

Formulation, Implementation, and Control of Competitive Strategy

Table of Contents

Preface vii

PART ONE

OVERVIEW OF STRATEGIC MANAGEMENT 1

Chapter 1

Strategic Management 2

The Nature and Value of Strategic Management	3
<i>Dimensions of Strategic Decisions</i>	4
<i>Formality in Strategic Management</i>	7
<i>Benefits of Strategic Management</i>	9
<i>Risks of Strategic Management</i>	10
The Strategic Management Process	10
<i>Components of the Strategic Management Model</i>	12
<i>Strategic Management as a Process</i>	14
Summary	16
Key Terms	16
Questions for Discussion	17
Discussion Case: Can Anyone Save HP?	17

PART TWO

STRATEGY FORMULATION 21

Chapter 2

Company Mission 21

What Is a Company Mission?	23
<i>The Need for an Explicit Mission</i>	23
Formulating a Mission	24
<i>Basic Product or Service; Primary Market; Principal Technology</i>	24
<i>Company Goals: Survival; Growth; Profitability</i>	26
<i>Company Philosophy</i>	27
<i>Public Image</i>	29
<i>Company Self-Concept</i>	30
<i>Newest Trends in Mission Components</i>	32
<i>An Exemplary Mission Statement</i>	34
Boards of Directors	35
Agency Theory	36
<i>How Agency Problems Occur</i>	37
<i>Problems That Can Result from Agency</i>	37
<i>Solutions to the Agency Problem</i>	39
Summary	39

Key Terms	39
Questions for Discussion	40
Discussion Case: The Future of <i>The New York Times</i>	40
APPENDIX BB&T Vision, Mission, and Purpose	44

Chapter 3

Corporate Social Responsibility and Business Ethics 49

The Stakeholder Approach to Social Responsibility	50
<i>The Dynamics of Social Responsibility</i>	52
Types of Social Responsibility	53
<i>Corporate Social Responsibility and Profitability</i>	54
Sarbanes-Oxley Act of 2002	60
<i>The New Corporate Governance Structure</i>	63
<i>CSR's Effect on the Mission Statement</i>	64
<i>Social Audit</i>	64
Management Ethics	65
<i>The Nature of Ethics in Business</i>	65
Satisfying Corporate Social Responsibility	65
<i>The Core of the CSR Debate</i>	66
<i>Mutual Advantages of Collaborative Social Initiatives</i>	68
<i>Five Principles of Successful Collaborative Social Initiatives</i>	68
<i>Assembling the Components</i>	73
<i>The Limits of CSR Strategies</i>	73
<i>The Future of CSR</i>	75
<i>Approaches to Questions of Ethics</i>	77
Codes of Business Ethics	78
<i>Major Trends in Codes of Ethics</i>	80
Summary	80
Key Terms	81
Questions for Discussion	81
Discussion Case: Wal-Mart vs. Class Actions	81

Chapter 4

The External Environment 83

The Firm's External Environment	84
Remote Environment	84
<i>Economic Factors</i>	84
<i>Social Factors</i>	84

<i>Political Factors</i>	87
<i>Technological Factors</i>	88
<i>Ecological Factors</i>	89
<i>International Environment</i>	92
Industry Environment	92
How Competitive Forces Shape Strategy	93
Contending Forces	95
<i>Threat of Entry</i>	95
<i>Powerful Suppliers</i>	96
<i>Powerful Buyers</i>	99
<i>Substitute Products</i>	100
<i>Jockeying for Position</i>	100
Industry Analysis and Competitive Analysis	101
<i>Industry Boundaries</i>	101
<i>Industry Structure</i>	103
<i>Competitive Analysis</i>	105
Operating Environment	106
<i>Competitive Position</i>	106
<i>Customer Profiles</i>	107
<i>Suppliers</i>	108
<i>Creditors</i>	108
<i>Human Resources: Nature of the Labor Market</i>	108
Emphasis on Environmental Factors	110
Summary	114
Key Terms	114
Questions for Discussion	114
Discussion Case: The Raja of Steel	115
APPENDIX Sources for Environmental Forecasting	118

Chapter 5

The Global Environment 120

Globalization	121
Development of a Global Corporation	121
Why Firms Globalize	123
<i>Strategic Orientations of Global Firms</i>	124
At the Start of Globalization	126
Complexity of the Global Environment	128
Control Problems of the Global Firm	129
Global Strategic Planning	131
<i>Multidomestic Industries and Global Industries</i>	131
<i>The Global Challenge</i>	134
<i>Market Requirements and Product Characteristics</i>	136
<i>International Strategy Options</i>	137
Competitive Strategies for Firms in Foreign Markets	137
<i>Niche Market Exporting</i>	138
<i>Licensing and Contract Manufacturing</i>	139
<i>Franchising</i>	140

<i>Joint Ventures</i>	140
<i>Foreign Branching</i>	141
<i>Wholly Owned Subsidiaries</i>	141

Summary	142
Key Terms	143
Questions for Discussion	143
Discussion Case: Fakes	144
APPENDIX Components of the Multinational Environment	148

Chapter 6

Internal Analysis 150

SWOT Analysis: A Traditional Approach to Internal Analysis	153
<i>Using SWOT Analysis in Strategic Analysis</i>	154
<i>Limitations of SWOT Analysis</i>	157
Value Chain Analysis	158
<i>Conducting a Value Chain Analysis</i>	160
<i>Recognizing the Difficulty in Activity-Based Cost Accounting</i>	162
Resource-Based View of the Firm	164
<i>Three Basic Resources: Tangible Assets, Intangible Assets, and Organizational Capabilities</i>	165
<i>What Makes a Resource Valuable?</i>	165
<i>Using the Resource-Based View in Internal Analysis</i>	171
Internal Analysis: Making Meaningful Comparisons	173
<i>Comparison with Past Performance</i>	173
<i>Benchmarking: Comparison with Competitors</i>	174
<i>Comparison with Success Factors in the Industry</i>	175
Summary	176
Key Terms	177
Questions for Discussion	177
Discussion Case: Apple's Blueprint for Genius	177
APPENDIX A Key Resources across Functional Areas	180
APPENDIX B Using Financial Analysis	181

Chapter 7

Long-Term Objectives and Strategies 190

Long-Term Objectives	191
<i>Qualities of Long-Term Objectives</i>	192
<i>The Balanced Scorecard</i>	194
Generic Strategies	195
<i>Low-Cost Leadership</i>	195
<i>Differentiation</i>	196
<i>Focus</i>	197

The Value Disciplines 198
 Operational Excellence 199
 Customer Intimacy 200
 Product Leadership 201
Grand Strategies 202
 Concentrated Growth 202
 Market Development 206
 Product Development 208
 Innovation 209
 Horizontal Integration 211
 Vertical Integration 211
 Concentric Diversification 212
 Conglomerate Diversification 212
 Turnaround 215
 Divestiture 217
 Liquidation 217
 Bankruptcy 218
 Joint Ventures 220
 Strategic Alliances 221
 Consortia, Keiretsus, and Chaebols 222
Selection of Long-Term Objectives and Grand Strategy Sets 225
Sequence of Objectives and Strategy Selection 226
Summary 226
Key Terms 227
Questions for Discussion 227
Discussion Case: 3M's Rising Star 227

Chapter 8 Business Strategy 232

Evaluating and Choosing Business Strategies: Seeking Sustained Competitive Advantage 233
 Evaluating Cost Leadership Opportunities 234
 Evaluating Differentiation Opportunities 237
 Evaluating Speed as a Competitive Advantage 240
 Evaluating Market Focus as a Way to Competitive Advantage 242
 Stages of Industry Evolution and Business Strategy Choices 245
 Competitive Advantage in Fragmented Industries 250
 Competitive Advantage in Global Industries 250
Dominant Product/Service Businesses: Evaluating and Choosing to Diversify to Build Value 251
 Grand Strategy Selection Matrix 252
 Model of Grand Strategy Clusters 254
 Opportunities for Building Value as a Basis for Choosing Diversification or Integration 256
Summary 256
Key Terms 256

Questions for Discussion 257
Discussion Case: DHL's American Adventure 257

Chapter 9 Multibusiness Strategy 261

The Portfolio Approach: A Historical Starting Point 263
 The BCG Growth-Share Matrix 264
 The Industry Attractiveness-Business Strategy Matrix 265
 BCG's Strategic Environments Matrix 266
 Limitations of Portfolio Approaches 268
The Synergy Approach: Leveraging Capabilities and Core Competencies 269
 Capitalize on Core Competencies 269
The Corporate Parent Role: Can It Add Tangible Value? 276
 The Parenting Framework 276
 The Patching Approach 279
Summary 283
Key Terms 283
Questions for Discussion 284
Discussion Case: Beyond Blue 284

PART THREE STRATEGY IMPLEMENTATION, CONTROL, AND INNOVATION 289

Chapter 10 Implementation 291

Short-Term Objectives 293
 Qualities of Effective Short-Term Objectives 294
 The Value-Added Benefits of Short-Term Objectives and Action Plans 298
Functional Tactics That Implement Business Strategies 298
 Differences between Business Strategies and Functional Tactics 300
Outsourcing Functional Activities 301
Empowering Operating Personnel: The Role of Policies 303
 Creating Policies That Empower 304
Executive Bonus Compensation Plans 306
 Major Plan Types 312
 Matching Bonus Plans and Corporate Goals 312
Summary 314
Key Terms 314

Questions for Discussion 315
 Discussion Case: Toyota Implements a Low-Cost Strategy 315

APPENDIX Functional Tactics 318

Chapter 11

Organizational Structure 324

Traditional Organization Structures and Their Strategy-Related Pros and Cons 327

Simple Organizational Structure 328
Functional Organizational Structure 328
Divisional Structure 330
Matrix Organizational Structure 332
Product-Team Structure 332

What a Difference a Century Makes 334

Globalization 334
The Internet 337
Speed 337

Initial Efforts to Improve the Effectiveness of

Traditional Organizational Structures 338

Redefine the Role of Corporate Headquarters from Control to Support and Coordination 338
Balance the Demands for Control/Differentiation with the Need for Coordination/Integration 339
Restructure to Emphasize and Support Strategically Critical Activities 340
Reengineer Strategic Business Processes 340
Downsize and Self-Manage: Force Decisions to Operating Level 341

Creating Agile, Virtual Organizations 343

Outsourcing—Creating a Modular Organization 343
Strategic Alliances 347
Toward Boundaryless Structures 349

Summary 352

Key Terms 354

Questions for Discussion 355

Discussion Case 1: A Crash Diet for Sara Lee 355

Discussion Case 2: Online Extra: Turning Two Tech Teams into One 356

Chapter 12

Leadership and Culture 358

Strategic Leadership: Embracing Change 360

Clarifying Strategic Intent 361
Building an Organization 364
Shaping Organizational Culture 367
Recruiting and Developing Talented Organizational Leadership 368

Organizational Culture 372

The Role of the Organizational Leader in Organizational Culture 372

Build Time in the Organization 373

Emphasize Key Themes or Dominant Values 376

Encourage Dissemination of Stories and Legends about Core Values 376

Institutionalize Practices That Systematically Reinforce Desired Beliefs and Values 377

Adapt Some Very Common Themes in Their Own Unique Ways 377

Manage the Organizational Culture in a Global Organization 377

Manage the Strategy-Culture Relationship 378

Summary 383

Key Terms 384

Questions for Discussion 384

Discussion Case: The Immelt Revolution 384

Chapter 13

Control, Innovation, and Entrepreneurship 390

Establishing Strategic Controls 391

Premise Control 393
Strategic Surveillance 393
Special Alert Control 394
Implementation Control 395
The Balanced Scorecard Methodology 398

Innovation and Entrepreneurship 400

Incremental Innovation 403
Breakthrough Innovation 408
Risks Associated with Innovation 409
Entrepreneurship 413
Intrapreneurship 419

Summary 421

Key Terms 422

Questions for Discussion 422

Discussion Case 1: The Nimble Shall Inherit the Earth 422

Discussion Case 2: Building an Idea Factory 423

NAME INDEX I-1

SUBJECT INDEX I-11