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STRATEGIC MANAGEMENT

Competitiveness & Globalization

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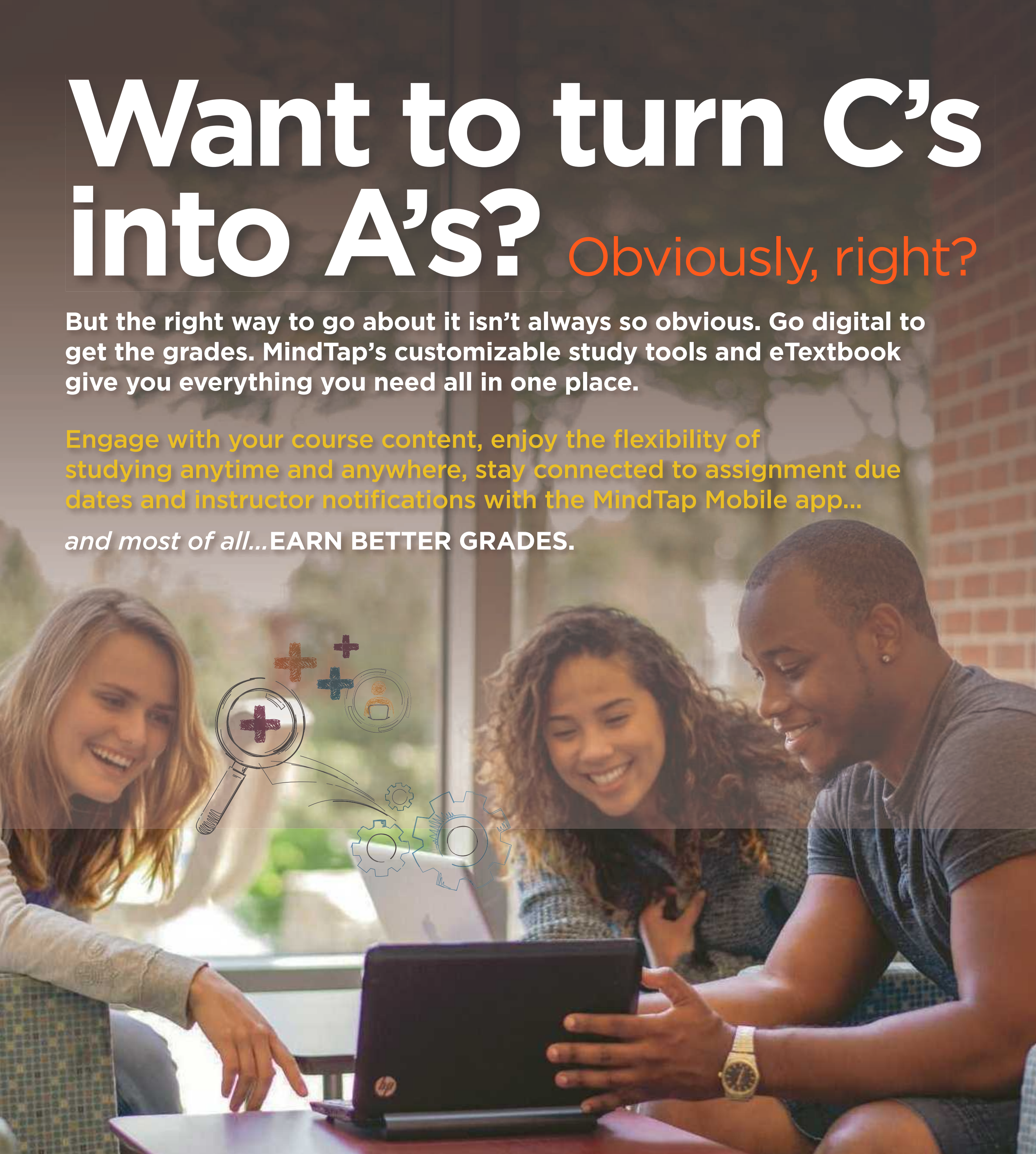

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Michael A. Hitt
Texas A&M University
and
Texas Christian University

R. Duane Ireland
Texas A&M University

Robert E. Hoskisson
Rice University

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***Strategic Management: Competitiveness & Globalization: Concepts*, 12e**

Michael A. Hitt, R. Duane Ireland, and Robert E. Hoskisson

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To My Family:
I love each and every one of you. Thank you for all of your love and support.
— ***Michael, Dad, Papa***

To Mary Ann:
"Now everyone dreams of a love lasting and true." This was my dream that you have completely fulfilled. Thank you for all of the love, support, and encouragement throughout our life together.
— ***R. Duane Ireland***

To Kathy:
My love for you is eternal, and I hope that we can be eternally together. Thanks for all the support and love you've given me throughout my life.
— ***Bob***

Brief Contents

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Preface

Our goal in writing each edition of this book is to present a new, up-to-date standard for explaining the strategic management process. To reach this goal with the 12th edition of our market-leading text, we again present you with an intellectually rich yet thoroughly practical analysis of strategic management.

With each new edition, we work hard to achieve the goal of maintaining the standard that we established for presenting strategic management knowledge in a readable style. To prepare for each new edition, we carefully study the most recent academic research to ensure that the content about strategic management that we present to you is up to date and accurate. In addition, we continuously read articles appearing in many different and widely read business publications (e.g., *Wall Street Journal, Bloomberg Businessweek, Fortune, Financial Times, Fast Company,* and *Forbes,* to name a few). We also study postings through social media (such as blogs) given their increasing use as channels of information distribution. By studying a wide array of sources, we are able to identify valuable examples of how companies are using (or not using) the strategic management process. Though many of the hundreds of companies that we discuss in the book will be quite familiar, some will likely be new to you. One reason for this is that we use examples of companies from around the world to demonstrate the globalized nature of business operations. To maximize your opportunities to learn as you read and think about how actual companies use strategic management tools, techniques, and concepts (based on the most current research), we emphasize a lively and user-friendly writing style. To facilitate learning, we use an Analysis-Strategy-Performance framework that is explained in Chapter 1 and referenced throughout the book.

Several *characteristics* of this 12th edition of our book are designed to enhance your learning experience:

- First, this book presents you with the most comprehensive and thorough coverage of strategic management that is available in the market.
- The research used in this book is drawn from the "classics" as well as the most recent contributions to the strategic management literature. The historically significant "classic" research provides the foundation for much of what is known about strategic management, while the most recent contributions reveal insights about how to effectively use strategic management in the complex, global business environment in which firms now compete. Our book also presents you with many up-to-date examples of how firms use the strategic management tools, techniques, and concepts that prominent researchers have developed. Indeed, although this book is grounded in the relevant theory and current research, it also is strongly application oriented and presents you, our readers, with a large number of examples and applications of strategic management concepts, techniques, and tools. In this edition, for example, we examine more than 600 companies to describe the use of strategic management. Collectively, no other strategic management book presents you with the *combination* of useful and insightful *research* and *applications* in a wide variety of organizations as does this text.

Company examples you will find in this edition range from large U.S.-based firms such as Apple, Amazon.com, McDonald's, Starbucks, Walmart, Walt Disney, General Electric, Intel, American Express, Coca-Cola, Google, Target, United Technologies, Kellogg, DuPont, Marriott, and Whole Foods. In addition, we examine firms based in countries other than the United States such as Sony, Aldi, Honda, Tata Consultancy, Alibaba, IKEA, Lenova, Luxottica, and Samsung. As these lists suggest, the firms examined in this book compete in a wide range of industries and produce a diverse set of goods and services.

- We use the ideas of many prominent scholars (e.g., Ron Adner, Rajshree Agarwal, Gautam Ahuja, Raffi Amit, Africa Arino, Jay Barney, Paul Beamish, Peter Buckley, Ming-Jer Chen, Russ Coff, Rich D'Aveni, Kathy Eisenhardt, Gerry George, Javier Gimeno, Luis Gomez-Mejia, Melissa Graebner, Ranjay Gulati, Don Hambrick, Connie Helfat, Amy Hillman, Tomas Hult, Dave Ketchen, Dovev Lavie, Yadong Luo, Shige Makino, Costas Markides, Anita McGahan, Danny Miller, Will Mitchell, Margie Peteraf, Michael Porter, Nandini Rajagopalan, Jeff Reuer, Joan Ricart, Richard Rumelt, David Sirmon, Ken Smith, Steve Tallman, David Teece, Michael Tushman, Margarethe Wiersema, Oliver Williamson, Mike Wright, Anthea Zhang, and Ed Zajac) to shape the discussion of *what* strategic management is. We describe the practices of prominent executives and practitioners (e.g., Mary Barra, Jack Ma, Reed Hastings, Howard Schultz, John Mackey, Yang Yuanqing, Angela Ahrendt, Marilyn Hewson, Jeff Immelt, Ellen Kullman, Elon Musk, Paul Pullman, Li Ka-Shing, Karen Patz, and many others) to help us describe *how* strategic management is used in many types of organizations.

The authors of this book are also active scholars. We conduct research on a number of strategic management topics. Our interest in doing so is to contribute to the strategic management literature and to better understand how to effectively apply strategic management tools, techniques, and concepts to increase organizational performance. Thus, our own research is integrated in the appropriate chapters along with the research of numerous other scholars, some of whom are noted above.

In addition to our book's *characteristics,* there are some specific *features* and *revisions* that we have made in this 12th edition that we are pleased to highlight for you:

- **New Opening Cases and Strategic Focus Segments.** We continue our tradition of providing all-new Opening Cases and Strategic Focus segments! Many deal with companies located outside North America. In addition, all of the company-specific examples included in each chapter are either new or substantially updated. Through all of these venues, we present you with a wealth of examples of how actual organizations, most of which compete internationally as well as in their home markets, use the strategic management process for the purpose of outperforming rivals and increasing their performance.
- **New Mini-Cases** have been added that demonstrate how companies deal with major issues highlighted in the text. There are 13 of these cases, one for each chapter, although some of them can overlap with other chapter content. Students will like their conciseness, but they likewise provide rich content that can serve as a catalyst for individual or group analysis and class discussion. Each Mini-Case is followed by a set of questions to guide analysis and discussion.
- **More than 1,200 new references** from 2014 and 2015 are included in the chapters' endnotes. We used the materials associated with these references to support new material added or current strategic management concepts that are included in this edition. In addition to demonstrating the classic and recent research from which we draw our material, the large number of references supporting the book's contents

allow us to integrate cutting-edge research and thinking into a presentation of strategic management tools, techniques, and concepts.

- **New content** was added to several chapters. Examples include the strategic ecosystem such as the one used by Apple with its "ecosystem of app producers" (Chapters 1 and 4), sustainable physical environment (Chapter 3), mentoring new CEOs (Chapter 12), strategic leadership in family owned/controlled companies (Chapter 12), and acquisitions and innovation, open innovations, and managing the innovation portfolio (Chapters 4 and 13).
- **Updated information** is provided in several chapters. Examples include the stakeholder host communities (Chapter 1), all new and current demographic data (e.g., ethnic mix, geographic distribution) that describe the economic environment (Chapter 2), the general partner strategies of private equity firms (Chapter 7), information from the *World Economic Forum Competitiveness Report* regarding political risks of international investments (Chapter 8), updates about corporate governance practices being used in different countries (Chapter 10), updated data about the number of internal and external CEO selections occurring in companies today (Chapter 12), a ranking of countries by the amount of their entrepreneurial activities (Chapter 13), and a ranking of companies on their total innovation output (Chapter 13).
- **An Exceptional Balance** between current research and up-to-date applications of strategic management concepts in actual organizations located throughout the world. The content has not only the best research documentation but also the largest number of effective real-world examples to help active learners understand the different types of strategies organizations use to achieve their vision and mission and to outperform rivals.
- **Twenty Cases** are included in this edition. Offering an effective mix of organizations headquartered or based in North America and a number of other countries as well, the cases deal with contemporary and highly important topics. These cases are available in the MindTap digital learning suite. Many of the cases have full financial data (the analyses of which are in the Case Notes that are available to instructors). These timely cases present active learners with opportunities to apply the strategic management process and understand organizational conditions and contexts and to make appropriate recommendations to deal with critical concerns. Access the cases in the MindTap and customize your selection to best suit the needs of your course.

Supplements to Accompany This Text

MindTap. MindTap is the digital learning solution that helps instructors engage students and help them to become tomorrow's strategic leaders. All activities are designed to teach students to problem-solve and think like leaders. Through these activities and real-time course analytics, and an accessible reader, MindTap helps you turn cookie cutter into cutting edge, apathy into engagement, and memorizers into higher-level thinkers.

Customized to the specific needs of this course, activities are built to facilitate mastery of chapter content. We've addressed case analysis from cornerstone to capstone with a functional area diagnostic of prior knowledge, directed cases, branching activities, multimedia presentations of real-world companies facing strategic decisions, and a collaborative environment in which students can complete group case analysis projects together synchronously.

Instructor Website. Access important teaching resources on this companion website. For your convenience, you can download electronic versions of the instructor supplements from the password-protected section of the site, including Instructor's Resource

Manual, Comprehensive Case Notes, Cognero Testing, Word Test Bank files, PowerPoint® slides, and Video Segments and Guide. To access these additional course materials and companion resources, please visit www.cengagebrain.com.

- **Instructor's Resource Manual.** The Instructor's Resource Manual, organized around each chapter's knowledge objectives, includes teaching ideas for each chapter and how to reinforce essential principles with extra examples. This support product includes lecture outlines and detailed guides to integrating the MindTap activities into your course with instructions for using each chapter's experiential exercises, branching, and directed cases. Finally, we provide outlines and guidance to help you customize the collaborative work environment and case analysis project to incorporate your approach to case analysis, including creative ideas for using this feature throughout your course for the most powerful learning experience for your class.
- **Case Notes.** These notes include directed assignments, financial analyses, and thorough discussion and exposition of issues in the case. Select cases also have assessment rubrics tied to National Standards (AACSB outcomes) that can be used for grading each case. The Case Notes provide consistent and thorough support for instructors, following the method espoused by the author team for preparing an effective case analysis.
- **Cognero.** This program is easy-to-use test-creation software that is compatible with Microsoft Windows. Instructors can add or edit questions, instructions, and answers, and select questions by previewing them on the screen, selecting them randomly, or selecting them by number. Instructors can also create and administer quizzes online, whether over the Internet, a local area network (LAN), or a wide area network (WAN).
- **Test Bank.** Thoroughly revised and enhanced, test bank questions are linked to each chapter's knowledge objectives and are ranked by difficulty and question type. We provide an ample number of application questions throughout, and we have also retained scenario-based questions as a means of adding in-depth problem-solving questions. The questions are also tagged to National Standards (AACSB outcomes), Bloom's Taxonomy, and the Dierdorff/Rubin metrics.
- **PowerPoints®.** An all-new PowerPoint presentation, created for the 12th edition, provides support for lectures, emphasizing key concepts, key terms, and instructive graphics.
- **Video Segments.** A collection of 13 BBC videos has been included in the MindTap Learning Path. These new videos are short, compelling, and timely illustrations of today's management world. They are available on the DVD and Instructor website. Detailed case write-ups, including questions and suggested answers, appear in the Instructor's Resource Manual and Video Guide.

Cengage Learning Write Experience 3.0. This new technology is the first in higher education to offer students the opportunity to improve their writing and analytical skills without adding to *your* workload. Offered through an exclusive agreement with Vantage Learning, creator of the software used for GMAT essay grading, Write Experience evaluates students' answers to a select set of assignments for writing for voice, style, format, and originality. We have trained new prompts for this edition!

Micromatic Strategic Management Simulation (for bundles only). The Micromatic Business Simulation Game allows students to decide their company's mission, goals, policies, and strategies. Student teams make their decisions on a quarter-by-quarter basis, determining price, sales and promotion budgets, operations decisions, and financing requirements. Each decision round requires students to make approximately 100 decisions. Students can play in teams or play alone, compete against other players or the computer, or use Micromatic for practice, tournaments, or assessment. You can control any business simulation element you wish, leaving the rest alone if you desire. Because of the number and type of decisions the student users must make, Micromatic is classified as a medium to complex business simulation game. This helps students understand how the functional areas of a business fit together without being bogged down in needless detail and provides students with an excellent capstone experience in decision making.

Smartsims (for bundles only). MikesBikes Advanced is a premier strategy simulation providing students with the unique opportunity to evaluate, plan, and implement strategy as they manage their own company while competing online against other students within their course. Students from the management team of a bicycle manufacturing company make all the key functional decisions involving price, marketing, distribution, finance, operations, HR, and R&D. They formulate a comprehensive strategy, starting with their existing product, and then adapt the strategy as they develop new products for emerging markets. Through the Smartsims easy-to-use interface, students are taught the cross-functional disciplines of business and how the development and implementation of strategy involves these disciplines. The competitive nature of MikesBikes encourages involvement and learning in a way that no other teaching methodology can, and your students will have fun in the process!

Acknowledgments

We express our appreciation for the excellent support received from our editorial and production team at Cengage Learning. We especially wish to thank Scott Person, our Senior Product Manager, and Tara Singer, our Content Developer. We are grateful for their dedication, commitment, and outstanding contributions to the development and publication of this book and its package of support materials.

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Jay Azriel
York College of Pennsylvania

Lana Belousova
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Matthias Bollmus
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Erich Brockmann
University of New Orleans

David Cadden
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Bruce H. Charnov
Hofstra University

Jay Chok
Keck Graduate Institute, Claremont Colleges

Peter Clement
State University of New York–Delhi

Terry Coalter
Northwest Missouri University

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SUNY Brockport

Deborah de Lange
Suffolk University

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Robert Keidel
Drexel University

Nancy E. Landrum
University of Arkansas at Little Rock

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Louisiana State University

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Georgia Tech

Rick McPherson
University of Washington

Karen Middleton
Texas A&M–Corpus Christi

Raza Mir
William Paterson University

Martina Musteen
San Diego State University

Louise Nemanich
Arizona State University

Frank Novakowski
Davenport University

Consuelo M. Ramirez
University of Texas at San Antonio

Barbara Ribbens
Western Illinois University

Jason Ridge
Clemson University

William Roering
Michigan State University

Manjula S. Salimath
University of North Texas

Deepak Sethi
Old Dominion University

Manisha Singal
Virginia Tech

Warren Stone
University of Arkansas at Little Rock

Elisabeth Teal
University of N. Georgia

Jill Thomas Jorgensen
Lewis and Clark State College

Len J. Trevino
Washington State University

Edward Ward
Saint Cloud State University

Marta Szabo White
Georgia State University

Michael L. Williams
Michigan State University

Diana J. Wong-MingJi
Eastern Michigan University

Patricia A. Worsham
California State Polytechnic University, Pomona

William J. Worthington
Baylor University

Wilson Zehr
Concordia University

Michael A. Hitt
R. Duane Ireland
Robert E. Hoskisson

About the Authors

Michael A. Hitt

Michael Hitt is a University Distinguished Professor Emeritus at Texas A&M University and a Distinguished Research Fellow at Texas Christian University. Dr. Hitt received his Ph.D. from the University of Colorado. He has coauthored or coedited 27 books and authored or coauthored many journal articles. A recent article listed him as one of the 10 most cited authors in management over a 25-year period. The *Times Higher Education 2010* listed him among the top scholars in economics, finance, and management based on the number of highly cited articles he has authored. A recent article in the *Academy of Management Perspectives* lists him as one of the top two management scholars in terms of the combined impact of his work both inside (i.e., citations in scholarly journals) and outside of academia. He has served on the editorial review boards of multiple journals and is a former editor of the *Academy of Management Journal* and a former coeditor of the *Strategic Entrepreneurship Journal*. He received the 1996 Award for Outstanding Academic Contributions to Competitiveness and the 1999 Award for Outstanding Intellectual Contributions to Competitiveness Research from the American Society for Competitiveness. He is a fellow in the Academy of Management and in the Strategic Management Society, a research fellow in the Global Consortium of Entrepreneurship Centers, and received an honorary doctorate from the Universidad Carlos III de Madrid. He is a former president of both the Academy of Management and of the Strategic Management Society and a member of the Academy of Management's Journals' Hall of Fame. He received awards for the best article published in the *Academy of Management Executive* (1999), *Academy of Management Journal* (2000), *Journal of Management* (2006), and *Family Business Review* (2012). In 2001, he received the Irwin Outstanding Educator Award and the Distinguished Service Award from the Academy of Management. In 2004, Dr. Hitt was awarded the Best Paper Prize by the Strategic Management Society. In 2006, he received the Falcone Distinguished Entrepreneurship Scholar Award from Syracuse University. In 2014 and 2015, Dr. Hitt was listed as a Thomson Reuters Highly Cited Researcher (a listing of the world's most influential researchers), and he was also listed as one of The World's Most Influential Scientific Minds (a listing of the top cited researchers in science around the globe).

R. Duane Ireland

R. Duane Ireland is a University Distinguished Professor and holder of the Conn Chair in New Ventures Leadership in the Mays Business School, Texas A&M University. Dr. Ireland teaches strategic management courses at all levels. He has more than 200 publications, including approximately 25 books. His research, which focuses on diversification, innovation, corporate entrepreneurship, strategic entrepreneurship, and the informal economy, has been published in an array of journals. He has served as a member of multiple editorial review boards and is a former editor of the *Academy of Management Journal*. He has been a guest editor for 12 special issues of journals. He is a past president of the Academy of Management. Dr. Ireland is a fellow of the Academy of Management and a fellow of the Strategic Management Society. He is a research fellow in the Global Consortium of Entrepreneurship Centers and received an award in 1999 for Outstanding Intellectual Contributions to Competitiveness Research from the American Society for Competitiveness. He received the Falcone Distinguished Entrepreneurship Scholar Award from Syracuse University in 2005, the USASBE Scholar in Corporate Entrepreneurship Award from USASBE in 2004, and the Riata Distinguished Entrepreneurship Scholar award from Oklahoma State University in 2014. He received awards for the best article published in *Academy of Management Executive* (1999), the *Academy of Management Journal* (2000), and the *Journal of Applied Management and Entrepreneurship* (2010). He received an Association of Former Students Distinguished Achievement Award for Research from Texas A&M University (2012). In 2014 and 2015, Dr. Ireland was listed as a Thomson Reuters Highly Cited Researcher (a listing of the world's most influential researchers), and he was also listed as one of The World's Most Influential Scientific Minds (a listing of the top cited researchers in science around the globe).

Robert E. Hoskisson

Robert E. Hoskisson is the George R. Brown Chair of Strategic Management at the Jesse H. Jones Graduate School of Business, Rice University. Dr. Hoskisson received his Ph.D. from the University of California-Irvine. His research topics focus on corporate governance, acquisitions and divestitures, corporate and international diversification, and cooperative strategy. He teaches courses in corporate and international strategic management, cooperative strategy, and strategy consulting. He has coauthored 26 books, including recent books on business strategy and competitive advantage. Dr. Hoskisson has served on several editorial boards for such publications as the *Strategic Management Journal* (current Associate Editor), *Academy of Management Journal* (Consulting Editor), *Journal of International Business Studies* (Consulting Editor), *Journal of Management* (Associate Editor) and *Organization Science*. His research has appeared in over 130 publications, including the *Strategic Management Journal, Academy of Management Journal, Academy of Management Review, Organization Science, Journal of Management, Academy of Management Perspective, Academy of Management Executive, Journal of Management Studies, Journal of International Business Studies, Journal of Business Venturing, Entrepreneurship Theory and Practice, California Management Review*, and *Journal of World Business*. Dr. Hoskisson is a fellow of the Academy of Management and a charter member of the Academy of Management Journal's Hall of Fame. He is also a fellow of the Strategic Management Society and has received awards from the American Society for Competitiveness and the William G. Dyer Alumni award from the Marriott School of Management, Brigham Young University. He completed three years of service as a Representative-at-Large on the Board of Governors of the Academy of Management. Currently, he serves as Past President of the Strategic Management Society, and thereby serves on the Executive Committee of its Board of Directors.

1

Strategic Management and Strategic Competitiveness

Studying this chapter should provide you with the strategic management knowledge needed to:

1-1 Define strategic competitiveness, strategy, competitive advantage, above-average returns, and the strategic management process.

1-2 Describe the competitive landscape and explain how globalization and technological changes shape it.

1-3 Use the industrial organization (I/O) model to explain how firms can earn above-average returns.

1-4 Use the resource-based model to explain how firms can earn above-average returns.

1-5 Describe vision and mission and discuss their value.

1-6 Define stakeholders and describe their ability to influence organizations.

1-7 Describe the work of strategic leaders.

1-8 Explain the strategic management process.

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ALIBABA: AN ONLINE COLOSSUS IN CHINA GOES GLOBAL

China now has the world's largest number of internet users and Alibaba is China's largest ecommerce company (23 percent owned by Yahoo and 36 percent owned by Japan's SoftBank). In 2014, when Alibaba completed its initial public offering (IPO) on the New York Stock Exchange, it immediately became worth more than Amazon and eBay combined and has a larger market capitalization than Walmart. Transactions of goods on Alibaba's websites account for more than 2 percent of China's GDP in 2012. Comparatively, Walmart's sales account for 0.03 percent of U.S. GDP in 2012. Alibaba's presence has turned China into the world's second largest ecommerce market after the United States. Chinese consumers purchase products on Tmall, a consumer shopping site on Alibaba analogous to a department store and similar to Amazon. Because of China's vast size and underdeveloped consumer market, it has few national mainland malls or brick and mortar department store chains. As such, the presence of Alibaba is stimulating consumption that would not otherwise take place in China. Furthermore, Alibaba's presence changed consumer buying habits, especially in third- and fourth-tier (e.g., smaller and more geographically remote) cities because it gives consumers access to items that they could not previously obtain locally.

Alibaba Drone.PNG

Taobao is another website owned by Alibaba and is comparable to eBay in the United States. On Taobao, Alibaba does not stock or sell its own goods but rather provides platforms where manufacturers, resellers, and other middle-men open online storefronts. Larger consumer branded products prefer Tmall because Alibaba's policies promote this site more heavily and fraudulent brands are less likely to be found on this site. For instance, popular brands such as Prada handbags must provide evidence that they are a licensed distributor before they are allowed to sell on Tmall. Taobao is more focused on small sellers; it has 6 million registered sellers with a vast range in size.

Given these two websites, Alibaba is the easiest way for foreign retailers to enter the Chinese market because it has such reach. Online sales account for 90 percent of marketplace sales in China, compared with 24 percent for the United States in 2014. Accordingly, Alibaba provides the easiest way to enter the Chinese market for foreign retailers due the large access to consumers available through Alibaba's websites. Alibaba's websites also give smaller Chinese manufacturers the opportunity to increase domestic sales because of Alibaba's reach. For example, Weighing Apparatus Group, originally a supplier of household and industrial scales for Bed Bath & Beyond, set up a website on Taobao in 2009. In 2014, one-fifth of its domestic sales now flow through its Taobao online storefront, allowing it to move beyond being only a supplier for other firm's branded products.

Alibaba through its Alipay system is working on a joint venture with Apple to provide back-end services for the Apple Pay payment system allowing iPhone users in China to pay for goods with Apple Pay using their Alipay accounts. This approach is fostering an improved mobile online strategy for Alibaba. It also facilitates better service for online Apple iPhone users who desire to browse and purchase on Alibaba websites.

Fraudulent goods can be an important strategic issue in China because of previous product liability suits from banned or recalled goods sold to U.S. consumers.

As such, Alibaba is collaborating with the United States Consumer Product Safety Commission to improve its credibility among U.S. consumers by helping to ban sale of fake and fraudulently branded or recalled goods. This is also facilitating Alibaba's global access strategy.

Alibaba is also moving into online media content and streaming video services. In 2014, it announced its acquisition of ChinaVision Media, producers or co-producers of films including "Crouching Tiger, Hidden Dragon" and "Breaking the Silence." Just as Amazon and Netflix are producing their own media content, Alibaba is moving in this direction as well, as it competes with other service providers such as Tencent and Baidu in web communications and broadcasting in China. Getting its strategies right in the local domestic Chines market as well as internationally is key to Alibaba's success.

Sources: D. Tsuruoka, 2015, Alibaba blocks sale of unsafe goods to U.S. shoppers, *Investor's Business Daily*, www.investorsbusinessdaily.com, Jan 13; S. Cendrowski, 2014, Alibaba's Maggie Wu and Lucy Peng: The dynamic duo behind the IPO, *Fortune*, www.fortune.com, September 17; R. Flannery, 2014, China media entrepreneur's fortune soars on Alibaba investment, *Forbes*, www.forbes.com, March 12; C. Larson, 2014, In China its meet me at Tmall, *Bloomberg Businessweek*, www.bloombergbusinessweek.com, September 11.

As we see from the Opening Case, Alibaba is highly successful because its strategy in China has allowed it to have a massive impact in regard to online sales in a large emerging economy. It is now seeking to grow globally and gain widespread name/brand recognition through its 2014 IPO in New York. These attributes have enhanced its ability to compete in global online markets. Therefore, we can conclude that Alibaba has achieved *strategic competitiveness*. It clearly has been able to earn *above-average returns*, at least, domestically. Yet Alibaba has received its share of criticism because of its perceived contribution to the sale of fraudulent goods. However, it is addressing this issue through its collaboration with the United States Consumer Product Safety Commission. The top management of Alibaba has used the strategic management process (see Figure 1.1) as the foundation for the commitments, decisions, and actions they took to pursue strategic competitiveness and above-average returns. The strategic management process is fully explained in this book. We introduce you to this process in the next few paragraphs.

Strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy. A **strategy** is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. When choosing a strategy, firms make choices among competing alternatives as the pathway for deciding how they will pursue strategic competitiveness. In this sense, the chosen strategy indicates what the firm *will do* as well as what the firm *will not do*.

Strategic competitiveness is achieved when a firm successfully formulates and implements a value creating strategy.

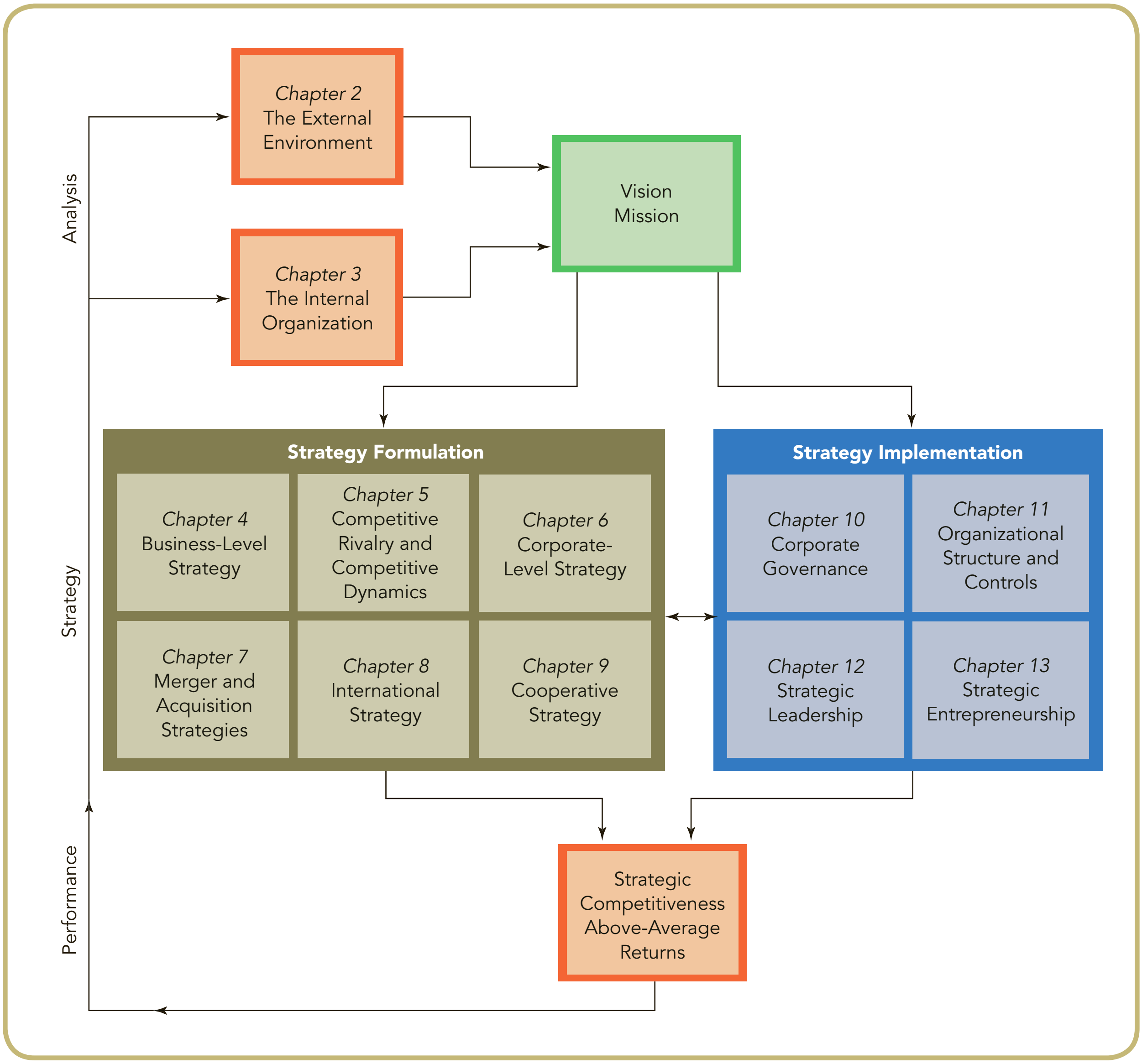
A **strategy** is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.

A firm has a **competitive advantage** when it implements a strategy that creates superior value for customers and that competitors are unable to duplicate or find it too costly to try to imitate.

As explained in the Opening Case, Alibaba has been a leader in its industry as one of the most successful facilitators of online sales in China and is now seeking to become a successful global business. However, in doing so it must respond to its changing environment. In fact, to adapt to local environments, it sometimes makes major changes. For example, it is coordinating with Apple Pay to improve access for the high number iPhones that Apple is now selling in China.

A firm has a **competitive advantage** "when it implements a strategy that creates superior value for customers and that its competitors are unable to duplicate or find too costly to imitate."[1] An organization can be confident that its strategy has resulted in one or more useful competitive advantages only after competitors' efforts to duplicate its strategy have ceased or failed. In addition, firms must understand that no competitive advantage is permanent.[2] The speed with which competitors are able to acquire the skills

Figure 1.1 The Strategic Management Process



needed to duplicate the benefits of a firm's value-creating strategy determines how long the competitive advantage will last.[3]

Above-average returns are returns in excess of what an investor expects to earn from other investments with a similar amount of risk. **Risk** is an investor's uncertainty about the economic gains or losses that will result from a particular investment. The most successful companies learn how to effectively manage risk.[4] Effectively managing risks reduces investors' uncertainty about the results of their investment.[5] Returns are often measured in terms of accounting figures, such as return on assets, return on equity, or return on sales. Alternatively, returns can be measured on the basis of stock market returns, such as monthly returns (the end-of-the-period stock price minus the beginning stock price divided by the beginning stock price, yielding a percentage return).[6]

Above-average returns are returns in excess of what an investor expects to earn from other investments with a similar amount of risk

Risk is an investor's uncertainty about the economic gains or losses that will result from a particular investment.

In smaller, new venture firms, returns are sometimes measured in terms of the amount and speed of growth (e.g., in annual sales) rather than more traditional profitability measures[7] because new ventures require time to earn acceptable returns (in the form of return on assets and so forth) on investors' investments.[8]

Understanding how to exploit a competitive advantage is important for firms seeking to earn above-average returns.[9] Firms without a competitive advantage or that are not competing in an attractive industry earn, at best, average returns. **Average returns** are returns equal to those an investor expects to earn from other investments with a similar amount of risk. In the long run, an inability to earn at least average returns results first in decline and, eventually, failure.[10] Failure occurs because investors withdraw their investments from those firms earning less-than-average returns.

As previously noted, there are no guarantees of permanent success. Companies that are prospering must not become overconfident. Research suggests that overconfidence can lead to excessive risk taking.[11] Even considering Apple's excellent current performance, it still must be careful not to become overconfident and continue its quest to be the leader for its markets.

The **strategic management process** is the full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns (see Figure 1.1)[12]. The process involves analysis, strategy and performance (the A-S-P model—see Figure 1.1). The firm's first step in the process is to *analyze* its external environment and internal organization to determine its resources, capabilities, and core-competencies—on which its strategy likely will be based. Alibaba has established its dominant position because it has excelled in using this process. The *strategy* portion of the model entails strategy formulation and strategy implementation.

With the information gained from external and internal analyses, the firm develops its vision and mission and formulates one or more *strategies*. To implement its strategies, the firm takes actions to enact each strategy with the intent of achieving strategic competitiveness and above-average returns (*performance*). Effective strategic actions that take place in the context of carefully integrated strategy formulation and implementation efforts result in positive performance. This dynamic strategic management process must be maintained as ever-changing markets and competitive structures are coordinated with a firm's continuously evolving strategic inputs.[13]

In the remaining chapters of this book, we use the strategic management process to explain what firms do to achieve strategic competitiveness and earn above-average returns. We demonstrate why some firms consistently achieve competitive success while others fail to do so.[14] As you will see, the reality of global competition is a critical part of the strategic management process and significantly influences firms' performances.[15] Indeed, learning how to successfully compete in the globalized world is one of the most significant challenges for firms competing in the current century.[16]

Several topics will be discussed in this chapter. First, we describe the current competitive landscape. This challenging landscape is being created primarily by the emergence of a global economy, globalization resulting from that economy, and rapid technological changes. Next, we examine two models that firms use to gather the information and knowledge required to choose and then effectively implement their strategies. The insights gained from these models also serve as the foundation for forming the firm's vision and mission. The first model (industrial organization or I/O) suggests that the external environment is the primary determinant of a firm's strategic actions. According to this model, identifying and then operating effectively in an attractive (i.e., profitable) industry or segment of an industry are the keys to competitive success.[17] The second model (resource-based) suggests that a firm's unique resources and capabilities are the critical link to strategic competitiveness.[18] Thus, the first model is concerned primarily

Average returns are returns equal to those an investor expects to earn from other investments with a similar amount of risk.

The **strategic management process** is the full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns.

with the firm's external environment, while the second model is concerned primarily with the firm's internal organization. After discussing vision and mission, direction-setting statements that influence the choice and use of strategies, we describe the stakeholders that organizations serve. The degree to which stakeholders' needs can be met increases when firms achieve strategic competitiveness and earn above-average returns. Closing the chapter are introductions to strategic leaders and the elements of the strategic management process.

1-1 The Competitive Landscape

The fundamental nature of competition in many of the world's industries is changing. Although financial capital is no longer scarce due to the deep recession, markets are increasingly volatile.[19] Because of this, the pace of change is relentless and ever-increasing. Even determining the boundaries of an industry has become challenging. Consider, for example, how advances in interactive computer networks and telecommunications have blurred the boundaries of the entertainment industry. Today, not only do cable companies and satellite networks compete for entertainment revenue from television, but telecommunication companies are moving into the entertainment business through significant improvements in fiber-optic lines.[20] More recently, internet only streaming services have started to compete with cable, satellite, and telecommunication offerings. "Sling TV is part of a growing wave of offerings expected from tech, telecom and media companies in the coming year, posing a threat to the established television business, which takes in $170 billion a year. Meanwhile, the streaming outlets of Amazon, Hulu and Netflix continue to pour resources into developing more robust offerings. Sony, CBS, HBO and others are starting Internet-only subscription offerings."[21] Interestingly, Netflix and other streaming content providers such as Amazon are producing their own content; Netflix is producing repeat series such as "House of Cards," "Orange Is the New Black," and "Marco Polo".[22] As noted in the opening case, Alibaba intends to enter the entertainment business as Netflix and other content distributors and producers enter international markets.

Other characteristics of the current competitive landscape are noteworthy. Conventional sources of competitive advantage such as economies of scale and huge advertising budgets are not as effective as they once were (e.g., due to social media advertising) in terms of helping firms earn above-average returns. Moreover, the traditional managerial mind-set is unlikely to lead a firm to strategic competitiveness. Managers must adopt a new mind-set that values flexibility, speed, innovation, integration, and the challenges that evolve from constantly changing conditions.[23] The conditions of the competitive landscape result in a perilous business world, one in which the investments that are required to compete on a global scale are enormous and the consequences of failure are severe.[24] Effective use of the strategic management process reduces the likelihood of failure for firms as they encounter the conditions of today's competitive landscape.

Hypercompetition describes competition that is excessive such that it creates inherent instability and necessitates constant disruptive change for firms in the competitive landscape.[25] Hypercompetition results from the dynamics of strategic maneuvering among global and innovative combatants.[26] It is a condition of rapidly escalating competition based on price-quality positioning, competition to create new know-how and establish first-mover advantage, and competition to protect or invade established product or geographic markets.[27] In a hypercompetitive market, firms often aggressively challenge their competitors in the hopes of improving their competitive position and ultimately their performance.[28]

Hypercompetition describes competition that is excessive such that it creates inherent instability and necessitates constant disruptive change for firms in the competitive landscape.

Several factors create hypercompetitive environments and influence the nature of the current competitive landscape. The emergence of a global economy and technology, specifically rapid technological change, are the two primary drivers of hypercompetitive environments and the nature of today's competitive landscape.

1-1a The Global Economy

A **global economy** is one in which goods, services, people, skills, and ideas move freely across geographic borders. Relatively unfettered by artificial constraints, such as tariffs, the global economy significantly expands and complicates a firm's competitive environment.[29]

Interesting opportunities and challenges are associated with the emergence of the global economy.[30] For example, the European Union (a group of European countries that participates in the world economy as one economic unit and operates under one official currency, the euro) has become one of the world's largest markets, with 700 million potential customers. "In the past, China was generally seen as a low-competition market and a low-cost producer. Today, China is an extremely competitive market in which local market-seeking multinational corporations (MNCs) must fiercely compete against other MNCs and against those local companies that are more cost effective and faster in product development. While China has been viewed as a country from which to source low-cost goods, lately, many MNCs such as Procter & Gamble (P&G), are actually net exporters of local management talent; they have been dispatching more Chinese abroad than bringing foreign expatriates to China."[31] China has become the second-largest economy in the world, surpassing Japan. India, the world's largest democracy, has an economy that also is growing rapidly and now ranks as the fourth largest in the world.[32] Simultaneously, many firms in these emerging economies are moving into international markets and are now regarded as MNCs. This fact is demonstrated by the case of Huawei Technologies Co. Ltd., a Chinese company that has entered the U.S. market. Barriers to entering foreign markets still exist and Huawei has encountered several, such as the inability to gain the U.S. government's approval for acquisition of U.S. firms. Essentially, Huawei must build credibility in the U.S. market, and especially build a positive relationship with stakeholders such as the U.S. government.

The nature of the global economy reflects the realities of a hypercompetitive business environment and challenges individual firms to seriously evaluate the markets in which they will compete. This is reflected in General Motor's actions and outcomes. General Motors sold 3.54 million vehicles in China while selling less in North America, 3.4 million.[33] One result of China being the largest domestic sales market is the increased competition GM now experiences in China from other competitors.

Consider the case of General Electric (GE). Although headquartered in the United States, GE expects that as much as 60 percent of its revenue growth through 2015 will be generated by competing in rapidly developing economies (e.g., China and India). The decision to count on revenue growth in emerging economies instead of in developed countries such as the United States and in Europe seems quite reasonable in the global economy. GE achieved significant growth in 2010 partly because of signing contracts for large infrastructure projects in China and Russia. GE's Chief Executive Officer (CEO), Jeffrey Immelt, argues that we have entered a new economic era in which the global economy will be more volatile and that most of the growth will come from emerging economies such as Brazil, China, and India.[34] Therefore, GE is investing significantly in these emerging economies, in order to improve its competitive position in vital geographic sources of revenue and profitability.

A **global economy** is one in which goods, services, people, skills, and ideas move freely across geographic borders.

For example, Netflix, a subscription media streaming-video service provider, has seen its growth slow domestically. In the fourth quarter of 2014, Netflix added 1.9 million domestic U.S. streaming subscribers, which was down from 2.3 million in the fourth period a year earlier. However, Netflix was able to add 4.3 streaming customers overall because foreign markets grew faster than expected. When this was announced, its stock price increased 16 percent in after-hours trading. Netflix plans to expand to over 200 countries by 2017, up from its current 50 countries, while likewise seeking to stay profitable. Reed Hastings, Netflix's CEO, was encouraged by profitable results in Canada, Nordic countries, and Latin American countries. This group turned profitable notwithstanding the significant investment necessary to bring streaming services to these countries. In the first part of 2015, the company expects to add Australia and New Zealand and is exploring entering the Chinese market as well. Overall, Netflix added over 2.43 million subscribers outside of the United States, which exceed its expectation of 2.15 million subscribers. Besides international expansion, Netflix is adding a significant number of original shows including "House of Cards," "Orange Is the New Black," and "Marco Polo." It finds that this original content costs less given viewer support compared to licensed content from major studios. This proprietary content as well as its expansion of licensing has lured customers away from cable and satellite TV providers. Its superior technology in providing precisely what consumers want and when they want it provides a domestic advantage which will carry over into its international expansion push (see Chapter 8 Opening Case for an expansion on Netflix's international strategy).[35]

M4OS Photos / Alamy

Along with its international push, Netflix has expanded its ability to allow content to be viewed on many devices (including mobile devices) beside regular TVs, as is shown in the photo.

The March of Globalization

Globalization is the increasing economic interdependence among countries and their organizations as reflected in the flow of goods and services, financial capital, and knowledge across country borders.[36] Globalization is a product of a large number of firms competing against one another in an increasing number of global economies.

In globalized markets and industries, financial capital might be obtained in one national market and used to buy raw materials in another. Manufacturing equipment bought from a third national market can then be used to produce products that are sold in yet a fourth market. Thus, globalization increases the range of opportunities for companies competing in the current competitive landscape.[37]

Firms engaging in globalization of their operations must make culturally sensitive decisions when using the strategic management process, as is the case in Starbucks' operations in European countries. Additionally, highly globalized firms must anticipate ever-increasing complexity in their operations as goods, services, people, and so forth move freely across geographic borders and throughout different economic markets.

Overall, it is important to note that globalization has led to higher performance standards in many competitive dimensions, including those of quality, cost, productivity, product introduction time, and operational efficiency. In addition to firms competing in the global economy, these standards affect firms competing on a domestic-only basis. The reason that customers will purchase from a global competitor rather than a domestic firm is that the global company's good or service is superior. Workers now flow rather freely among global economies, and employees are a key source of competitive advantage.[38]