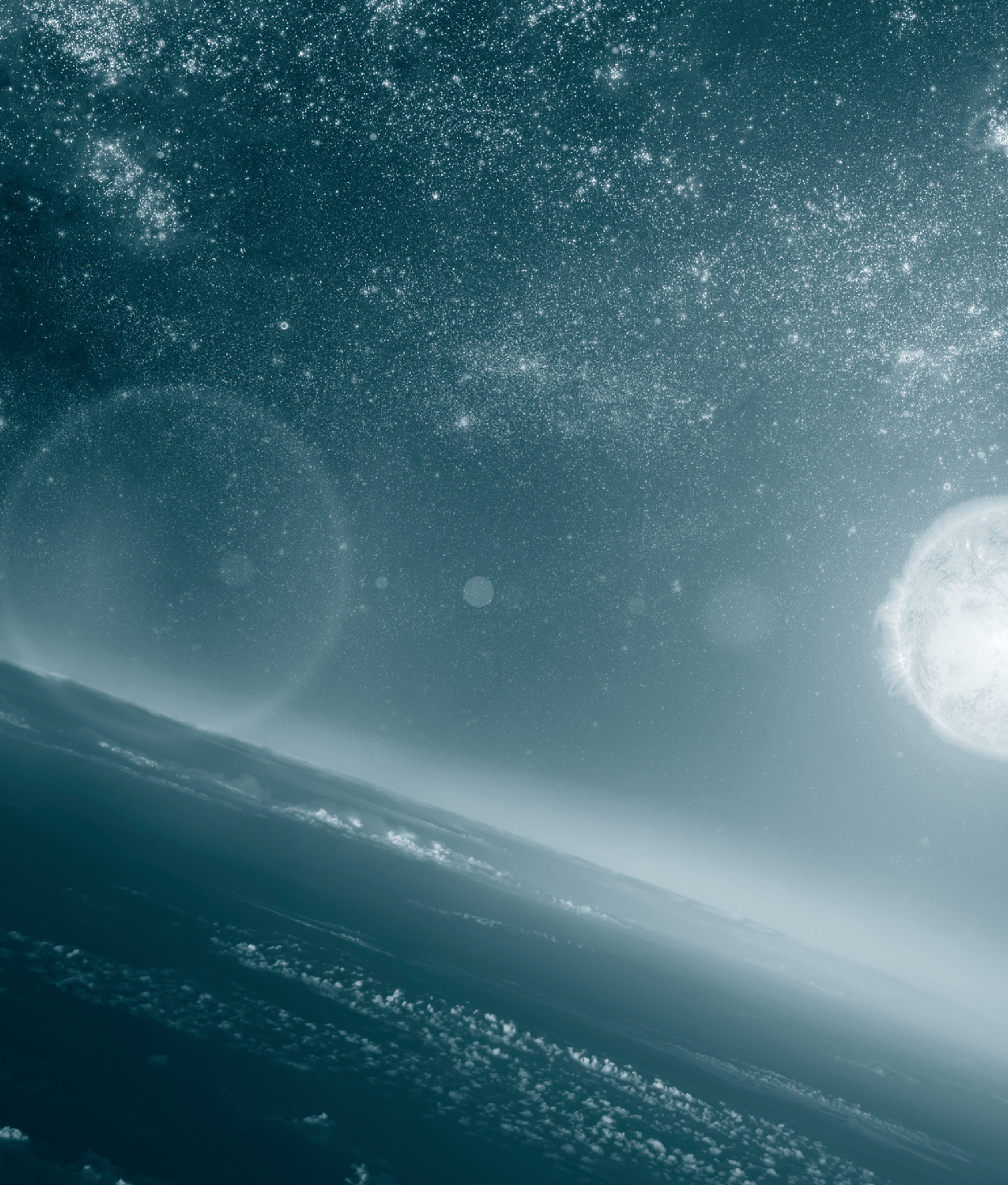
STRATEGIC MANAGEMENT

COMPETITIVENESS AND GLOBALISATION

7TH ASIA-PACIFIC EDITION

HANSON | BACKHOUSE | LEANEY
HITT | IRELAND | HOSKISSON



STRATEGIC MANAGEMENT

COMPETITIVENESS AND GLOBALISATION

7TH ASIA-PACIFIC EDITION

HANSON | BACKHOUSE | LEANEY
HITT | IRELAND | HOSKISSON

CENGAGE

Strategic Management: Competitiveness and Globalisation
7th Edition
Dallas Hanson
Kim Backhouse
David Leaney
Michael A. Hitt
R. Duane Ireland
Robert E. Hoskisson

Head of content management: Dorothy Chiu
Content manager: Rachael Pictor
Content developer: Talia Lewis
Senior project editor: Nathan Katz
Cover designer: Cengage Creative Studio
Text designer: Alba Design: Rina Gargano
Permissions/Photo researcher: Wendy Duncan
Editor: Anne Mulvaney
Proofreader: James Anderson
Indexer: Max McMaster
Art direction: Linda Davidson
Cover: Sun in Space (by cookelma) via Canva.com
Typeset by KnowledgeWorks Global Ltd.

Any URLs contained in this publication were checked for currency during the production process. Note, however, that the publisher cannot vouch for the ongoing currency of URLs.

Adaptation of *Strategic Management: Competitiveness and Globalization*, 13th edition by Michael A. Hitt, R. Duane Irelane and Robert F. Hoskisson [9780357033838], Cengage Learning, 2015.

This seventh edition published in 2022.

For product information and technology assistance,
in Australia call **1300 790 853**;
in New Zealand call **0800 449 725**

For permission to use material from this text or product, please email **aust.permissions@cengage.com**

National Library of Australia Cataloguing-in-Publication Data
ISBN: 9780170451116
A catalogue record for this book is available from the National Library of Australia.

Cengage Learning Australia
Level 7, 80 Dorcas Street
South Melbourne, Victoria Australia 3205

Cengage Learning New Zealand
Unit 4B Rosedale Office Park
331 Rosedale Road, Albany, North Shore 0632, NZ

For learning solutions, visit **cengage.com.au**

Printed in China by 1010 Printing International Limited.
1 2 3 4 5 6 7 25 24 23 22 21

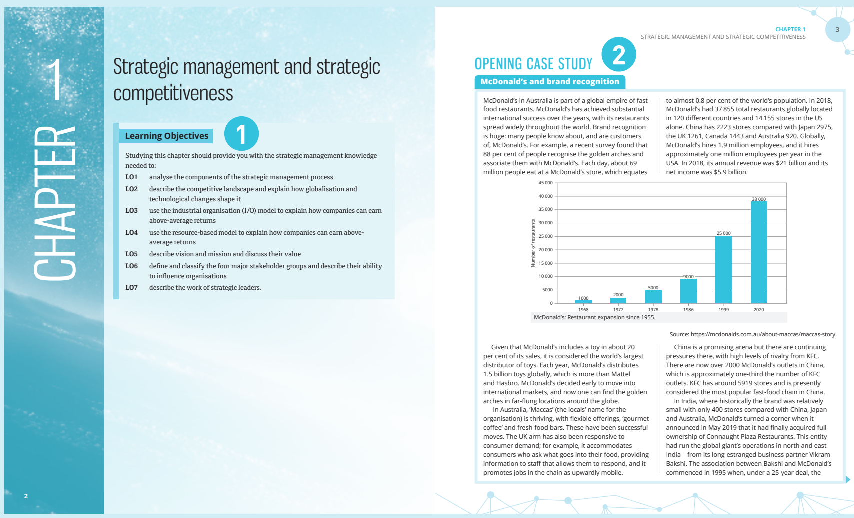
BRIEF CONTENTS

CONTENTS

Guide to the text

As you read this text you will find a number of features in every chapter to enhance your study of strategic management and help you understand how the theory is applied in the real world.

CHAPTER-OPENING FEATURES



1 Knowledge objectives
Identify the key concepts that the chapter will cover with the learning objectives that start each chapter.

2 Opening Case study
Gain an insight into how strategic management theories relate to the real world through the case study at the beginning of each chapter.

FEATURES WITHIN CHAPTERS

KEY TERMS WITH MARGIN DEFINITIONS

Definitions or explanations of important key terms are located in the margin for quick reference.

strategic management process
the full set of commitments, decisions and actions required for an organisation to achieve strategic competitiveness and earn above-average returns

STRATEGIC FOCUS BOXES

Examine the ways in which key concepts are applied in a business context, using real situations and familiar local and international companies. The Strategic Focus boxes are categorised to emphasise the focus: general, ethics, technology, sustainability and globalisation.

STRATEGY NOW

Strategy Now margin icons highlight companies that have effectively put a strategic management tool, concept or technique into practice.

STRATEGY NOW
Apple's drive to innovate

Increasing knowledge intensity
Knowledge (information, intelligence and expertise) is the basis of technology and its application. In the competitive landscape of the 21st century, knowledge is a critical organisational resource and an increasingly valuable source of competitive advantage.[75]
Indeed, starting in the 1980s, the basis of competition shifted from hard assets to intangible resources; for example, 'Walmart transformed retailing through its proprietary

END-OF-CHAPTER FEATURES

At the end of each chapter you'll find several tools to help you to review, practise and extend your knowledge of the key learning objectives.

SUMMARY

LO1 The organisation's external environment is challenging and complex. The external environment has three major parts: the general environment (elements in the broader society that affect industries and their organisations), the industry environment (factors that influence an organisation, its competitive actions and responses, and the industry's profit potential) and the competitor environment (in which the organisation analyses each major competitor's future objectives, current strategies, assumptions and capabilities).

LO2 The external environmental analysis process has four steps: scanning, monitoring, forecasting and assessing. Through environmental analyses, the organisation identifies opportunities and threats.

model of competition comprises the threat of entry, the power of suppliers, the power of buyers, product substitutes and the intensity of rivalry among competitors. By studying these forces, the organisation can find a position in an industry where it can influence the forces in its favour or where it can buffer itself against the power of the forces in order to achieve strategic competitiveness and earn above-average returns.

LO5 Industries are populated with different strategic groups. A strategic group is a collection of organisations following similar strategies along similar dimensions. Competitive rivalry is greater within a strategic group than between strategic groups.

Summary
The end-of-chapter summary lists key points from the chapter, providing a snapshot of the important concepts covered.

KEY TERMS

competitor intelligence	general environment	opportunity	sociocultural segment
complementors	global segment	physical environment segment	strategic group
demographic segment	industry	political/legal segment	technological segment
economic environment	industry environment		threat

Key terms
Review the important terminology from the chapter margin with the **Key terms** list.

REVIEW QUESTIONS

1. Why is it important for an organisation to study and understand the external environment?
2. What are the differences between the general environment and the industry environment? Why are these differences important?
3. What are the four steps in the external environmental analysis process? What does the organisation want to learn when using this process?
4. What are the seven segments of the general environment? Explain the differences among them. Is any segment more important than another?
5. How do the five forces of competition in an industry affect its profit potential? Explain.
6. What is the importance of collecting and interpreting data and information about competitors? What practices should an organisation use to gather competitor intelligence, and why?

Review questions
These questions promote the application and critical analysis of theories and practices as well as encourage group discussion.

EXPERIENTIAL EXERCISES

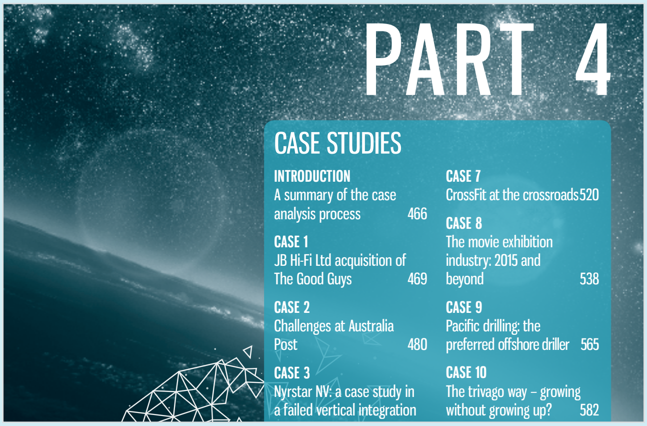
Exercise 1: Strategic group mapping
If a given set of organisations emphasise similar strategic dimensions and use a similar strategy, these organisations can be said to reside in the same strategic group. Other common definitions of strategic groups typically argue that the organisations in a given industry follow similar strategies, such as pricing, degree of specialisation, research and development commitment and the like. It is also likely that organisations operating in a given industry may have very different profitability profiles, which raises the question: if one organisation is the most profitable, why don't all the others in that industry attempt to move into the same

5. What conclusions can you reach about why some organisations end up where they do among various strategic groups?

Exercise 2: What does the future look like?
A critical ingredient in studying the general environment is identifying opportunities and threats. An opportunity is a condition in the environment that, if exploited, helps a company to achieve strategic competitiveness. In order to identify opportunities, you must be aware of trends that affect the world around us now or that are projected to do so in the future.

Experiential exercises
These exercises emphasise applied learning, giving students the opportunity to put knowledge into practice.

END-OF-BOOK FEATURES



Case Studies
Apply the case analyses process to in-depth case studies. Thirteen case studies are provided to demonstrate theory in practice.

Each case includes a Case Link identifying the relevant chapters where key concepts explored in the book.

Guide to the online resources

FOR THE INSTRUCTOR

Cengage is pleased to provide you with a selection of resources that will help you prepare your lectures. These teaching tools are accessible via **cengage.com.au/instructors** for Australia or **cengage.co.nz/instructors** for New Zealand.

MINDTAP

Premium online teaching and learning tools are available on the *MindTap* platform – the personalised eLearning solution.

MindTap is a flexible and easy-to-use platform that helps build student confidence and gives you a clear picture of their progress. We partner with you to ease the transition to digital – we're with you every step of the way.

The *Cengage Mobile App* puts your course directly into students' hands with course materials available on their smartphone or tablet. Students can read on the go, complete practice quizzes or participate in interactive real-time activities.

MindTap for Hanson's *Strategic Management* is full of innovative resources to support critical thinking, and help your students move from memorisation to mastery! Includes:

- Hanson's *Strategic Management* eBook
- 'What would you do?' polling questions
- Video Cases
- 'You make the decision' simulation activities.

MindTap is a premium purchasable eLearning tool. Contact your Cengage learning consultant to find out how MindTap can transform your course.

CENGAGE | MINDTAP

INSTRUCTOR'S MANUAL

The **Instructor's Manual** includes:

- knowledge objectives
- chapter outlines
- lecture notes
- answers to review questions
- instructor's notes for experiential exercises
- instructor's notes for MindTap including What Would You Do?, You Make the Decision and Video Cases.
- additional questions and exercises.

CASE STUDY RESOURCES

Case notes for each of the end-of-book case studies, a case analysis rubric and case matrix allow instructors to assign case studies for analysis. Cases and case notes from the previous editions are also available.

TEST BANK

A bank of questions has been developed in conjunction with the text for creating quizzes, tests and exams for your students. Create multiple test versions in an instant and deliver tests from your LMS, your classroom, or wherever you want using Cognero. Cognero test generator is a flexible online system that allows you to import, edit and manipulate content from the text's test bank or elsewhere, including your own favourite test questions.

POWERPOINT™ PRESENTATIONS

Use the chapter-by-chapter PowerPoint presentations to enhance your lecture presentations and handouts to reinforce the key principles of your subject.

ARTWORK FROM THE TEXT

Add the digital files of graphs, pictures and flowcharts into your course management system, use them in student handouts, or copy them into your lecture presentations.

FOR THE STUDENT

MINDTAP

MindTap is the next-level online learning tool that helps you get better grades!

MindTap gives you the resources you need to study – all in one place and available when you need them. In the *MindTap Reader*, you can make notes, highlight text and even find a definition directly from the page.
If your instructor has chosen *MindTap* for your subject this semester, log in to *MindTap* to:

- Get better grades
- Save time and get organised
- Connect with your instructor and peers
- Study when and where you want, online and mobile
- Complete assessment tasks as set by your instructor.

When your instructor creates a course using *MindTap*, they will let you know your course key so you can access the content. Please purchase *MindTap* only when directed by your instructor. Course length is set by your instructor.

CENGAGE | MINDTAP

PREFACE

This new seventh Asia–Pacific edition of *Strategic Management: Competitiveness and Globalisation* has been updated to include new material and cases from Australia, New Zealand and the Asia–Pacific region. It continues to integrate 'cutting edge' research and content from the US authors Hitt, Ireland and Hoskisson.

Features

- Australian and Asia–Pacific material in all chapters
- chapter opening cases and 'Strategic focus' segments
- organisation-specific examples that are integrated with each chapter's topic
- inclusion of public sector and community organisation examples
- substantial emphasis on use of the internet and e-commerce
- substantial emphasis on corporate governance
- coverage of strategic issues in the 21st-century competitive landscape, including a strong emphasis on the competition created through e-commerce ventures *and* start-ups
- global coverage with an emphasis on the international context
- new and current research integrated throughout the chapters' conceptual presentations
- review questions, including application discussion questions and ethics questions at the end of each chapter
- experiential exercises
- a summary of the case analysis process.

The book emphasises a global outlook with comprehensive coverage of Australian and international concepts and issues. The book contains a wealth of references. Drawn from the business literature and academic research, these materials are used to present current and accurate descriptions of how organisations use the strategic management process. Our goal while preparing this book has been to present you, our readers, with a complete, accurate and up-to-date explanation of the strategic management process as it is used in the global economy. We have sought to include enough local content to stimulate interest, and enough international content to reflect the nature of current strategic management.

The book's focus

This book is intended for use primarily in strategic management and business policy courses. The materials presented in the 13 chapters have been researched thoroughly. Both the academic, scholarly literature and the business, practitioner literature were studied and then integrated to prepare this edition. The academic literature provides the foundation to develop an accurate yet meaningful description of the strategic management process. The business practitioner literature yields a rich base of current domestic and global examples to show how the strategic management process's concepts, tools and techniques are applied in different organisations.

Our discussion of the strategic management process is both traditional and contemporary. In maintaining tradition, we examine important materials that have historically been a part of understanding strategic management. For example, we thoroughly examine how to analyse an organisation's external environment and internal environment.

The strategic advantage

The strategic management process is critical to organisational success. As described in Chapter 1, strategic competitiveness is achieved when an organisation develops and exploits a sustained competitive advantage. Attaining such an advantage results in the earning of above-average returns; that is, returns that exceed those an investor could expect from other investments with similar amounts of risk.

The competitive advantage

Success in the 21st-century competitive landscape requires specific capabilities, including the abilities to:

1 use scarce resources wisely to maintain the lowest possible costs
2 constantly anticipate frequent changes in customers' preferences
3 adapt to rapid technological changes
4 identify, emphasise and effectively manage what an organisation does better than its competitors
5 continuously structure an organisation's operations so objectives can be achieved more efficiently
6 successfully manage and gain commitments from a culturally diverse workforce.

The global advantage

Critical to the approach used in this text is the fact that all organisations face increasing global competition. Organisations no longer operate in relatively safe domestic markets, as Australian supermarkets have discovered. In the past, many companies produced large quantities of standardised products. Today, organisations typically compete in a global economy that is complex, highly uncertain and unpredictable. To a greater degree than in a primarily domestic economy, the global economy rewards effective performers, whereas poor performers are forced to restructure significantly to enhance their strategic competitiveness. As noted earlier, increasing globalisation and the technological revolution have produced a new competitive landscape in the 21st century. This landscape presents a challenging and complex environment for organisations, but one that also has opportunities. The importance of developing and using these capabilities should not be underestimated.

Final comment

Organisations face exciting and dynamic competitive challenges in the 21st century. These challenges, and effective responses to them, are explored in *Strategic Management: Competitiveness and Globalisation*. The strategic management process conceptualised in this text offers valuable insights and knowledge to those committed to meeting successfully the challenge of dynamic competition. Thinking strategically – as this book challenges you to do – increases the likelihood that you will assist your organisation to achieve strategic success. In addition, continuous practice with strategic thinking and the use of the strategic management process gives you skills and knowledge that will contribute to career advancement and success. Finally, we want to wish you all the best and nothing other than complete success in all of your endeavours.

Dallas Hanson
Hobart

ABOUT THE AUTHORS

Dallas Hanson

Dallas Hanson lectured in strategic management at the University of Tasmania for many years. He has wide-ranging intellectual (and scholastic) interests, including brand management, tourism, green strategy and governance. He has won teaching awards for his work in strategy and enjoys the challenge of making strategy interesting and engaging. He now advises as a strategy consultant, which continually reminds him that organisation politics matter in the world of strategy, while logic does not always win in the process of strategy implementation.

Kim Backhouse

Kim Backhouse has lectured in strategic management, law and other business units for the past two decades in the Faculty of Business and Faculty of Law at the University of Tasmania. Kim has also facilitated units in legal and risk for the Australian Institute of Company Directors and runs short courses on governance through the Law School at the University of Tasmania. Kim is passionate about research and teaching in strategic management and governance and enjoyed being part of Dr Hanson's teaching team in strategy for many years. Dr Backhouse has published in a variety of journals on governance and corporate social responsibility. She has won teaching awards for many years for her work in strategy and organisational behaviour. Dr Backhouse also works in part-time executive roles outside of the academic landscape and consults regularly to boards on complex governance issues. Kim has a current practising certificate from the Law Society of Tasmania, Fellow of the Governance Institute of Australia and is a current board member of the Governance Institute of Australia (Tas). Kim currently sits on several not-for-profit boards such as ACHAT and has been sitting on various boards for the past two decades.

David Leaney

David Leaney lectures in strategic management at post-graduate level at the Australian National University (ANU) and the Australian Graduate School of Management (AGSM) at the University of NSW. He also lectures in marketing and global supply chain management at post-graduate and under-graduate levels. David brings a practitioner's perspective, fuelled by his work as a management consultant and his role as the Managing Director of Strategium – an IT and business strategy consultancy. David is the chair of several private company boards in professional services and technology, and advises clients in the public sector, defence, utilities, banking and the retail sector. He is sought as a facilitator for executive workshops and the development of corporate strategy and organisational change management. David is a Fellow of the Institute of Managers and Leaders (FIML) and a Certified Management Consultant (CMC).

Michael A. Hitt

Texas A&M University

Michael A. Hitt is a Distinguished Professor and holds the Joe B. Foster Chair in Business Leadership at Texas A&M University. He received his PhD from the University of Colorado and has more than 260 publications, including 26 co-authored or co-edited books. He has been recognised as one of the 10 most cited scholars in management over a 25-year period in an article published in the 2008 volume of the *Journal of Management*. He is co-editor of numerous management, organisation, strategy and development books and has served on the editorial review boards of multiple journals, including the *Academy of Management Journal*, *Academy of Management Executive*, *Journal of Applied Psychology*, *Journal of Management*, *Journal of World Business and Journal of Applied Behavioral Sciences*.

In addition, Professor Hitt has served as Consulting Editor and Editor of the *Academy of Management Journal* and is currently a co-editor of the *Strategic Entrepreneurship Journal*. He is the current past president of the Strategic Management Society, is a past president of the Academy of Management and is a Fellow in the Academy of Management and in the Strategic Management Society. He received an honorary doctorate from the Universidad Carlos III de Madrid and is an Honorary Professor and Honorary Dean at Xi'an Jiao Tong University. He has received the Irwin Outstanding Educator Award and the Distinguished Service Award from the Academy of Management and has received best paper awards for articles published in the *Academy of Management Journal*, *Academy of Management Executive* and *Journal of Management*.

R. Duane Ireland
University of Richmond

R. Duane Ireland is a Distinguished Professor and holds the Conn Chair in New Ventures Leadership at the Mays Business School, Texas A&M University, where he previously served as head of the management department. He teaches strategic management courses to undergraduate, masters, doctoral and executive students and has more than 175 publications, including more than a dozen books. His research on diversification, corporate entrepreneurship and strategic entrepreneurship has been published in *Academy of Management Journal*, *Academy of Management Executive*, *Strategic Management Journal*, *Journal of Management*, *Strategic Entrepreneurship Journal*, *Entrepreneurship Theory and Practice* and *Journal of Management Studies*, among others. He has served on editorial review boards for the *Academy of Management Journal*, *Journal of Management*, *Journal of Business Venturing*, *Journal of Business Strategy* and *European Management Journal.* He is current editor of the *Academy of Management Journal* and has completed editorial terms for *Academy of Management Journal*, *Academy of Management Executive* and *Entrepreneurship Theory and Practice.* He has co-edited special issues of *Academy of Management Review*, *Academy of Management Executive*, *Journal of Business Venturing* and *Organizational Research Methods.*

Professor Ireland has received awards for the best article published in *Academy of Management Executive* and *Academy of Management Journal*. He is a Fellow of the Academy of Management and 21st Century Entrepreneurship Research Scholar, and served a three-year term as Representative-at-Large for the Academy of Management's Board of Governors. He received the Award for Outstanding Intellectual Contributions to Competitiveness Research from the American Society for Competitiveness and the USASBE Scholar in Corporate Entrepreneurship Award.

Robert E. Hoskisson
The University of Oklahoma

Robert E. Hoskisson is the George R. Brown Chair of Strategic Management at the Jesse H. Jones Graduate School of Business, Rice University. He received his PhD from the University of California-Irvine. Dr Hoskisson's 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. Dr Hoskisson's research has appeared in more than 120 publications, including the *Academy of Management Journal*, *Strategic Management Journal*, *Journal of Management*, *Journal of International Business Studies*, *Journal of Management Studies* and the *Academy of Management Executive*. He has co-authored 26 books, including recent books on business strategic and competitive advantage, and is currently Associate Editor of the *Strategic Management Journal* and Consulting Editor for the *Journal of International Business Studies*. He also serves on the Editorial Review board for the *Academy of Management Journal*. Professor Hoskisson has served on editorial boards for the *Academy of Management Journal*, *Journal of Management*, *Journal of Management Studies* and *Entrepreneurship Theory and Practice*, among others. He is Special Professor at the University of Nottingham and Honorary Professor at Xi'an Jiao Tong University.

Professor Hoskisson is also a Fellow of the Strategic Management Society and has received awards from the American Society for Competitiveness and the Marriott School of Management, Brigham Young University. He completed three years of service as Representative-at-Large for the Board of Governors of the Academy of Management and currently serves on the Board of Directors of the Strategic Management Society.

ACKNOWLEDGEMENTS

To my wonderful wife Meg for supporting me in consulting full-time, running three companies, teaching at two universities, and adding a textbook to my list of additional interests.

David Leaney

This has been a long journey and a heartfelt thanks to my children who have patiently waited on the sidelines for me to complete my part and who forfeited many weekends with their mother, in pursuit of academic excellence. I would like to thank Dallas Hanson for his continued support of my academic career and to my dear friends who have supported me from afar: Dr Kevin Radecki (USA) and Fran Scherrer (Spain). I hope you enjoy this edition.

Kim Backhouse

Cengage would also like to thank Greg Zooeff and Francis Hartnett for contributing new case studies to this edition, and would also like to thank the following reviewers for their incisive and helpful feedback:

- Nguyen Viet Ngo – Australian National University
- Elisa Backer – Federation University Australia
- Gary Mankelow – University of Newcastle
- David Robinson – Holmes Institute
- Fiona Hurd – Auckland University of Technology
- Harsha Sarvaiya – Griffith University
- Austin Norman – Victoria University
- Ralitza Bell – Australian Catholic University, North Sydney
- Lisa Daniel – University of the Sunshine Coast
- Stuart Middleton – University of Queensland
- Georges Baume – University of Adelaide.

PART 1

STRATEGIC MANAGEMENT INPUTS

CHAPTER 1

Strategic management and strategic competitiveness

Learning Objectives

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

LO1 analyse the components of the strategic management process

LO2 describe the competitive landscape and explain how globalisation and technological changes shape it

LO3 use the industrial organisation (I/O) model to explain how companies can earn above-average returns

LO4 use the resource-based model to explain how companies can earn above-average returns

LO5 describe vision and mission and discuss their value

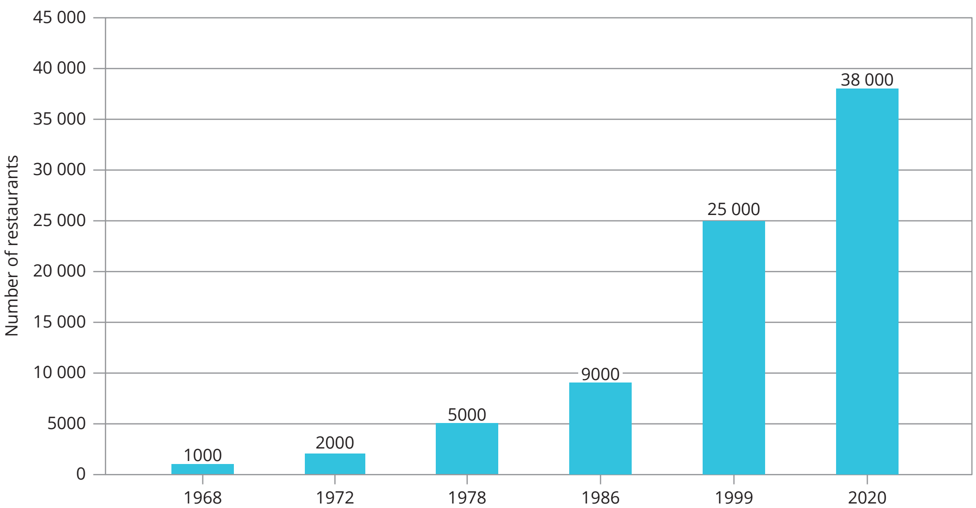
LO6 define and classify the four major stakeholder groups and describe their ability to influence organisations

LO7 describe the work of strategic leaders.

OPENING CASE STUDY

McDonald's and brand recognition

McDonald's in Australia is part of a global empire of fast-food restaurants. McDonald's has achieved substantial international success over the years, with its restaurants spread widely throughout the world. Brand recognition is huge: many people know about, and are customers of, McDonald's. For example, a recent survey found that 88 per cent of people recognise the golden arches and associate them with McDonald's. Each day, about 69 million people eat at a McDonald's store, which equates to almost 0.8 per cent of the world's population. In 2018, McDonald's had 37 855 total restaurants globally, located in 120 different countries and 14 155 stores in the US alone. China has 2223 stores compared with Japan 2975, the UK 1261, Canada 1443 and Australia 920. Globally, McDonald's hires 1.9 million employees, and it hires approximately one million employees per year in the USA. In 2018, its annual revenue was $21 billion and its net income was $5.9 billion.



McDonald's: Restaurant expansion since 1955.

Source: https://mcdonalds.com.au/about-maccas/maccas-story.

Given that McDonald's includes a toy in about 20 per cent of its sales, it is considered the world's largest distributor of toys. Each year, McDonald's distributes 1.5 billion toys globally, which is more than Mattel and Hasbro. McDonald's decided early to move into international markets, and now one can find the golden arches in far-flung locations around the globe.

In Australia, 'Maccas' (the locals' name for the organisation) is thriving, with flexible offerings, 'gourmet coffee' and fresh-food bars. These have been successful moves. The UK arm has also been responsive to consumer demand; for example, it accommodates consumers who ask what goes into their food, providing information to staff that allows them to respond, and it promotes jobs in the chain as upwardly mobile.

China is a promising arena but there are continuing pressures there, with high levels of rivalry from KFC. There are now over 2000 McDonald's outlets in China, which is approximately one-third the number of KFC outlets. KFC has around 5919 stores and is presently considered the most popular fast-food chain in China.

In India, where historically the brand was relatively small with only 400 stores compared with China, Japan and Australia, McDonald's turned a corner when it announced in May 2019 that it had finally acquired full ownership of Connaught Plaza Restaurants. This entity had run the global giant's operations in north and east India – from its long-estranged business partner Vikram Bakshi. The association between Bakshi and McDonald's commenced in 1995 when, under a 25-year deal, the two partners formed a 50:50 joint venture company – Connaught Plaza Restaurant – to set up outlets in the north and the east under the franchisee model. To date, McDonald's has two business entities in India. Amit Jatia's Hardcastle Restaurants runs the McDonald's business in southern and western India. McDonald's India is committed to sourcing almost all of its products from within the country. For this purpose, it has developed local Indian businesses, which can supply the highest-quality products required for its Indian operations.

The McDonald's empire is obviously difficult to control and constantly presents country-specific challenges. Clever strategy is important for its continued survival and, for the company, hopefully, its growth post the Covid-19 pandemic.

Sources: C. Smith, 2020, 50 interesting McDonald's statistics and facts 2020, DMR Business Statistics, https://expandedramblings.com/index.php/mcdonalds-statistics, 28 May; R. Darling, 2019, Thanks to the Happy Meal, McDonald's is the largest toy manufacturer, http://www.considerable.com, 6 November; 2019, KFC is most popular food chain in China, http://www.businessinsider.com, 8 March; *The Economic Times*, 2019, Vikram Bakshi is finally out, and McDonald's India is lovin' it, ET Online, https://economictimes.indiatimes.com/industry/services/hotels-/-restaurants/vikram-bakshi-is-finally-out-and-mcdonalds-india-is-lovin-it/articleshow/69309704.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst, 14 May; T. DiChristopher, 2015, McDonald's new CEO faces many problems, CNBC, http://www.cnbc.com/2015/01/29/how-mcdonalds-new-ceo-can-turn-around-the-company.html, 29 January; FT Reporters, 2015, McDonald's and its challenges worldwide: A market-by-market look, *Financial Times*, http://www.ft.com/intl/cms/s/0/f8ac22fc-a7c1-11e4-8e78-00144feab7de.html#slide0, 29 January.

As we can see from the opening case, McDonald's organisations in Australia, the UK, China, India, Japan and the USA are all in different competitive positions. Therefore, we can conclude that they are not equally competitive (i.e. they are unable to achieve similar strategic competitiveness). In the USA, the organisation is now using the strategic management process (see Figure 1.1) as the foundation for changes to the commitments, decisions and actions it undertook to pursue strategic competitiveness and above-average terms. It may well succeed, given time.[1]

The strategic management process

As explained in the opening case, McDonald's is trying to enrich its traditional approach globally with more marketing and by making its stores more responsive to local consumers' needs. A study conducted to identify the factors that contribute to the success of top corporate performers shows why the organisation is doing this. This study found that the top performers were entrepreneurial, were market oriented (possessing effective knowledge of the customers' needs), used valuable competencies and offered innovative products and services.[2]

strategic management process
the full set of commitments, decisions and actions required for an organisation to achieve strategic competitiveness and earn above-average returns

strategic competitiveness
achieved when an organisation successfully formulates and implements a value-creating strategy

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

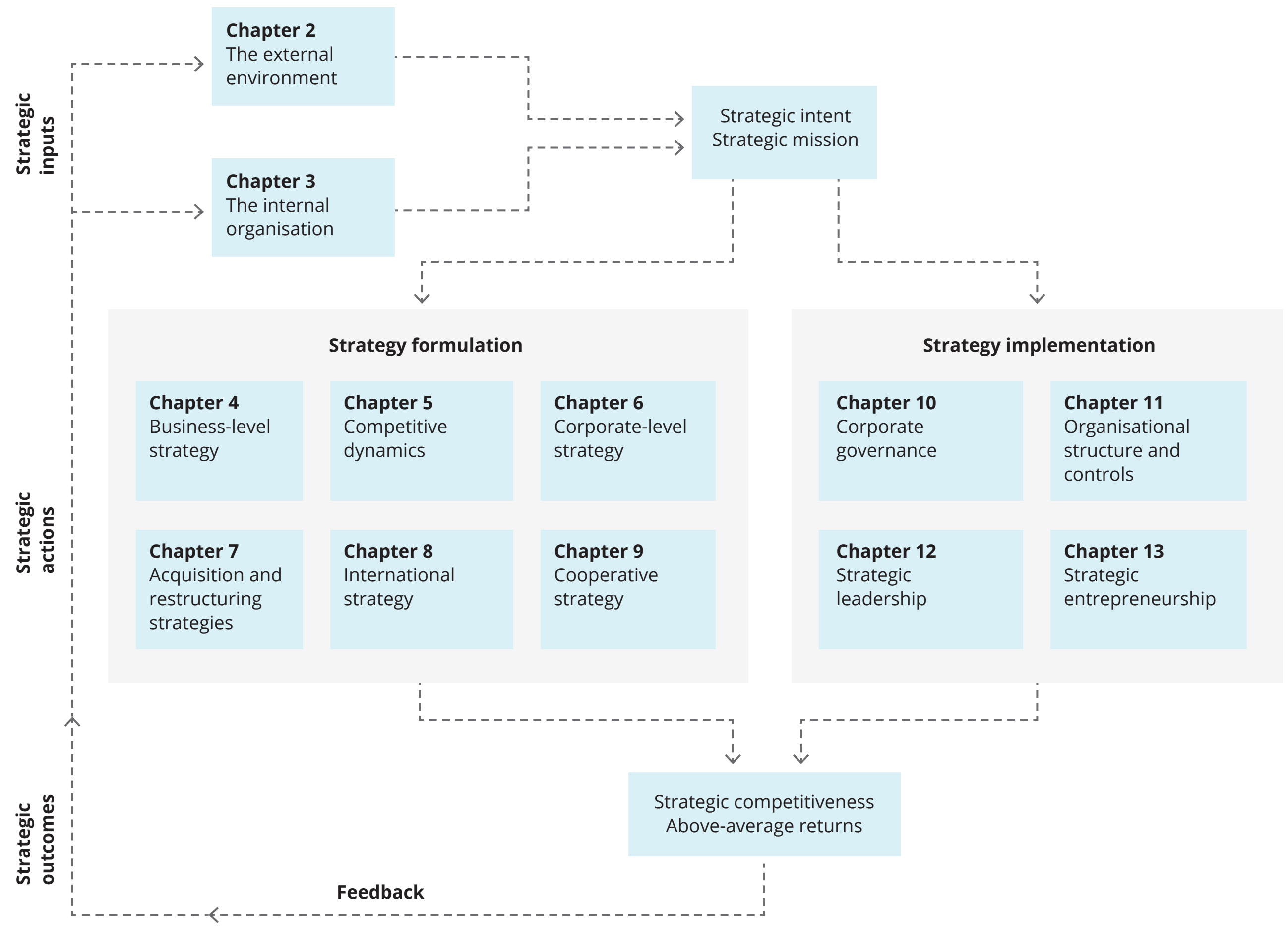
The types of behaviours exhibited by top performers like McDonald's represent a **strategic management process** (see Figure 1.1), which is a full set of commitments, decisions and actions required for an organisation to achieve strategic competitiveness and earn above-average returns. The organisation's first step in the process is to analyse its external environment and internal organisation to determine its resources, capabilities and core competencies – the sources of its 'strategic inputs'. We will now analyse each of the different components of the strategic management process.

Strategic competitiveness is achieved when an organisation 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, organisations make choices among competing alternatives as the pathway for deciding how they will pursue strategic competitiveness.[3]

In this sense, the chosen strategy indicates what the organisation will do as well as what the organisation will not do. An organisation's strategy also demonstrates how it differs from its competitors.

An organisation 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.[4] An organisation 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, an organisation must understand that no competitive advantage is permanent, and this was witnessed in 2020 during the Covid-19 pandemic.[5] The speed with which competitors are able to acquire the skills needed to duplicate

Figure 1.1 The strategic management process



the benefits of an organisation's value-creating strategy determines how long the competitive advantage will last.[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.[7] The most successful organisations learn how to effectively manage risk. Effectively managing risks reduces investors' uncertainty about the results of their investment.[8] 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). In smaller, new venture organisations, returns are sometimes measured in terms of the amount and speed of growth (e.g. in annual sales) rather than more traditional profitability measures[9] because new ventures require time to earn acceptable returns (in the form of return on assets and so forth) on investors' investments.[10]

Understanding how to exploit a competitive advantage is important for organisations seeking to earn above-average returns.[11] Organisations without a competitive advantage or that are not competing in an

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

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

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

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. Failure occurs because investors withdraw their investments from those organisations earning less-than-average returns. As we noted above, there are no guarantees of permanent success. Even considering its excellent current performance, McDonald's still must be careful not to become overconfident, and continue its quest to be the leader in its markets.

With the information gained from external and internal analyses, the organisation develops its vision and mission and formulates one or more strategies. To implement its strategies, the organisation takes actions towards achieving strategic competitiveness and above-average returns. Effective strategic actions that take place in the context of carefully integrated strategy formulation and implementation efforts result in positive outcomes. This dynamic strategic management process must be maintained as ever-changing markets and competitive structures are coordinated with an organisation's continuously evolving strategic inputs.[12]

In the remaining chapters of this book, we use the strategic management process to explain what organisations do to achieve strategic competitiveness and earn above-average returns. These explanations demonstrate why some organisations consistently achieve competitive success while others fail to do so.[13] As you will see, the reality of global competition is a critical part of the strategic management process and significantly influences organisations' performances.[14] Indeed, learning how to successfully compete in the globalised world is one of the most significant challenges for organisations competing in the 21st century.[15]

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

Several topics are discussed in this chapter. First, we describe the current competitive landscape. This challenging landscape has been created primarily by the emergence of a **global economy**, globalisation resulting from that economy, rapid technological changes and the Covid-19 pandemic. Next, we examine two models that organisations 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 organisation's vision and mission. The first model (the industrial organisation or I/O model) suggests that the external environment is the primary determinant of an organisation's strategic actions. Identifying and then competing successfully in an attractive (i.e. profitable) industry or segment of an industry are the keys to competitive success when using this model.[16] The second model (resource based) suggests that an organisation's unique resources and capabilities are the critical link to strategic competitiveness.[17] Thus, the first model is concerned primarily with the organisation's external environment, while the second model is concerned primarily with the organisation's internal environment. After discussing vision and mission, direction-setting statements that influence the choice and use of strategies, we describe the stakeholders that organisations serve. The degree to which stakeholders' needs can be met increases when organisations achieve strategic competitiveness and earn above-average returns. Closing the chapter are introductions to strategic leaders and the elements of the strategic management process.

For ease, this book is divided into three parts. In Part 1, we describe what organisations do to analyse their external environment (Chapter 2) and internal organisation (Chapter 3). These analyses are completed to identify marketplace opportunities and threats in the external environment (Chapter 2), and to decide how to use the resources, capabilities, core competencies and competitive advantages in the organisation's internal organisation to pursue opportunities and overcome threats (Chapter 3). The analyses explained in Chapters 2 and 3 comprise the well-known SWOT analyses (strengths, weaknesses, opportunities and threats).[18] (In our analysis, the important 'strengths' concept is made more sophisticated by using the ideas of capabilities and core competencies.) With knowledge about its external environment and internal organisation, the organisation forms its strategy considering the organisation's vision and mission.

The organisation's strategic inputs (see Figure 1.1) provide the foundation for choosing one or more strategies and deciding how to implement them. As suggested in Figure 1.1 by the horizontal arrow linking the two types of strategic actions, formulation and implementation must be simultaneously integrated to successfully use the strategic management process. Integration happens as decision makers think about implementation issues when choosing strategies and as they think about possible changes to the organisation's strategies while implementing a currently chosen strategy.

In Part 2 of this book, we discuss the different strategies organisations may choose to use. First, we examine business-level strategies (Chapter 4). A business-level strategy describes the actions an organisation takes to exploit its competitive advantage over rivals. A company competing in a single product market (e.g. a locally owned grocery store operating in only one location) has one business-level strategy, while a diversified organisation competing in multiple product markets forms a business-level strategy for each of its businesses. In Chapter 5, we describe the actions and reactions that occur among organisations in marketplace competition. Competitors typically respond to and try to anticipate each other's actions. The dynamics of competition affect the strategies organisations choose, as well as how they try to implement the chosen strategies.[19]

For the diversified organisation, corporate-level strategy (Chapter 6) is concerned with determining the businesses in which the company intends to compete as well as how to manage its different businesses. Other topics vital to strategy formulation, particularly in the diversified company, include acquiring other businesses and, as appropriate, restructuring the organisation's portfolio of businesses (Chapter 7) and selecting an international strategy (Chapter 8). With cooperative strategies (Chapter 9), organisations form a partnership to share their resources and capabilities in order to develop a competitive advantage. Cooperative strategies are becoming increasingly important as organisations seek ways to compete in the global economy's array of different markets.[20]

To examine actions taken to implement strategies, we consider several topics in Part 3. First, we examine the different mechanisms used to govern organisations (Chapter 10). With demands for improved corporate governance being voiced by many stakeholders in the current business environment, organisations are challenged to learn how to simultaneously satisfy their stakeholders' different interests.[21] Finally, the organisational structure and actions needed to control an organisation's operations (Chapter 11), the patterns of strategic leadership appropriate for today's organisations and competitive environments (Chapter 12), and strategic entrepreneurship (Chapter 13) as a path to continuous innovation are addressed.

The competitive landscape

The fundamental nature of competition in many of the world's industries is changing. The reality is that financial capital continues to be scarce and markets are increasingly volatile.[22] Because of this, the pace of change is relentless and ever-increasing. Even determining the boundaries of an industry has become challenging.

Managers must adopt a new mindset 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 organisations as they encounter the conditions of today's competitive landscape.

Hypercompetition is a term often used to capture the realities of the competitive landscape. Under conditions of hypercompetition, assumptions of market stability are replaced by notions of inherent instability and change.[25] Hypercompetition results from the dynamics of strategic manoeuvring among global and innovative combatants. In a hypercompetitive market, organisations often aggressively challenge their competitors in the hopes of improving their competitive position and, ultimately, their performance.[26] In recent years, internet giant Tencent Holdings Ltd of China has become one of the world's largest technology investors. Between 2013 and mid-2018, the organisation took stakes in 277 start-ups. Analysts believe this is a calculated strategy to crowd out rivals and to increase profits.[27]

hypercompetition
a condition where competitors engage in intense rivalry, markets change quickly and often, and entry barriers are low

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

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 an organisation's competitive environment.[28] The global economy is under pressure, weighed down by trade tensions, inequality and geopolitical uncertainty. The world is at an economic 'tipping point' according to the 2019 *Global Competiveness Report* 'amid a backlash against capitalism and globalization'.[29]

Interesting opportunities and challenges are associated with the emergence of the global economy.[30] For example, the European Union (EU; composed of 27 countries after the UK exited the EU in 2020) has become one of the world's largest markets, with 700 million potential customers, while China has rapidly become a huge market that was pursued by many organisations prior to the Covid-19 pandemic. Notwithstanding, China remains an extremely competitive market in which local market-seeking multinational corporations (MNCs) must fiercely compete against other MNCs, as well as 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, 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]

The size of parts of the global economy is an important aspect of studying this competitive landscape. In 2019, for example, the USA was the world's largest economy at a value of US$21 trillion. It accounts for approximately 20 per cent of global output; the economy is still larger than that of China;[32] and the services sectors in the USA are technologically sophisticated. China is the world's second-largest economy, with a nominal gross domestic product (GDP) value of US$9.2 trillion, while Japan in 2019 was ranked the third-largest global economy at US$5.2 trillion. Following Japan were Germany at US$4.2 trillion and the UK at US$3.2 trillion. These were closely followed by India, which overtook the French economy in 2018, and looks set to move into fifth position in 2021–22. In observing economies' values in 2018, the World Economic Forum noted that the size of the USA's economy was 'larger than the combined economies of numbers four to 10 on the list. Overall, the global economy (was) worth an estimated $79.98 trillion, meaning the United States in 2018 accounted for more than one-quarter of the world total'.[33] Thus, organisations scanning the global economy for opportunities in 2021 might conclude that markets in the USA, China and Japan yield potentially significant opportunities for them.

Of course, such an analysis also must consider entry barriers to various economies in the form of tariffs. This type of analysis must also be forward-looking in that the World Economic Forum has estimated that the economies of China and India would exceed the size of the US economy by 2050 and that the economies of Germany, the UK and France would decline in size by this time as well. Organisations should study carefully future forecasts when determining the parts of the world in which growth opportunities, as well as threats to their competitive global positions, may exist in the next decade. US-based Netflix, for example, studies the global economy to identify opportunities in countries and regions in which it may grow. In mid-2018, Netflix continued adding subscribers, reaching 125 million globally. Analysts predicted the organisation would have 360 million subscribers by 2030, and that international markets would be the source of much of the growth in subscribers.[34] Informing this prediction was the expectation that Netflix would achieve reasonable levels of market penetration internationally, including reaching penetration in 35 per cent of all broadband households worldwide, excluding China.[35] In 2018 alone, the organisation allocated $8 billion to develop original programming, with some of those programs targeted to international customers.[36] Netflix was one of the rare organisations that continued to grow during the Covid-19 pandemic, adding

15.8 million subscribers between March and April 2020, more than double the amount that was predicted and representing a huge growth of over 22 per cent during the 12-month period to 2020. Netflix also saw a quarterly revenue of US$5.76 billion in 2020.[37] According to market research organisation HarrisX, Netflix is a long way ahead of its competitors; however, the organisation is mindful that there are challenges ahead, as noted in a recent article: ‘when you’re number one, it’s always difficult to grow as fast as your competitors or whoever’s trailing you’.[38]

India, one of the world’s largest democracies, has an economy that also is growing rapidly and now ranks as the fifth largest in the world, and it has a very fast-growing population.[39] Simultaneously, many organisations in emerging economies are moving into international markets and are now regarded as multinational organisations. Barriers to entering foreign markets still exist. The statistics detailing the nature of the global economy reflect the realities of a hypercompetitive business environment and challenge individual organisations to think seriously about the markets in which they will compete; the case of Netflix is a good example.

Starbucks is a new economy multinational yet has had failures in key markets

Strategic focus | Globalisation

Starbucks is not an ordinary supplier of a cup of coffee. It is a large and innovative multinational organisation that engages in major strategic actions to enter new international and product markets (e.g. acquisitions). It is a multibillion-dollar organisation with many stores operating in multiple countries. Starbucks surpassed its goal set to have at least 12 500 stores in the USA by 2015 to 15 149 US locations in 2020. Starbucks was the largest global coffeehouse company in 2019 with 31 256 stores across the globe. Starbucks has become a major player in Asian markets, which is interesting because it took on a largely ingrained tea-drinking culture. Starbucks had 1026 stores operating in China in 2015, 1540 in 2017 (which was the expected store numbers for 2015), and in 2019 there were 4123 Starbuck stores in China, with 629 newly opened stores and 27 closures – a major increase over its 3000 stores since 2015. Starbucks adapted to local market tastes by developing larger stores where, for example, people can lounge and meet with friends. It has products that cater to tea drinkers as well. China ranked second in front of Japan, which had a total of 1286 locations in 2019, and Starbucks generated more than US$16 billion in the region.

Starbucks has also entered Vietnam and India with high expectations. In 2013 it opened its first store in Vietnam, although in 2019 it had only 46 stores there. Interestingly, Vietnam is the second-largest producer of coffee beans in the world, behind Brazil. Starbucks works with local Vietnamese farmers to grow a high-quality Arabica coffee bean. In partnership with the Tata Group, Starbucks also opened its first stores in India, with plans to expand rapidly there, and in 2019 it had 132 stores in India, three times that of Vietnam.

In contrast, in Australia the scorecard has been extremely poor. CNBC reported that while the Australian café industry was expected to reach more than A$6 billion in revenue in 2018, in its first seven years in Australia, Starbucks accumulated A$105 million in losses and 61 locations were forced to close. Starbucks referred to its efforts in the country as a ‘huge flop’. Starbucks entered the market hard in 2000 and had 84 stores at its peak. The problems were obvious from the start. The organisation charged more than competitors, had stores in low-traffic locations and, basically, the well-established coffee culture of Australia was better than the Starbucks offerings. Melbourne-style coffee is arguably the world’s best and Starbucks could not compete on taste in an already thriving coffee culture, which proved to be a huge challenge for the US brand. Starbucks has not given up just yet, and in 2021 there were 55 locations (more than Vietnam) in Australia. With slow growth forecasts into the future, its Australian goal is to focus more on international tourists that recognise this global brand.

The experience of Starbucks in Europe has been more mixed. It has had some success, but has also encountered another different set of coffee cultures. At first, it tried to encourage Europeans to adapt to the Starbucks approach, but this strategy failed. Now, because of the importance Starbucks places on