capabilities*.<sup>2</sup> A **competency** is a cross-functional integration and coordination

## CHAPTER 9 Strategy Implementation: Global Strategy

**Learning Objectives**  
After reading this chapter, you should be able to:

1. Describe the means of entry by which an organization can do business in another country.
2. Explain the elements of International Strategic Alliances that lead to success.
3. Discuss the stages of International Development.
4. Explain how companies can improve their staffing efforts as they expand beyond their home country.
5. Discuss the unique issues related to Measuring Organizational performance that are presented with the administration of a truly international company.

**U.S. Immigration Policy and Founders of Entrepreneurial Startups**  
Few issues are as contentious around the world as is immigration and foreign-born workers. The whole conversation gets more confused in the United States when foreign-born students of U.S. colleges and universities start-up new companies. There are no visa specifically designed for foreign-born students who start up their own companies. The focus of most visa efforts revolves around the H-1B for "skilled" foreign workers. There is a lottery each year for the 65,000 slots and the additional 20,000 slots for graduates with advanced degrees. All of these slots presume that the person receiving the visa is an employee who works for an established U.S. company. The founder of a new firm might not be receiving compensation early on and even if he or she is paid, they are not employees but owners. According to the Kauffman Foundation while 13% of U.S. population is foreign born, they make up 24% of the tech and engineering companies formed and a whopping 44% of those formed in the Silicon Valley. These entrepreneurs have a long visa battle ahead of them to be able to stay in the United States with their new companies. They generally apply for a so-called "rock star" visa (Justin Bieber) whereas other artists have one).

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- Three chapters deal with issues in **strategy implementation**, such as organizational and job design, as well as strategy-manager fit, action planning, and corporate culture. In addition we address Global Strategy as a unique implementation issue. (*Chapters 9, 10 and 11*)

## CHAPTER 11 Strategy Implementation: Staffing and Directi

**Learning Objectives**  
After reading this chapter, you should be able to:

- 11.1. Explain the link between strategy and staffing decisions.
- 11.2. Discuss how leaders manage corporate culture.
- 11.3. Utilize an action planning framework to implement an organization's MBO and TQM initiatives.

**Workplace Discrimination and Public Image**  
While the legal context of what constitutes workplace discrimination is constantly evolving, public perception can impact companies in virtually any industry. In 2016, the U.S. Equal Employment Opportunity Commission (EEOC) received almost 90,000 charges of workplace discrimination. These included discrimination complaints related to race, color, sex, age, religion, pregnancy, disability, genetic information, and national origin.

One of the more contentious issues has developed around the Affordable Care Act (ACA), a retirement nationwide to recognize same-sex marriages, and the LGBT community. Companies including Wal-Mart, BNSF Railroad, Safeway, and Peppercorn University have cases pending against them in the federal court system. These plaintiffs argue that they are being discriminated against because of their sex.

Wal-Mart extended spousal health coverage to same-sex marriages (where legal) in January 2014, however those decided prior to that point have formed a class action suit against the company for discriminating based upon the sex of the partner. As the country moved toward increasing recognition of same-sex marriage (37 states had statutes on the books before the June 2015 Supreme Court ruling that allowed same-sex couples to marry) more and more companies decided to include same-sex married couples in their employee benefit offerings. Today, it remains not only a business issue, but a public perception issue. Should Wal-Mart fight the restrictive assignment of benefits or should the company settle with plaintiffs?

SOURCES: "If You Are An 'At-Will' Employee," *Bloomberg Businessweek*, February 22-28, 2016, pp. 23-24. "Same-Sex Marriage: How It Works," *Georgetown*, <http://www.georgetown.edu/news/same-sex-marriage-how-it-works> (Accessed 8/17/16); S. Whaley, "Workplace Disability Discrimination Claims Are On the Rise," *Disability Source*, February 11, 2016 (<http://www.disabilitysource.com/2016/02/11/workplace-disability-discrimination-claims-are-on-the-rise/>).

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- **Suggestions for in-depth case analysis** provide a complete listing of financial ratios, recommendations for oral and written analysis, and ideas for further research. (*Chapter 13*)

- The **strategic audit worksheet** is based on the time-tested strategic audit and is designed to help students organize and structure daily case preparation in a brief period of time. The worksheet works exceedingly well for checking the level of daily student case preparation—especially for open class discussions of cases. (**Chapter 13**)

### End of Chapter SUMMARY

Every day, about 17 truckloads of used diesel engines and other parts are dumped at a receiving facility at Caterpillar's remanufacturing plant in Corinth, Mississippi. The filthy iron engines are then broken down by two workers, who manually hammer and drill for half a day until they have taken every bolt off the engine and put each component into its own bin. The engines are then cleaned and remade at half of the cost of a new engine and sold for a tidy profit. This system works at Caterpillar because, as a general rule, 70% of the cost to build something new is in the materials and 30% is in the labor. Remanufacturing simply starts the manufacturing process over again with materials that are essentially free and which already contain most of the energy costs needed to make them. The would-be discards become fodder for the next product, eliminating waste, and cutting costs. Caterpillar's management was so impressed by the remanufacturing operation that they made the business a separate division in 2005. The unit earned more than US\$1 billion in sales in 2005 and by 2012 employed more than 8500 workers in 16 countries.

Caterpillar's remanufacturing unit was successful not only because of its ability to wring productivity out of materials and labor, but also because it designed its products for reuse. Before they are built new, remanufactured products must be designed for disassembly. In order to achieve this, Caterpillar asks its designers to check a "Reman" box on Caterpillar's product development checklist. The company also needs to know where its products are being used in order to take them back—known as the art of *reverse logistics*. This is achieved by Caterpillar's excellent relationship with its dealers throughout the world, as well as through financial incentives. For example, when a customer orders a crankshaft, that customer is offered a remanufactured one for half the cost of a new one—assuming the customer turns in the old

- A list of **key terms** and the pages on which they are discussed let the reader keep track of important concepts as they are introduced in each chapter.

Strategic Audit Heading	Analysis		Comments
	(+) Factors	(-) Factors	
<b>I. Current Situation</b>			
A. Past Corporate Performance Indexes			
B. Strategic Posture:			
Current Mission			
Current Objectives			
Current Strategies			
Current Policies			
<b>SWOT Analysis Begins:</b>			
<b>II. Corporate Governance</b>			
A. Board of Directors			
B. Top Management			
<b>III. External Environment (EFAS): Opportunities and Threats (SWOT)</b>			
A. Natural Environment			
B. Societal Environment			
C. Task Environment (Industry Analysis)			
<b>IV. Internal Environment (IFAS): Strengths and Weaknesses (SWOT)</b>			
A. Corporate Structure			
B. Corporate Culture			
C. Corporate Resources			
1. Marketing			
2. Finance			
3. Research and Development			
4. Operations and Logistics			
5. Human Resources			
6. Information Technology			
<b>V. Analysis of Strategic Factors (SFAS)</b>			
A. Key Internal and External Strategic Factors (SWOT)			
B. Review of Mission and Objectives			
<b>SWOT Analysis Ends. Recommendation Begins:</b>			
<b>VI. Alternatives and Recommendations</b>			
A. Strategic Alternatives—pros and cons			
B. Recommended Strategy			
<b>VII. Implementation</b>			
<b>VIII. Evaluation and Control</b>			

NOTE: See the complete Strategic Audit on pages 32-39. It lists the pages in the book that discuss each of the eight headings.  
SOURCE: T. L. Wheelen and J. D. Hunger, "Strategic Audit Worksheet." Copyright © 1985, 1987, 1988, 1989, 2005, and 2009 by T. L. Wheelen. Copyright © 1989, 2005, and 2009 by Wheelen and Hunger Associates. Revised 1991, 1994, and 1997. Reprinted by permission. Additional copies available for classroom use in Part D of the Case Instructor's Manual and on the Prentice Hall Web site ([www.prehall.com/wheelen](http://www.prehall.com/wheelen)).

- An **experiential exercise** focusing on the material covered in each chapter helps the reader apply strategic concepts to an actual situation.

### End of Chapter SUMMARY

Strategy implementation is where "the rubber hits the road." Environmental scanning and strategy formulation are crucial to strategic management but are only the beginning of the process. The failure to carry a strategic plan into the day-to-day operations of the workplace is a major reason why strategic planning often fails to achieve its objectives. It is discouraging to note that in one study nearly 70% of the strategic plans were never successfully implemented.<sup>39</sup>

For a strategy to be successfully implemented, it must be made action-oriented. This is done through a series of programs that are funded through specific budgets and contain new detailed procedures. This is what Sergio Marchionne did when he implemented a turnaround strategy as the new Fiat Group CEO in 2004. He attacked the lethargic, bureaucratic system by flattening Fiat's structure and giving younger managers a larger amount of authority and responsibility. He and other managers worked to reduce the number of auto platforms from 19 to 6 by 2012. The time from the completion of the design process to new car production was cut from 26 to 18 months. By 2008, the Fiat auto unit was again profitable. Marchionne reintroduced Fiat to the U.S. market in 2012 after a 27-year absence.<sup>40</sup> Unfortunately, Fiat struggled to gain any traction in the U.S. market. Despite a strong marketing campaign and a number of cars designed specifically for the market, by 2016 sales had stalled at 44,000 cars a year. The company has remained strongly profitable and even acquired 100% of Chrysler in 2014.<sup>41</sup>

This chapter explains how jobs and organizational units can be designed to support a change in strategy. We will continue with staffing and directing issues in strategy implementation in the next chapter.

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#### KEY TERMS

<ul style="list-style-type: none"> <li>budget (p. 269)</li> <li>cellular/modular organization (p. 282)</li> <li>first mover (p. 267)</li> <li>geographic-area structure (p. 285)</li> <li>job design (p. 284)</li> <li>late movers (p. 267)</li> <li>market location tactic (p. 267)</li> </ul>	<ul style="list-style-type: none"> <li>matrix structures (p. 278)</li> <li>network structure (p. 280)</li> <li>organizational life cycle (p. 277)</li> <li>procedures (p. 269)</li> <li>product-group structure (p. 285)</li> <li>program (p. 266)</li> <li>reengineering (p. 282)</li> </ul>	<ul style="list-style-type: none"> <li>Six Sigma (p. 283)</li> <li>stages of corporate development (p. 272)</li> <li>strategy implementation (p. 264)</li> <li>structure follows strategy (p. 271)</li> <li>synergy (p. 270)</li> <li>timing tactic (p. 267)</li> <li>virtual organization (p. 280)</li> </ul>
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- **Learning objectives** begin each chapter.
- **Timely, well-researched, and class-tested cases** deal with interesting companies and industries. Many of the cases are about well-known, publicly held corporations—ideal subjects for further research by students wishing to “update” the cases.

Both the text and the cases have been class-tested in strategy courses and revised based on feedback from students and instructors. The first 12 chapters are organized around a strategic management model that begins each chapter and provides a structure for both content and case analysis. We emphasize those concepts that have proven to be most useful in understanding strategic decision making and in conducting case analysis. Our goal was to make the text as comprehensive as possible without getting bogged down in any one area. Extensive endnote references are provided for those who wish to learn more about any particular topic. All cases are about actual organizations. The firms range in size from large, established multinationals to small, entrepreneurial ventures, and cover a broad variety of issues. As an aid to case analysis, we propose the strategic audit as an analytical technique.

## SUPPLEMENTS

At [www.pearsonhighered.com](http://www.pearsonhighered.com) instructors can access teaching resources available with this text in a downloadable, digital format. Registration is simple and gives you immediate access to new titles and editions. Please contact your Pearson sales representative for your access code. 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. In case you ever need assistance, our dedicated technical support team is ready to assist instructors with questions about the media supplements that accompany this text. Visit for answers to frequently asked questions. This title has the following electronic resources.

### Instructor's Manuals

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

#### Concepts Instructor's Manual

To aid in discussing the 13 strategy chapters, the *Concepts Instructor's Manual* includes:

- **Suggestions for Teaching Strategic Management:** These include various teaching methods and suggested course syllabi.
- **Chapter Notes:** These include summaries of each chapter, suggested answers to discussion questions, and suggestions for using end-of-chapter cases/exercises and part-ending cases, plus additional discussion questions (with answers) and lecture modules.

#### Case Instructor's Manual

To aid in case method teaching, the *Case Instructor's Manual* includes detailed suggestions for its use, teaching objectives, and examples of student analyses for each of the



full-length comprehensive cases. This is the most comprehensive instructor's manual available in strategic management. A standardized format is provided for each case:

1. Case Abstract
2. Case Issues and Subjects
3. Steps Covered in the Strategic Decision-Making Process
4. Case Objectives
5. Suggested Classroom Approaches
6. Discussion Questions
7. Case Author's Teaching Note (if available)
8. Student-Written Strategic Audit (if appropriate)
9. EFAS, IFAS, and SFAS Exhibits
10. Financial Analysis—ratios and common-size income statements (if appropriate)

### PowerPoint Slides

PowerPoint slides, provided in a comprehensive package of text outlines and figures corresponding to the text, are designed to aid the educator and supplement in-class lectures.

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He has taught courses in strategy and entrepreneurship at the undergraduate, graduate, and executive levels. His teaching experience includes courses taught at universities in Scotland, Hungary, and the Czech Republic. He was a Professor and the Dennis Thompson Chair of Entrepreneurship at Queens University of Charlotte. He also held positions as an Associate Professor at Texas Christian University and at

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Chuck has won 19 individual teaching excellence awards during his career, including 10 Executive MBA Professor of the Year Awards. He is also a Noble Foundation Fellow in Teaching Excellence.

FIFTEENTH EDITION

Concepts in Strategic  
Management  
and Business Policy

GLOBALIZATION, INNOVATION, AND SUSTAINABILITY

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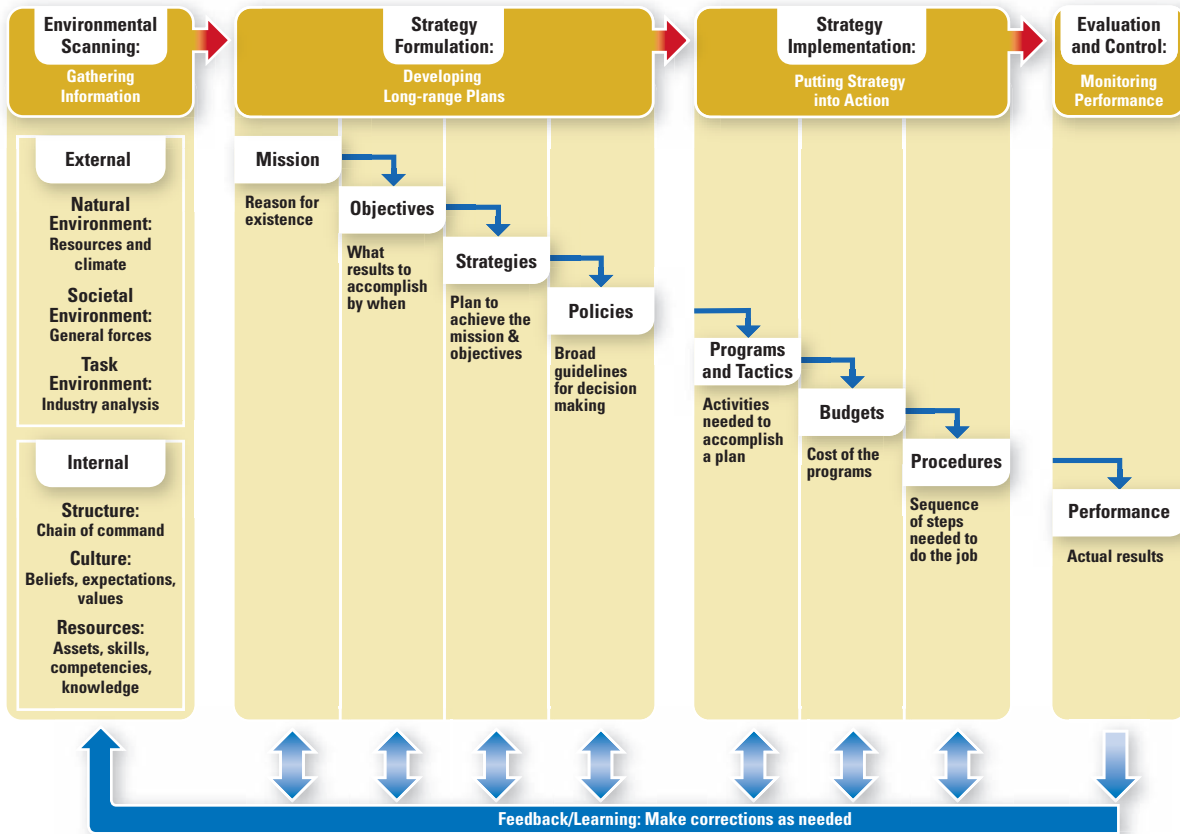




PART 1

Introduction to  
**Strategic  
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# Basic Concepts of Strategic Management



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# Learning Objectives

*After reading this chapter, you should be able to:*

- 1-1. Discuss the benefits of strategic management
- 1-2. Explain how globalization, innovation, and environmental sustainability influence strategic management
- 1-3. Discuss the differences between the theories of organizations
- 1-4. Discuss the Activities where learning organizations excel
- 1-5. Describe the basic model of strategic management and its components
- 1-6. Identify some common triggering events that act as stimuli for strategic change
- 1-7. Explain strategic decision-making modes
- 1-8. Use the strategic audit as a method of analyzing corporate functions and activities

## Wal\*Mart—Getting Strategy Aligned with the Market

Strategy is about aligning the organization around those resources, capabilities, and actions that will differentiate it in the market. Wal\*Mart has been a study in business success revolutionizing the retail industry while hastening the downfall of many entrenched businesses. Unfortunately, now the entrenched competitor (Wal\*Mart) has seen a radical shift in both the competitive and customer environments.

On the competitive front, Amazon has led the way in driving down prices while delivering goods directly to the customer. Aldi has set a new standard for low price food items and the modern millennial consumer uses their phone not only to shop, but to price check everything. Wal\*Mart found itself falling behind with outdated stores, rising costs, a weak online presence, and a lack of focus.

On the customer front we have seen that big-box stores are being shunned for the convenience and focus of smaller operations. All companies over time find that some elements of the business slip below the expectations of their customers. These business elements allow competitors to make inroads in an otherwise strong position. Doug McMillion (Worldwide CEO) decided to make some big changes late in 2015. He saw three key areas where Wal\*Mart had fallen behind the competition:

- **Customer Service**—This meant that the company needed to change the way they were dealing with employees. He raised the minimum wage to \$9 (certainly short of the \$15/hour movement in the United States, but a substantial move for the company). He also changed the much hated scheduling system that required employees to be available at virtually any time. The hope is that these moves will not only attract better employees and improve the way they feel about the company, but lead employees to treat customers better.
- **The Grocery Business**—Wal\*Mart got into the grocery business back in 1988 with the same goal as the overall business—bringing down prices. However, little has changed in the operation over the



past 30 years. The company introduced a limited organics section while the rest of the grocery industry went through a revolution of change. Publix, Safeway, Harris-Teeter, and others dramatically grew their bakery, seafood, and meat packing sections. They introduced fresh, ready-to-eat meals and had in-store coffee shops. To catch up with the expectations of customers means that Wal\*Mart must offer more fresh and organic options. U.S. CEO Greg Foran stated “We still have a long way to go.”

- Online Shopping—Although Walmart.com was founded in 2000, the company has struggled to truly incorporate their online presence with one of their compelling competitive advantages—their physical footprint. In 2007, they introduced the ability to buy online and pick up at a local store. Now they are moving to provide text reminders about pharmacy pickups and experimenting with grocery delivery in test markets (San Jose, San Francisco, and Denver). They have gone so far as to test same-day delivery of general merchandise in Northern Virginia, Philadelphia, and Minneapolis. This area of the business holds great promise for developing a competitive advantage, but is overshadowed by the wreckage of many companies that have invested heavily with no appreciable gain in sales or income.

Although Wal\*Mart has 3,300+ Supercenters, the “same-store” sales figures are not encouraging more growth. Instead, they are growing their so-called “Neighborhood Market” stores which are 20% of the size of a Supercenter. These new stores look more like traditional grocery stores and are experiencing same store growth of an impressive 5.6%.

Wal\*Mart is now on the cutting edge of retail experimentation. They have:

- Tested subscription delivery programs
- Rolled out a successful 3D printing program (3D figurines of the customer’s face placed on various action figures or as statues)
- Tested and ended a program where customers could scan all their items at a speed through check out (turned out customers couldn’t figure out how to work the app)
- And utilized an approach not seen in many retail operations in which they test on a small scale, perfect the approach, and only then roll out to all their stores.

Strategy requires a constant analysis of the environment, an ability to ensure that the basics of the company keep up with customer expectations, and the crafting of new competitive advantages.

SOURCES: A. Lutz, “These Smaller Wal-Mart Stores Could Replace Supercenters,” *Business Insider*, August 15, 2014 ([www.businessinsider.com/wal-mart-neighborhood-market-strategy-2014-8](http://www.businessinsider.com/wal-mart-neighborhood-market-strategy-2014-8)); A. Cheng, “Wal-Mart Outlines Strategy,” *Wall Street Journal*, October 12, 2012 ([www.wsj.com/articles/SB10000872396390443749204578048842451207454](http://www.wsj.com/articles/SB10000872396390443749204578048842451207454)); A. Lutz, “Wal-Mart is making 3 changes so people will want to shop there,” *Business Insider*, February 19, 2015 ([www.businessinsider.com/wal-mart-new-strategy-2015-2](http://www.businessinsider.com/wal-mart-new-strategy-2015-2)); [www.corporate.walmart.com/our-story/our-history](http://www.corporate.walmart.com/our-story/our-history); *Associated Press*, “Wal-Mart’s long-term growth strategy: Try, try and try again,” August 12, 2014 ([www.cnbc.com/2014/08/12/walmarts-long-term-growth-strategy-try-try-and-try-again.html](http://www.cnbc.com/2014/08/12/walmarts-long-term-growth-strategy-try-try-and-try-again.html)).



# The Study of Strategic Management

1-1. Discuss the benefits of strategic management

**Strategic management** is a set of managerial decisions and actions that help determine the long-term performance of an organization. It includes environmental scanning (both external and internal), strategy formulation (strategic or long-range planning), strategy implementation, and evaluation and control. Originally called *business policy*, strategic management has advanced substantially with the concentrated efforts of researchers and practitioners. Today, we recognize both a science and an art to the application of strategic management techniques.

## PHASES OF STRATEGIC MANAGEMENT

Many of the concepts and techniques that deal with strategic management have been developed and used successfully by the largest business organizations in the world as well as the newest startups. Over time, business practitioners and academic researchers have expanded and refined these concepts. One of the most critical drivers of business success is a leader's ability to design and implement a strategy for the company. Increasing risks of error, costly mistakes, and even economic ruin are causing today's professional managers in all organizations to take strategic management seriously in order to keep their companies competitive in an increasingly volatile environment.

As managers attempt to better deal with their changing world, a firm generally evolves through the following four **phases of strategic management**:<sup>1</sup>

**Phase 1—Basic financial planning:** Managers initiate serious planning when they are requested to propose the following year's budget. Projects are proposed on the basis of very little analysis, with most information coming from within the firm. The sales force usually provides the small amount of environmental information used in this effort. Such simplistic operational planning only pretends to be strategic management, yet it is quite time consuming. Normal company activities are often suspended for weeks while managers try to cram ideas into the proposed budget. The time horizon is usually one year.

**Phase 2—Forecast-based planning:** As annual budgets become less useful at stimulating long-term planning, managers attempt to propose five-year plans. At this point, they consider projects that may take more than one year. In addition to internal information, managers gather any available environmental data—usually on an ad hoc basis—and extrapolate current trends. This phase is also time consuming, often involving a full month or more of managerial activity to make sure all the proposed budgets fit together. The process gets very political as managers compete for larger shares of limited funds. Seemingly endless meetings take place to evaluate proposals and justify assumptions. The time horizon is usually three to five years.

**Phase 3—Externally oriented (strategic) planning:** Frustrated with highly political yet ineffectual five-year plans, top management takes control of the planning process by initiating a formal strategic planning system. The company seeks to increase its responsiveness to changing markets and competition by thinking and acting strategically. Planning is taken out of the hands of lower-level managers and concentrated in a planning staff whose task is to develop strategic plans for the corporation. Consultants often provide the sophisticated and innovative techniques that the planning staff uses to gather information and forecast future trends. Organizations

start competitive intelligence units. Upper-level managers meet once a year at a resort “retreat” led by key members of the planning staff to evaluate and update the current strategic plan. Such top-down planning emphasizes formal strategy formulation and leaves the implementation issues to lower-management levels. Top management typically develops long-term plans with help from consultants but minimal input from lower levels.

**Phase 4—Strategic management:** Realizing that even the best strategic plans are worthless without the input and commitment of lower-level managers, top management forms planning groups of managers and key employees at many levels, from various departments and workgroups. They develop and integrate a series of plans focused on emphasizing the company’s true competitive advantages. Strategic plans at this point detail the implementation, evaluation, and control issues. Rather than attempting to perfectly forecast the future, the plans emphasize probable scenarios and contingency strategies. The sophisticated annual five-year strategic plan is replaced with strategic thinking at all levels of the organization throughout the year. Strategic information, previously available only centrally to top management, is used by people throughout the organization. Instead of a large centralized planning staff, internal and external planning consultants are available to help guide group strategy discussions. Although top management may still initiate the strategic planning process, the resulting strategies may come from anywhere in the organization. Planning is typically interactive across levels and is no longer strictly top down. People at all levels are now involved.

General Electric, one of the pioneers of strategic planning, led the transition from strategic planning to strategic management during the 1980s.<sup>2</sup> By the 1990s, most other corporations around the world had also begun the conversion to strategic management.

## BENEFITS OF STRATEGIC MANAGEMENT

Strategic management emphasizes long-term performance. Many companies can manage short-term bursts of high performance, but only a few can sustain it over a longer period of time. Since the release of the original *Fortune 500* companies listing in 1955, more than 1,800 companies have made the list. In 2015, 18 new companies joined the list for the first time meaning that 18 others fell from the list.<sup>3</sup> To be successful in the long-run, companies must not only be able to *execute* current activities to satisfy an existing market, but they must also *adapt* those activities to satisfy new and changing markets.<sup>4</sup>

Research reveals that organizations that engage in strategic management generally outperform those that do not.<sup>5</sup> The attainment of an appropriate match, or “fit,” between an organization’s environment and its strategy, structure, and processes has positive effects on the organization’s performance.<sup>6</sup> Strategic planning becomes increasingly important as the environment becomes more unstable.<sup>7</sup> For example, studies of the impact of deregulation on the U.S. railroad and trucking industries found that companies that changed their strategies and structures as their environment changed outperformed companies that did not change.<sup>8</sup>

A survey of nearly 50 corporations in a variety of countries and industries found the three most highly rated benefits of strategic management to be:

- A clearer sense of strategic vision for the firm.
- A sharper focus on what is strategically important.
- An improved understanding of a rapidly changing environment.<sup>9</sup>

A survey by McKinsey & Company of 800 executives found that formal strategic planning processes improved overall satisfaction with strategy development.<sup>10</sup> To be effective, however, strategic management need not always be a formal process. It can begin with a few simple questions:

- Where is the organization now? (Not where do we hope it is!)
- If no significant changes are made, where will the organization be in one year? Two years? Five years? Ten years? Are the answers acceptable?
- If the answers are not acceptable, what specific actions should management undertake? What are the risks and payoffs involved?

The Bain & Company's *2015 Management Tools and Trends* survey of 1,067 global executives revealed that strategic planning was the number two tool used by decision makers just behind customer relationship management. Other highly ranked strategic management tools were mission and vision statements, change management programs, and balanced scorecards.<sup>11</sup> A study by Joyce, Nohria, and Roberson of 200 firms in 50 subindustries found that devising and maintaining an engaged, focused strategy was the first of four essential management practices that best differentiated between successful and unsuccessful companies.<sup>12</sup> Based on these and other studies, it can be concluded that strategic management is crucial for long-term organizational success.

Research into the planning practices of companies in the oil industry concludes that the real value of modern strategic planning is more in the *strategic thinking* and *organizational learning* that is part of a future-oriented planning process than in any resulting written strategic plan.<sup>13</sup> Small companies, in particular, may plan informally and irregularly. Nevertheless, studies of small- and medium-sized businesses reveal that the greater the level of planning intensity, as measured by the presence of a formal strategic plan, the greater the level of financial performance, especially when measured in terms of sales increases.<sup>14</sup>

Planning the strategy of large, multidivisional corporations can be complex and time consuming. It often takes slightly more than a year for a large company to move from situation assessment to a final decision agreement. For example, strategic plans in the global oil industry tend to cover four to five years. The planning horizon for oil exploration is even longer—up to 15 years.<sup>15</sup> Because of the relatively large number of people affected by a strategic decision in a large firm, a formalized, more sophisticated system is needed to ensure that strategic planning leads to successful performance. Otherwise, top management becomes isolated from developments in the business units, and lower-level managers lose sight of the corporate mission and objectives.

## Globalization, Innovation, and Sustainability: Challenges to Strategic Management

1-2. Explain how globalization, innovation, and environmental sustainability influence strategic management

Not too long ago, a business corporation could be successful by focusing only on making and selling goods and services within its national boundaries. International considerations were minimal. Profits earned from exporting products to foreign lands were considered frosting on the cake, but not really essential to corporate success. During the 1960s, most U.S. companies organized themselves around a number of product divisions that made and sold goods only in the United States. All manufacturing and sales outside the United States were typically managed through one international division. An international assignment was usually considered a message that the person was no longer promotable and should be looking for another job.



Similarly, for a very long time, many established companies viewed innovation as the domain of the new entrant. The efficiencies that came with size were considered to be the core competitive advantage of the large organization. That view has proven to be a recipe for failure. The ability to create unique value and grow an organization organically requires innovation skills. A strategic management approach suggests that if an organization stands still, it will be run over by the competition. What was extraordinary last year is the standard expectation of customers this year. We have watched many large corporations succumb to the lack of innovation in their organization. Sears was the dominant retailer in the United States for more than 70 years. Today, it is struggling to find an approach that will give it a competitive advantage. IBM was a company that dominated mainframe computing and was fortunate enough to find a visionary CEO when the mainframe market was crushed by the advent of the PC. That CEO (Louis V. Gerstner, Jr.) transformed the organization with innovation that was cultural, structural, and painful for the company employees. Innovation is rarely easy and it is almost never painless. Nonetheless, it is a core element of successful strategic management.

Lastly, until the later part of the 20th century, a business firm could be very successful without considering sustainable business practices. Companies dumped their waste products in nearby streams or lakes and freely polluted the air with smoke containing noxious gases. Responding to complaints, governments eventually passed laws restricting the freedom to pollute the environment. Lawsuits forced companies to stop old practices. Nevertheless, until the dawn of the 21st century, most executives considered pollution abatement measures to be a cost of business that should be either minimized or avoided. Rather than clean up a polluting manufacturing site, they often closed the plant and moved manufacturing offshore to a developing nation with fewer environmental restrictions. The issues of recycling and refurbishing, as well as a company's responsibility to both the local inhabitants and the environment where it operated, were not considered mainstream business approaches, because it was felt these concerns did not help maximize shareholder value. In those days, the word *sustainability* was used to describe competitive advantage, not the environment.

Today, the term used to describe a business's sustainability is the **triple bottom line**. This phrase was first used by John Elkington in 1994 to suggest that companies prepare three different bottom lines in their annual report.<sup>16</sup>

- Traditional Profit/Loss
- People Account—The social responsibility of the organization
- Planet Account—The environmental responsibility of the organization

This triple bottom line has become increasingly important to business today. Companies seek Leadership in Energy and Environmental Design (LEED) certification for their buildings and mold a reputation for being a business that is friendly to the world. LEED certification is available for all structures and includes a number of levels depending upon the efforts made to have a building be self-sustaining or to have as little impact (the smallest footprint) on the environment as possible.<sup>17</sup>

## IMPACT OF GLOBALIZATION

Today, everything has changed. **Globalization**, the integrated internationalization of markets and corporations, has changed the way modern corporations do business. As Thomas Friedman points out in *The World Is Flat*, jobs, knowledge, and capital are now able to move across borders with far greater speed and far less friction than was possible only a few years ago.<sup>18</sup>



For example, the interconnected nature of the global financial community meant that the mortgage lending problems of U.S. banks led to a global financial crisis that started in 2008 and impacted economies for years. The worldwide availability of the Internet and supply-chain logistical improvements, such as containerized shipping, mean that companies can now locate anywhere and work with multiple partners to serve any market. For companies seeking a low-cost approach, the internationalization of business has been a new avenue for competitive advantage. Nike and Reebok manufacture their athletic shoes in various countries throughout Asia for sale on every continent. Many other companies in North America and Western Europe are outsourcing their manufacturing, software development, or customer service to companies in China, Eastern Europe, or India. English language proficiency, lower wages in India, and large pools of talented software programmers now enable IBM to employ an estimated 100,000 people in its global delivery centers in Bangalore, Delhi, or Kolkata to serve the needs of clients in Atlanta, Munich, or Melbourne.<sup>19</sup> Instead of using one international division to manage everything outside the home country, large corporations are now using matrix structures in which product units are interwoven with country or regional units. Today, international assignments are considered key for anyone interested in reaching top management.

As more industries become global, strategic management is becoming an increasingly important way to keep track of international developments and position a company for long-term competitive advantage. For example, General Electric moved a major research and development lab for its medical systems division from Japan to China in order to learn more about developing new products for developing economies. Microsoft's largest research center outside Redmond, Washington, is in Beijing.

The formation of regional trade associations and agreements, such as the European Union, NAFTA, Mercosur, Andean Community, CAFTA, and ASEAN, is changing how international business is being conducted. See the **Global Issue** feature to learn how regional trade associations are pushing corporations to establish a manufacturing presence wherever they wish to market goods or else face significant tariffs. These associations have led to the increasing harmonization of standards so that products can more easily be sold and moved across national boundaries. International considerations have led to the strategic alliance between British Airways and American Airlines and to the acquisition of the Anheuser-Busch Companies by the Belgium company InBev, creating AB InBev, among others.

## IMPACT OF INNOVATION

**Innovation**, as the term is used in business, is meant to describe new products, services, methods, and organizational approaches that allow the business to achieve extraordinary returns. Boston Consulting Group (BCG) found that innovation is a top 3 priority for three-quarters of the companies in the 2014 BCG global innovation survey.<sup>20</sup> They also found that:

- 61% were spending more money on innovation in 2014 than in 2013
- 75% of respondents reported that innovation investment was primarily aimed at long-term advantage and current competitive advantage
- The top five most innovative companies were Apple, Google, Samsung, Microsoft, and IBM
- 70% of executives felt their own companies' innovation capabilities were only average and 13% felt they were weak.