



STRATEGIC CONCEPTS

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MANAGEMENT

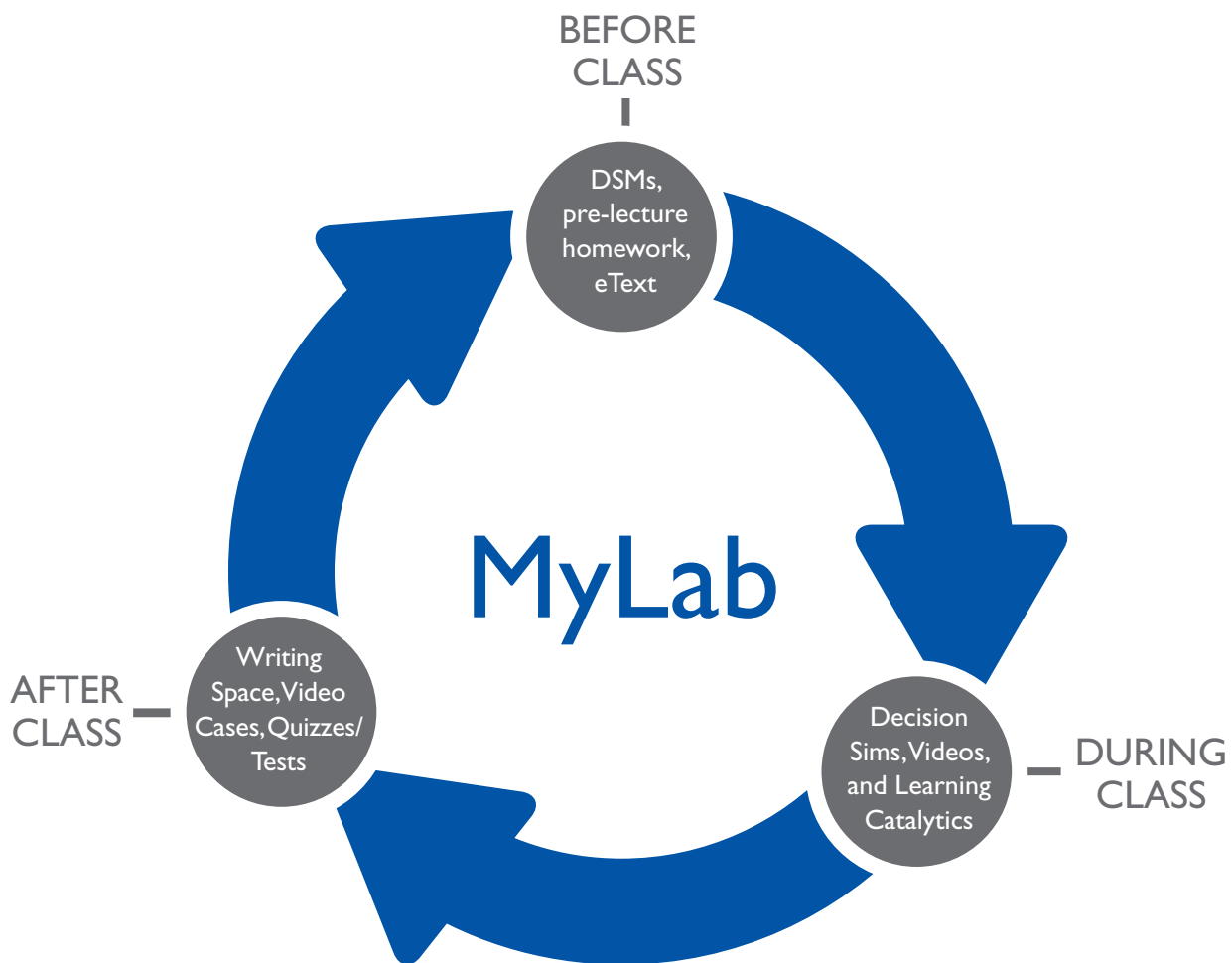
A Competitive Advantage Approach

FRED R. DAVID

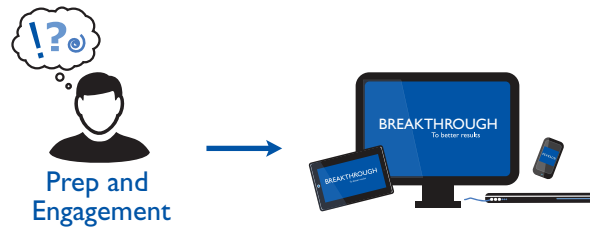
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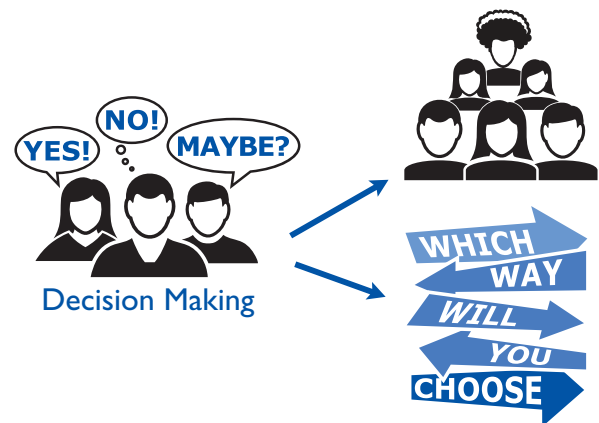


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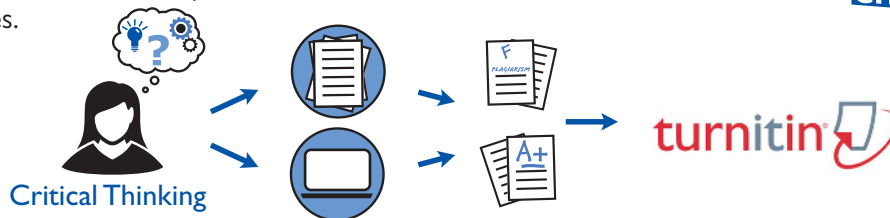


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A COMPETITIVE ADVANTAGE APPROACH

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STRATEGIC MANAGEMENT

Concepts

A COMPETITIVE ADVANTAGE APPROACH

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Preface

Why Adopt This Text?

This textbook is trusted across five continents to provide managers the latest skills and concepts needed to effectively formulate and efficiently implement a strategic plan—a game plan, if you will—that can lead to sustainable competitive advantages for any type of business. The Association to Advance Collegiate Schools of Business (AACSB) International increasingly advocates a more skills-oriented, practical approach in business books, which this text provides, rather than a theory-based approach. *Strategic Management Concepts and Cases: A Competitive Advantage Approach* meets all AACSB International guidelines for the strategic-management course at both the graduate and undergraduate levels, and previous editions have been used at more than 500 colleges and universities globally. We believe you will find this sixteenth edition to be the best textbook available for communicating both the excitement and value of strategic management. Concise and exceptionally well organized, this text is now available in English, Chinese, Spanish, Thai, German, Japanese, Farsi, Indonesian, Indian, Vietnamese, and Arabic. A version in Russian is being negotiated. In addition to universities, hundreds of companies, organizations, and governmental bodies also use this text as a management guide.

An MBA student using this text recently wrote the following:

Dear Dr. David: I am in the midst of my MBA at Adams State University here in Colorado. I'm 7 of 12 classes in with a 4.0 average. As a result, I've been through about 14 textbooks (not to mention the 60 or so I went through for my BBA at the University of California (UC)-Berkeley. This is the first time I've written to the author of a textbook. Why? Because the David book is by far the best textbook I have ever used. It's clear. It's accurate. It's not full of opinion masquerading as fact! You, sir, are to be commended. Usually when I spend an insane amount of money on a text, I'm broke. But your text is worth every cent, and I'll keep it forever. Well done sir! Respectively, Eric Seiden, MBA Student in Littleton, Colorado (August 10, 2015)

Eric N. Sims, a professor who has used this text for his classes at Sonoma State University in California, says:

I have read many strategy books. I am going to use the David book. What I like—to steal a line from Alabama coach Nick Saban—is your book teaches “a process.” I believe at the end of your book, you can actually help a company do strategic planning. In contrast, other books teach a number of near and far concepts related to strategy.

A recent reviewer of this textbook shares his opinion:

One thing I admire most about the David text is that it follows the fundamental sequence of strategy formulation, implementation, and evaluation. There is a basic flow from vision/mission to internal/external environmental scanning, to strategy development, selection, implementation, and evaluation. This has been, and continues to be, a hallmark of the David text. Many other strategy texts are more disjointed in their presentation, and thus confusing to the student, especially at the undergraduate level.

New to This Edition

1. This 16th edition is 40 percent new and improved from the prior edition.
2. A brand new **COHESION CASE** on The Hershey Company (2015) is provided. Hershey is one of the most successful, well-known, and best-managed global companies in the world. Students apply strategy concepts to Hershey at the end of each chapter through new, innovative Assurance of Learning Exercises.

3. Brand new, one-page **MINI-CASES** appear at the end of each chapter, complete with questions designed to apply chapter concepts. Provided for the first time ever in this text, the mini-cases focus on the following companies:
 - Chapter 1: Kroger Company
 - Chapter 2: Walt Disney Company
 - Chapter 3: Coach
 - Chapter 4: Buffalo Wild Wings
 - Chapter 5: LinkedIn
 - Chapter 6: Starbucks
 - Chapter 7: Hilton Worldwide
 - Chapter 8: Alibaba
 - Chapter 9: TJX Companies
 - Chapter 10: Avon Products
 - Chapter 11: Domino's Pizza
4. Original, half-page **ACADEMIC RESEARCH CAPSULES** are presented in each chapter to showcase how new strategic-management research is impacting business practice. Two capsules per chapter are provided—for the first time ever in this text.
5. At the end of each chapter are new sections titled **IMPLICATIONS FOR STRATEGISTS** and **IMPLICATIONS FOR STUDENTS** that highlight how companies can best gain and sustain competitive advantages.
6. Brand new, **EXEMPLARY COMPANY CAPSULES** appear at the beginning of each chapter and showcase a company that is employing strategic management exceptionally well. The capsules focus on the following companies:
 - Chapter 1: Apple
 - Chapter 2: H&R Block
 - Chapter 3: Chipotle Mexican Grill
 - Chapter 4: Netflix
 - Chapter 5: Signet Jewelers Limited
 - Chapter 6: Smith & Wesson Holding Corp.
 - Chapter 7: Papa John's International
 - Chapter 8: Foot Locker
 - Chapter 9: Nike
 - Chapter 10: Chick-fil-A
 - Chapter 11: Alcoa
7. Chapter 2, The Business Vision and Mission, is 60 percent new, due to current research and practice that reveals the need for “these statements to be more customer-oriented.”
8. Chapter 11, Global and International Issues, is shortened by 30 percent but provides new coverage of cultural and conceptual strategic-management differences across countries. Doing business globally has become a necessity in most industries.
9. Chapter 10, Business Ethics, Social Responsibility, and Environmental Sustainability, provides extensive new coverage of ethics, workplace romance, flirting, hiring away rival firms' employees, wildlife welfare, and sustainability. “Good ethics is good business.” Unique to strategic-management texts, the sustainability discussion is strengthened in this edition to promote and encourage firms to conduct operations with respect for the environment, an important concern for consumers, companies, society, and AACSB International.
10. Sixty-four unique **ASSURANCE OF LEARNING EXERCISES** appear at the end of chapters to apply chapter concepts. The exercises prepare students for strategic-management case analysis. An additional excellent exercise for each chapter is provided in the *Chapter Instructor's Manual*.
11. More than **200** new **EXAMPLES** bring the chapters to life.
12. At the end of chapters are 78 new (459 total) **REVIEW QUESTIONS** related to chapter content.
13. All the Current Readings at the end of the chapters are new, and up-to-date research and theories of seminal thinkers are included. However, practical aspects of strategic management are center stage and the trademark of this text.
14. Every sentence and paragraph has been scrutinized, modified, clarified, streamlined, updated, and improved to enhance the content and caliber of presentation.

15. An enhanced, continually updated **AUTHOR WEBSITE**. (www.strategyclub.com) provides new author videos, case and chapter updates, sample case analyses, and the popular, **FREE EXCEL STUDENT TEMPLATE**. The template enables students to more easily develop strategic-planning matrices, tables, and analyses needed for case analysis.

New Case Features (available in the Concepts and Cases version)

1. All 30 cases have a 2015 time setting, offering students up-to-date issues to evaluate.
2. All 30 cases focus on exciting, well-known companies, effective for students to apply strategy concepts.
3. All 30 cases are undisguised, featuring real organizations in real industries using real names (nothing is fictitious in any case).
4. All 30 cases feature an organization and industry undergoing strategic change.
5. All 30 cases provide ample, excellent quantitative information, so students can prepare a defensible strategic plan.
6. All 30 cases are written in a lively, concise writing style that captures the reader's interest.
7. All 30 cases are “comprehensive,” focusing on multiple business functions, rather than a single problem or issue.
8. All 30 cases include current financial statements for the firm, so students can show the impact of a proposed strategic plan.
9. All 30 cases provide an organizational chart and a vision and mission statement—important strategy concepts.
10. All 30 cases are supported by an excellent teacher's note, provided to professors in a new *Case Instructor's Resource Manual*.
11. All 30 cases are available for inclusion in a customized tailored text to meet the special needs of some professors.
12. All 30 cases facilitate coverage of all strategy concepts, but as revealed in the new Concepts by Cases Matrix, some cases especially exemplify some concepts, enabling professors to effectively use an assortment of cases with various chapters in the text.
13. All 30 cases have been class-tested to ensure that they are interesting, challenging, and effective for illustrating strategy concepts.
14. All 30 cases appear in no other textbooks, thus offering a truly fresh, new, up-to-date, learning platform.
15. The 30 cases represent an excellent mix of firms performing really well and some performing very poorly, including 14 USA service-based organizations, 10 USA manufacturing-based firms, and 2 nonprofit organizations (World Relief and World Wildlife Fund for Nature). Also included are 4 outside-USA headquartered firms (Michael Kors Holdings Ltd., SABMiller plc, Gruma SAB de CV, and Restaurant Brands International).
16. All 30 case companies have excellent websites in English that provide detailed financial information, history, sustainability statements, ethics statements, and press releases, so students can easily access current information to apply strategy concepts.

Time-Tested Features

1. This text meets all AACSB International guidelines that support a practitioner orientation rather than a theory/research approach. It offers a skills-oriented process for developing a vision and mission statement; performing an external audit; conducting an internal assessment; and formulating, implementing, and evaluating strategies.
2. The author's writing style is concise, conversational, interesting, logical, lively, and supported by numerous current examples.
3. A simple, integrative strategic-management model appears in all chapters and on the inside front cover. The model is widely used by strategic-planning consultants and companies worldwide.
4. An exciting, new Cohesion Case on Hershey Company follows Chapter 1 and is revisited at the end of each chapter, allowing students to apply strategic-management concepts and techniques to a real company as the text develops, thus preparing students for case analysis as the course evolves.

5. End-of-chapter Assurance of Learning Exercises apply chapter concepts and techniques in a challenging, meaningful, and enjoyable manner. Eighteen exercises apply text material to the Cohesion Case; 11 exercises apply textual material to a college or university; another 9 exercises send students into the business world to explore important strategy topics.
6. There is excellent pedagogy, including Learning Objectives opening each chapter as well as Key Terms, Current Readings, Discussion Questions, and Assurance of Learning Exercises ending each chapter.
7. The various strategy-formulation issues are outstanding, covering topics such as business ethics, global versus domestic operations, vision and mission, matrix analysis, partnering, joint venturing, competitive analysis, value chain analysis, governance, and matrices for assimilating and evaluating information.
8. Strategy-implementation issues are covered thoroughly and include items such as corporate culture, organizational structure, outsourcing, marketing concepts, financial analysis, business ethics, whistleblowing, bribery, pay and performance linkages, and workplace romance.
9. A systematic, analytical “process” is presented that includes nine matrices: IFEM, EFEM, CPM, SWOT, BCG, IE, GRAND, SPACE, and QSPM.
10. Both the chapter material and case material is published in color.
11. Chapters-only paperback and e-book versions of the text are available.
12. Custom-case publishing is available whereby an instructor can combine chapters from this text with cases from a variety of sources or select any number of the 30 cases provided.
13. For the chapter material, an outstanding ancillary package includes a comprehensive *Chapter Instructor’s Resource Manual*, *Case Instructor’s Resource Manual*, Test Bank, TestGen, Chapter PowerPoints, and vastly improved Chapter MyLab and Case MyLab products to promote assurance of learning.

Why Is This Text Different/Better Than Others?

Strategic Management Concepts: A Competitive Advantage Approach is by far the most practical, skills-oriented strategic-management textbook on the market. This text is designed to enable students to learn “how to do strategic planning,” rather than simply memorize seminal theories in strategy. Students using this text follow an integrative model that appears in every chapter as the “process” unfolds. Students learn how to construct strategic-planning matrices, such as the Strengths, Weaknesses, Opportunities, and Threats (SWOT) and the Boston Consulting Group (BCG) matrices. Readers will also learn how to perform strategic-planning analyses, such as earnings-per-share/earnings-before-interest-and-taxes (EPS/EBIT) and Corporate Valuation. The focus throughout this text is on “learning by doing.” This overarching, differentiating aspect has been improved with every edition and has led to this text becoming perhaps the leading strategic-management text globally, now available in 10 languages. The practical, skills-oriented approach is manifested through eight specific features:

1. A Cohesion Case appears after Chapter 1 with 64 end-of-chapter assurance of learning exercises, many that apply concepts to the Cohesion Case, thus allowing students to gain practice doing strategic planning by performing case analysis. No other strategic-management textbook provides a Cohesion Case, or an array of end-of-chapter exercises.
2. A strategy formulation analytical framework in Chapter 6 integrates nine widely used planning matrices (IFEM, EFEM, CPM, SWOT, BCG, IE, SPACE, GRAND, and QSPM) into three stages (Input, Matching, and Decision), which guide the strategic-planning process in all companies. Firms gather strategic information (Input), array key external with internal factors (Matching), and then make strategic decisions (Decision).
3. A far wider coverage of strategy topics than any other strategic-management textbook, for two primary reasons: (a) As firms formulate and implement strategies, a wide variety of functional business topics arise, and (b) as the capstone, integrative course in nearly all Schools of Business, strategic management entails students applying functional business skills to case companies.

4. The Concepts and Cases version of this text provides 30 comprehensive, exciting, exceptionally up-to-date cases designed to apply chapter concepts as students develop a strategic plan for the case companies. For example, every case includes (a) the company’s vision/mission statements (if the firm has one); (b) the company’s by-segment revenue breakdown (since allocating resources across divisions is perhaps the key strategy decision made by firms); (c) the company’s organizational chart (since structure is a key strategy topic); and (d) the company’s financial statements so students can show the impact of a proposed strategic plan on a firm’s financial statements. Thus, the cases take a total-firm, multifunctional approach, which by definition is the nature of strategic management. In addition, this text offers end-of-chapter mini-cases to further apply chapter concepts.
5. More coverage of business ethics, social responsibility, and sustainability is provided in this text than in any other strategic-management textbook, including topics such as bribery, workplace romance, devising codes of ethics, taking a position (or not) on social issues, and wildlife welfare—topics that other textbooks do not mention, even though companies continually face strategic decisions in these areas.
6. This text offers more coverage of global/international issues than any other strategic-management textbook, including topics such as how business culture and practice vary across countries, as well as how taxes, tariffs, political stability, and economic conditions vary across countries—all framed from a strategic-planning perspective.
7. The conversational, concise writing style is supported by hundreds of current examples, all aimed at arousing and maintaining the reader’s interest as the “process” unfolds from start to finish. The unique writing style is in stark contrast to some strategic-management books that seemingly randomly present theory and research for the sake of discussion, rather than material being presented in a logical flow that emulates the actual practice of strategic planning among companies and organizations.
8. This text is supported by outstanding ancillaries, including author-developed manuals, and an author website at www.strategyclub.com that offers practical author-developed videos, templates, sample case analyses, special resources, and even a Facebook page for the text. Pearson Education also offers outstanding support materials for instructors and students. For more information, visit www.pearsonhighered.com.

Instructor Resources

At the Instructor Resource Center, www.pearsonhighered.com/irc, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- *Case Instructor’s Resource Manual*
- *Chapter Instructor’s Resource Manual*
- **Test Bank**
- **TestGen® Computerized Test Bank**
- **PowerPoint Presentation**

Sample of Universities Recently Using This Textbook

Abraham Baldwin Agricultural College
 Adelphi University
 Akron Institute
 Albany State University
 Albertus Magnus College
 Albright College
 Alcorn State University
 Alvernia University

Ambassador College
 Amberton University
 American Intercontinental
 University—Weston
 American International College
 American International Continental (AIU)
 University—Houston
 American International University

American University
 Anderson University
 Angelo State University
 Aquinas College
 Arizona State University—Polytechnic
 Campus
 Art Institute of California
 Averett University
 Avila University
 Azusa Pacific University
 Baker College—Flint
 Baldwin Wallace College
 Barry University
 Belhaven University—Jackson
 Bellevue University
 Belmont Abbey College
 Benedictine University
 Black Hills State University
 Bloomsburg University
 Briar Cliff University
 Brooklyn College
 Broward College—Central
 Broward College—North
 Broward College—South
 Bryant & Stratton—Orchard Park
 Buena Vista University—Storm Lake
 Caldwell College
 California Polytechnic State University
 California State University—Sacramento
 California State University—San
 Bernadino
 California University of PA
 Calumet College
 Capella University
 Carlow University
 Carson-Newman College
 Catawba College
 Catholic University of America
 Cedar Crest College
 Central Connecticut State University
 Central Michigan University
 Central New Mexico Community College
 Central Washington University
 Chatham University
 Chestnut Hill College
 Chicago State University
 Christian Brothers University
 Clafin University
 Clarion University of Pennsylvania
 Clarkson College
 Clatsop Community College
 Cleveland State University
 College of William & Mary
 Colorado State University—Pueblo
 Columbia College
 Columbia Southern University—Online
 Concordia University
 Concordia University Wisconsin
 Curry College
 Cuyahoga Community College
 Daniel Webster College
 Davis & Elkins College
 Delaware State University
 Delaware Technology & Community
 College—Dover
 Delaware Technology & Community
 College—Wilmington
 DePaul University—Loop Campus
 East Stroudsburg University
 Eastern Michigan University
 Eastern Oregon University
 Eastern Washington University
 ECPI College of Technology—Charleston
 ECPI Computer Institute
 Elmhurst College
 Embry-Riddle Aero University—Prescott
 Ferrum College
 Florida Agricultural & Mechanical
 University
 Florida Southern College
 Florida State University
 Florida Technical College—Deland
 Florida Technical College—Kissimmee
 Florida Technical College—Orlando
 Fort Valley State College
 Francis Marion University
 Fresno Pacific University
 Frostburg State University
 George Fox University
 Georgetown College
 Georgia Southern University
 Georgia Southwestern State University
 Hampton University
 Harding University
 Harris Stowe State University
 Herzing College—Madison
 Herzing College—New Orleans
 Herzing College—Winter Park
 Herzing University—Atlanta
 High Point University

Highline Community College
 Hofstra University
 Hood College
 Hope International University
 Houghton College
 Huntingdon College
 Indiana University Bloomington
 Indiana Wesleyan CAPS
 Iona College
 Iowa Lakes Community College—
 Emmetsburg
 Jackson Community College
 Jackson State University
 John Brown University
 Johnson & Wales—Charlotte
 Johnson & Wales—Colorado
 Johnson & Wales—Miami
 Johnson & Wales—Rhode Island
 Johnson C. Smith University
 Kalamazoo College
 Kansas State University
 Keene State College
 Kellogg Community College
 La Salle University
 Lake Michigan College
 Lebanon Valley College
 Lee University
 Lehman College of CUNY
 Liberty University
 Limestone College—Gaffney
 Lincoln Memorial University
 Loyola College Business Center
 Loyola College—Chennai
 Loyola University—Maryland
 Lyndon State College
 Madonna University
 Manhattan College
 Manhattanville College
 Marian University—Indiana
 Marshall University
 Marshall University Graduate College
 Marymount University—Arlington
 Medgar Evers College
 Medical Careers Institute/Newport News
 Mercer University—Atlanta
 Mercer University—Macon
 Miami-Dade College—Homestead
 Miami-Dade College—Kendal
 Miami-Dade College—North
 Miami-Dade College—Wolfson
 Michigan State University
 Mid-America Christian
 Millersville University
 Mississippi University for Women
 Morgan State University
 Morrison College of Reno
 Mount Marty College—South Dakota
 Mount Mercy University
 Mount Wachusett Community College
 Mt. Hood Community College
 Mt. Vernon Nazarene
 MTI Western Business College
 Muhlenberg College
 Murray State University
 New England College
 New Mexico State University
 New York University
 North Carolina Wesleyan College
 North Central College
 North Central State College
 Northwest Arkansas Community College
 Northwestern College
 Northwood University—Cedar Hill
 Notre Dame of Maryland University
 Nyack College
 Oakland University
 Ohio Dominican University
 Oklahoma Christian University
 Oklahoma State University
 Olivet College
 Oral Roberts University
 Pace University—Pleasantville
 Park University
 Penn State University—Abington
 Penn State University—Hazleton
 Pensacola State College
 Philadelphia University
 Point Park University
 Prince George’s Community College
 Queens College of CUNY
 Richard Stockton University
 Rider University
 Roger Williams University
 Saint Edwards University
 Saint Leo University
 Saint Mary’s College
 Saint Mary’s College—Indiana
 Saint Xavier University
 San Antonio College
 Santa Fe College

Savannah State University	University of Miami
Shippensburg University	University of Michigan—Flint
Siena Heights University	University of Minnesota—Crookston
Southern Nazarene University	University of Mobile
Southern New Hampshire University	University of Montevallo
Southern Oregon University	University of Nebraska—Omaha
Southern University—Baton Rouge	University of Nevada Las Vegas
Southern Wesleyan University	University of New Orleans
Southwest Baptist University	University of North Texas
Southwest University	University of North Texas—Dallas
St. Bonaventure University	University of Pikeville
St. Francis University	University of Sioux Falls
St. Louis University	University of South Florida
St. Martins University	University of St. Joseph
Sterling College	University of Tampa
Stevenson University	University of Texas—Pan American
Strayer University—DC	University of The Incarnate Word
Texas A&M University—Commerce	University of Toledo
Texas A&M University—Texarkana	Upper Iowa University
Texas A&M—San Antonio	Valley City State University
Texas Tech University	Virginia Community College System
The College of St. Rose	Virginia State University
The Masters College	Virginia Tech
Tri-County Technical College	Wagner College
Trinity Christian College	Wake Forest University
Troy State University	Washington University
Troy University—Dothan	Webber International University
Troy University—Main Campus	Webster University
Troy University—Montgomery	West Chester University
University of Alabama—Birmingham	West Liberty University
University of Arkansas—Fayetteville	West Valley College
University of Findlay	West Virginia Wesleyan College
University of Houston—Clearlake	Western Connecticut State University
University of Louisiana at Monroe	Western Kentucky University
University of Maine at Augusta	Western Michigan University
University of Maine—Fort Kent	Western Washington University
University of Maryland	William Jewell College
University of Maryland—College Park	Williams Baptist College
University of Massachusetts—Boston Harbor	Winona State University
University of Massachusetts—Dartmouth	Winston-Salem State University
	WSU Vancouver

Sample of Countries Outside the United States Where This Text Is Widely Used

Mexico, China, Japan, Australia, Singapore, Canada, Indonesia, Pakistan, Iran, Kenya, Congo, Hong Kong, India, England, Argentina, Equador, Zambia, Guam, Italy, Cyprus, Colombia, Philippines, South Africa, Peru, Turkey, Malaysia, and Egypt

Acknowledgments

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

Many special persons and reviewers contributed valuable material and suggestions for this edition. We would like to thank our colleagues and friends at Auburn University, Mississippi State University, East Carolina University, the University of South Carolina, Campbell University, the University of North Carolina at Pembroke, and Francis Marion University. We have taught strategic management at all these universities. Scores of students and professors at these schools helped shape the development of this text.

We thank the following guest writers who contributed cases to the concepts and cases version of this sixteenth edition:

Meredith E. David, Baylor University
Mark L. Frigo, DePaul University
Debora J. Gilliard, Metropolitan State University of Denver
David Lynn Hoffman, Metropolitan State University of Denver
Edward Moore, Liberty University
Alvaro Polanco, Baylor University
Lori Radulovich, Baldwin Wallace University
Raj Selladurai, Indiana University Northwest
Diana Tsaw, California Lutheran University
John D. Varlaro, Johnson & Wales University
Jason Willoughby, Elizabethtown Community College

We thank you, the reader, for investing the time and effort to read and study this text. It will help you formulate, implement, and evaluate strategies for any organization with which you become associated. We hope you come to share our enthusiasm for the rich subject area of strategic management and for the systematic learning approach taken in this text. We want to welcome and invite your suggestions, ideas, thoughts, comments, and questions regarding any part of this text or the ancillary materials. Please contact Dr. Fred R. David at the following e-mail: freddavid9@gmail.com, or write him at the School of Business, Francis Marion University, Florence, SC 29501. We sincerely appreciate and need your input to continually improve this text in future editions. Your willingness to draw our attention to specific errors or deficiencies in coverage or exposition will especially be appreciated.

Thank you for using this text.

Fred R. David and Forest R. David

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About the Authors

Fred R. and Forest R. David, a father–son team, have published more than 50 articles in journals such as *Academy of Management Review*, *Academy of Management Executive*, *Journal of Applied Psychology*, *Long Range Planning*, *International Journal of Management*, *Journal of Business Strategy*, and *Advanced Management Journal*. Fred and Forest’s recent article titled “Mission Statement Theory and Practice: A Content Analysis and New Direction,” published in the *International Journal of Business, Marketing, and Decision Sciences*, is changing the way organizations devise and use vision and mission statements.

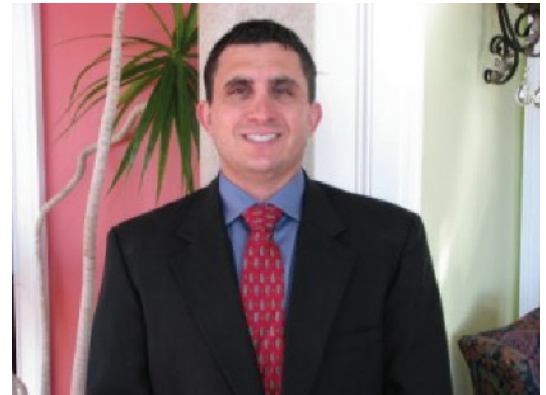
Fred and Forest are coauthors of *Strategic Management: Concepts and Cases—A Competitive Advantage Approach* that has been on a two-year revision cycle since 1987 when the first edition was published. This text has been a leader in the field of strategic management for almost three decades providing an applications, practitioner-approach to the discipline. More than 500 colleges and universities have used this textbook over the years. For seven editions of this book, Forest has been sole author of the *Case Instructor’s Resource Manual*, having developed extensive teachers’ notes (solutions) for all the cases. Forest is author of the Case MyLab and Chapter MyLab ancillaries, as well as the free Excel Student Template found on the author website. (www.strategyclub.com).

The authors actively assist businesses globally in doing strategic planning. They have written and published more than 100 strategic-management cases. They were invited keynote speakers in September 2015 in Monterrey, Mexico, at the “XXII Congreso Industrial,” the largest Congress of Industrial Engineering in Latin America. They were also invited keynote speakers at the Pearson International Forum in Monterrey, Mexico, delivering a one-hour presentation to 80 Spanish-speaking, management professors.

With a Ph.D. in Management from the University of South Carolina, Fred is the TranSouth Professor of Strategic Planning at Francis Marion University in Florence, South Carolina. Forest has taught strategic-management courses at Mississippi State University, Campbell University, and Francis Marion University.



Fred R. David



Forest R. David

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STRATEGIC MANAGEMENT

Concepts

A COMPETITIVE ADVANTAGE APPROACH



Source: Odua Images/Fotolia

The Nature of Strategic Management

LEARNING OBJECTIVES

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

- 1-1. Describe the strategic-management process.
- 1-2. Discuss the three stages of strategy formulation, implementation, and evaluation activities.
- 1-3. Explain the need for integrating analysis and intuition in strategic management.
- 1-4. Define and give examples of key terms in strategic management.
- 1-5. Illustrate the comprehensive strategic-management model.
- 1-6. Describe the benefits of engaging in strategic management.
- 1-7. Explain why some firms do no strategic planning.
- 1-8. Describe the pitfalls in actually doing strategic planning.
- 1-9. Discuss the connection between business and military strategy.

ASSURANCE OF LEARNING EXERCISES

The following exercises are found at the end of this chapter:

- EXERCISE 1A** Compare Business Strategy with Military Strategy
- EXERCISE 1B** Gather Strategy Information for the Hershey Company
- EXERCISE 1C** Update the Hershey Cohesion Case
- EXERCISE 1D** Strategic Planning for Your University
- EXERCISE 1E** Strategic Planning at a Local Company
- EXERCISE 1F** Get Familiar with the Strategy Club Website
- EXERCISE 1G** Game Plans vs. Strategic Plans: Teams vs. Companies

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

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

At the beginning of each chapter, a different company is showcased doing an exemplary job applying strategic-planning concepts, tools, and techniques. The first company featured for excellent strategic management practices is Apple, Inc., one of the best-managed companies ever, and currently led by one of the best strategists in the world, Mr. Tim Cook, who followed a legendary strategist, Mr. Steve Jobs. At the end of each chapter, a new, one-page, mini-case on a company is provided with respective questions that examine various concepts, tools, and techniques presented.

What Is Strategic Management?

Once there were two company presidents who competed in the same industry. These two presidents decided to go on a camping trip to discuss a possible merger. They hiked deep into the woods. Suddenly, they came upon a grizzly bear that rose up on its hind legs and snarled. Instantly, the first president took off his knapsack and got out a pair of jogging shoes. The second president said, “Hey, you can’t outrun that bear.” The first president responded, “Maybe I can’t

EXEMPLARY COMPANY SHOWCASED

Apple, Inc. (AAPL)

Headquartered in Cupertino, California, Apple, Inc. designs, produces, and markets smartphones, watches, personal computers, digital music players, and much more worldwide. Apple is arguably the most successful company in modern times. The company was founded in 1977 by a great strategist, an American legend, the late Mr. Steve Jobs. According to *Financial Times*, the best corporate strategist in 2014 was Apple CEO Tim Cook, who led Apple to a record \$700 billion market capitalization, with booming iPhone and personal computer sales, and handed billions of dollars back to shareholders. *Financial Times* named CEO Cook as “Person of the Year” for Apple’s huge achievements as well as Cook’s courage. Cook came forward as the Fortune 500’s first openly gay CEO when he published an essay in October 2014 in *Bloomberg Businessweek* saying he was “proud to be gay.” Cook was courageous in other ways too. For example, at an Apple’s shareholder meeting, when someone questioned the profitability of Apple’s environmental initiatives, Cook responded, “We do things for other reasons than a profit motive; we do things because they are right and just. If that’s a hard line for you... then you should get out of the stock.”

Amidst tremendous fanfare, Apple recently released its iWatch and is poised to introduce iTV, along with an electric car. Apple and IBM have released the first apps to emerge from their collaboration—a collection

that CEO Cook says is “the most enterprising apps ever.” Also, Apple recently entered the e-book business as well

as the banking business with its Apple Pay system, whereby customers use their iPhone to pay for merchandise at hundreds of retail checkout counters. In addition, Apple recently acquired Metaio, a company that makes augmented-reality (AR) technologies, a concept that allows developers to overlay digital information on top of the real world. A number of companies are working on AR, including Microsoft and Google with their HoloLens and Magic Leap projects, respectively. Many scientists expect AR and virtual reality (VR) to be the next major computing platform after mobile devices such as smartphones and tablets. For the eighth year in a row, *Fortune* recently named Apple the world’s most admired company.

Source: Company documents and a variety of sources.



outrun that bear, but I surely can outrun you!” This story captures the notion of strategic management, which is to gain and sustain competitive advantage.

What Is a Cohesion Case?

A distinguishing, popular feature of this text is the Cohesion Case, named so because a written case on a company appears at the end of this chapter, and then all other chapters feature end-of-chapter Assurance of Learning Exercises to apply strategic-planning concepts, tools, and techniques to the Cohesion Case company. The Hershey Company is featured as the new Cohesion Case in this edition, because Hershey is a well-known, well-managed global firm undergoing strategic change. By working through the Hershey-related exercises at the end of each chapter, students become well prepared to develop an effective strategic plan for any company assigned to them (or their team) to perform a strategic-management case analysis. Case analysis is a core part of almost every strategic-management course globally.

Defining Strategic Management

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

The term *strategic planning* originated in the 1950s and was popular between the mid-1960s and the mid-1970s. During these years, strategic planning was widely believed to be the answer for all problems. At the time, much of corporate America was “obsessed” with strategic planning. Following that boom, however, strategic planning was cast aside during the 1980s as various planning models did not yield higher returns. The 1990s, however, brought the revival of strategic planning, and the process is widely practiced today in the business world. Many companies today have a *chief strategy officer (CSO)*. McDonald’s hired a new CSO in October 2015.

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

The term *strategic management* is used at many colleges and universities as the title for the capstone course in business administration. This course integrates material from all business courses, and, in addition, introduces new strategic-management concepts and techniques being widely used by firms in strategic planning.

Stages of Strategic Management

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

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

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

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

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

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

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

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

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

Integrating Intuition and Analysis

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

Based on past experiences, judgment, and feelings, most people recognize that **intuition** is essential to making good strategic decisions. Intuition is particularly useful for making decisions

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

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

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

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

In a sense, the strategic-management process is an attempt to duplicate what goes on in the mind of a brilliant, intuitive person who knows the business and assimilates and integrates that knowledge using analysis to formulate effective strategies.

Adapting to Change

The strategic-management process is based on the belief that organizations should continually monitor internal and external events and trends so that timely changes can be made as needed. The rate and magnitude of changes that affect organizations are increasing dramatically, as evidenced by how the drop in oil prices caught so many firms by surprise. Firms, like organisms, must be “adept at adapting” or they will not survive. To survive, all organizations must astutely identify and adapt to change. The strategic-management process is aimed at allowing organizations to adapt effectively to change over the long run. Waterman noted:

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

On a political map, the boundaries between countries may be clear, but on a competitive map showing the real flow of financial and industrial activity, the boundaries have largely disappeared. The speedy flow of information has eaten away at national boundaries so that people worldwide readily see for themselves how other people live and work. We have become a borderless world with global citizens, global competitors, global customers, global suppliers, and global distributors! Many firms headquartered in the United States are challenged by outside-U.S.-based companies in many industries. For example, Toyota, Honda, Yamaha, Suzuki, Volkswagen, Samsung, and Kia have huge market shares in the United States.

The need to adapt to change leads organizations to key strategic-management questions, such as “What kind of business should we become?” “Are we in the right field(s)?” “Should we reshape our business?” “What new competitors are entering our industry?” “What strategies

should we pursue?” “How are our customers changing?” “Are new technologies being developed that could put us out of business?”

The Internet promotes endless comparison shopping, enabling consumers worldwide to band together to demand discounts. The Internet has transferred power from businesses to individuals. Buyers used to face big obstacles when attempting to get the best price and service, such as limited time and data to compare, but now consumers can quickly scan hundreds of vendor offerings. Both the number of people shopping online and the average amount they spend is increasing dramatically. Digital communication has become the name of the game in marketing. Consumers today are flocking to blogs, sending tweets, watching and posting videos on YouTube, and spending hours on Tumbler, Facebook, Reddit, Instagram, and LinkedIn, instead of watching television, listening to the radio, or reading newspapers and magazines. Facebook recently unveiled features that further marry these social sites to the wider Internet. Facebook users can now log onto various business shopping sites from their social site, so their friends can see what items they have purchased from what companies. Facebook wants their members to use their identities to manage *all* their online identities. Most traditional retailers boost in-store sales using their websites to promote in-store promotions.

Key Terms in Strategic Management

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

Competitive Advantage

Strategic management is all about gaining and maintaining **competitive advantage**. This term can be defined as any activity a firm does especially well compared to activities done by rival firms, or any resource a firm possesses that rival firms desire.

Having fewer fixed assets than rival firms can provide major competitive advantages. For example, Apple has virtually no manufacturing facilities of its own, and rival Sony has 57 electronics factories. Apple relies almost entirely on contract manufacturers for production of all its products, whereas Sony owns its own plants. Having fewer fixed assets has enabled Apple to remain financially lean.

According to CEO Paco Underhill of Envirosell, “Where it used to be a polite war, it’s now a 21st-century bar fight, where everybody is competing with everyone else for the customers’ money.” Shoppers are “trading down: Nordstrom is taking customers from Neiman Marcus and Saks Fifth Avenue, T.J. Maxx and Marshalls are taking customers from most other stores in the mall, and Family Dollar is taking revenues from Walmart.”⁹ Getting and keeping competitive advantage is essential for long-term success in an organization. In mass retailing, big-box companies, such as Walmart, Best Buy, and Sears, are losing competitive advantage to smaller stores, reflecting the dramatic shift in mass retailing to becoming smaller. As customers shift more to online purchases, less brick and mortar is definitely better for sustaining competitive advantage in retailing. Walmart Express stores of less than 40,000 square feet each, rather than its 185,000-square-foot Supercenters, and Office Depot’s new 5,000-square-foot stores are examples of smaller is better.

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

Strategists

Strategists are the individuals most responsible for the success or failure of an organization. They have various job titles, such as *chief executive officer*, *president*, *owner*, *chair of the board*, *executive director*, *chancellor*, *dean*, and *entrepreneur*. Jay Conger, professor of organizational

behavior at the London Business School and author of *Building Leaders*, says, “All strategists have to be chief learning officers. We are in an extended period of change. If our leaders aren’t highly adaptive and great models during this period, then our companies won’t adapt either, because ultimately leadership is about being a role model.”

Strategists help an organization gather, analyze, and organize information. They track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans. Strategic planners usually serve in a support or staff role. Usually found in higher levels of management, they typically have considerable authority for decision making in the firm. The CEO is the most visible and critical strategic manager. Any manager who has responsibility for a unit or division, responsibility for profit and loss outcomes, or direct authority over a major piece of the business is a strategic manager (strategist).

In the last few years, the position of CSO has become common in many organizations, including Sun Microsystems, Network Associates, Clarus, Lante, Marimba, Sapient, Commerce One, BBDO, Cadbury Schweppes, General Motors, Ellie Mae, Cendant, Charles Schwab, Tyco, Campbell Soup, Morgan Stanley, and Reed-Elsevier. This corporate officer title represents recognition of the growing importance of strategic planning in business. Franz Koch, the CSO of German sportswear company Puma AG, was recently promoted to CEO of Puma. When asked about his plans for the company, Koch said on a conference call, “I plan to just focus on the long-term strategic plan.” Academic Research Capsule 1-1 reveals when CSOs are most often hired.

Strategists differ as much as organizations do, and these differences must be considered in the formulation, implementation, and evaluation of strategies. Strategists differ in their attitudes, values, ethics, willingness to take risks, concern for social responsibility, concern for profitability, concern for short-run versus long-run aims, and management style—some will not even consider various types of strategies because of their personal philosophies.. The founder of Hershey, Milton Hershey, built the company so that he could afford to manage an orphanage. From corporate profits, Hershey today cares for about 900 boys and 1,000 girls in its boarding school for pre-K through grade 12.

Athletic coaches are also strategists. Football, basketball, baseball, soccer, and in fact most athletic contests are often won or lost based a team’s game plan. For example, a basketball coach may plan to fast break and play up-tempo, rather than play more half court, if the players are smaller and faster, or if the team has more depth than the opposing team. A few great college basketball coaches today are Mike Krzyzewski at Duke, John Calipari at Kentucky, Jim Boeheim at Syracuse, and Tom Izzo at Michigan State. Great college basketball coaches years ago included John Wooden, Jim Valvano, Dean Smith, and Bobby Knight. Another great coach of yesteryear was Nolan Richardson, who developed excellent game plans and, in 1994, as the first black head coach at a major university in the South, led the Arkansas Razorbacks men’s basketball team to

ACADEMIC RESEARCH CAPSULE 1-1

When Are Chief Strategy Officers (CSOs) Hired/Appointed?

An increasing number of firms are employing a chief strategy officer (CSO). In an article published in 2014, Menz and Sheef examined 200 S&P 500 firms over a 5-year period to examine what factors contribute to firms hiring a CSO and what factors contribute to a CSO affecting a firm’s financial performance. Of the sampled firms, on average, during the study, 42 percent employed a CSO. Although many factors may lead to a firm’s decision to appoint a CSO, the authors focused on five key areas that prior research suggests as most important and most likely to lead to a CSO appointment:

- 1) As the business portfolio increases (e.g., the firm becomes more diversified)
- 2) As acquisition activity expands
- 3) As alliance activity increases
- 4) As a firm’s size grows
- 5) As top management team interdependence increases

Results of the Menz and Sheef study reveal that an increase in management interdependence and growth in acquisition activity were most commonly associated with hiring a new CSO.

Source: Based on Markus Menz and Christine Sheef, “Chief Strategy Officers: Contingency Analysis of Their Presence in Top Management Teams,” *Strategic Management Journal* 35, no. 3 (March 2014): 461–471.