

.|>I.\*Q

twelfth edition

# Strategic Management

CONCEPTS

**Fred R. David**

FRANCIS MARION UNIVERSITY  
FLORENCE, SOUTH CAROLINA

• HOCHSCHULE  
• LIECHTENSTEIN  
BIWlothek

**PEARSON**

**Prentice  
Hall**

PEARSON EDUCATION

# Contents

*Preface xi*

*Special Note to Students xix*

*Acknowledgments xxi*

*Users of the Eleventh Edition xxv*

*About the Author xxvii*

## 1 .

### **Overview of Strategic Management 2**

#### **Chapter 1**

#### **The Nature of Strategic Management 2**

##### **What Is Strategic Management? 4**

Defining Strategic Management 4 • Stages of Strategic Management 5 • Integrating Intuition and Analysis 6 • Adapting to Change 7

##### **Key Terms in Strategic Management 7**

Competitive Advantage 7 • Strategists 10 • Vision and Mission Statements 11 • External Opportunities and Threats 11 • Internal Strengths and Weaknesses 12 • Long-Term Objectives 12 • D Strategies 12 • Annual Objectives 13 • Policies 13

##### **The Strategic-Management Model 13**

##### **Benefits of Strategic Management 15**

Financial Benefits 16 • Nonfinancial Benefits 16

Why Some Firms Do No Strategic Planning 17

Pitfalls in Strategic Planning 17

Guidelines for Effective Strategic Management 18

Business Ethics and Strategic Management 19

Comparing Business and Military Strategy 22

The Nature of Global Competition 23

Advantages and Disadvantages of International Operations 25

##### **COHESION CASE: WALT DISNEY COMPANY — 2008 30**

##### **EXPERIENTIAL EXERCISES 44**

Experiential Exercise 1A: Getting Familiar With Strategy Terms 44

Experiential Exercise 1B: Developing a Code of Business Ethics 44

Experiential Exercise 1C: The Ethics of Spying on Competitors 45

Experiential Exercise 1D: Strategic Planning for My University 45

Experiential Exercise 1E: Strategic Planning at a Local Company 46

Experiential Exercise 1F: Does My University Recruit in Foreign Countries? 46

Experiential Exercise 1G: Getting Familiar with SMCO 47

## **Part 2**

### **Strategy Formulation 48**

#### **Chapter 2**

#### **The Business Vision and Mission 48**

What Do We Want to Become? 50

**What Is Our Business? 51**

Vision versus Mission 53 • The Process of Developing Vision and Mission Statements 53

**Importance (Benefits) of Vision and Mission Statements 54**

A Resolution of Divergent Views 54

**Characteristics of a Mission Statement 56**

A Declaration of Attitude 56 D A Customer Orientation 58 D A Declaration of Social Policy 58

**Mission Statement Components 61**

**Writing and Evaluating Mission Statements 62**

**EXPERIENTIAL EXERCISES 66**

Experiential Exercise 2A: Evaluating Mission Statements 66

Experiential Exercise 2B: Evaluating Walt Disney's Vision and Mission Statement 67

Experiential Exercise 2C: Writing a Vision and Mission Statement for My University 67

Experiential Exercise 2D: Conducting Mission Statement Research 68

**Chapter 3**

**The External Assessment 70**

**The Nature of an External Audit 72**

Key External Forces 72 • The Process of Performing an External Audit 73

**The Industrial Organization (I/O) View 74**

**Economic Forces 74**

**Social, Cultural, Demographic, and Environmental Forces 76**

**Political, Governmental, and Legal Forces 77**

**Technological Forces 80**

**Competitive Forces 82**

Competitive Intelligence Programs 83 • Cooperation Among Competitors 85 • Market Commonality and Resource Similarity 86

**Competitive Analysis: Porter's Five-Forces Model 86**

Rivalry Among Competing Firms 88 • Potential Entry of New Competitors 88 • Potential Development of Substitute Products 88 • Bargaining Power of Suppliers 89 • Bargaining Power of Consumers 89

**Sources of External Information 90**

**Forecasting Tools and Techniques 90**

Making Assumptions 91

**The Global Challenge 91**

Multinational Corporations 92 • Globalization 93

**Industry Analysis: The External Factor Evaluation (EFE) Matrix 93**

**The Competitive Profile Matrix (CPM) 95**

**EXPERIENTIAL EXERCISES 99**

Experiential Exercise 3A: Developing an EFE Matrix for Walt Disney Company 99

Experiential Exercise 3B: The External Assessment 99

Experiential Exercise 3C: Developing an EFE Matrix for My University 100

Experiential Exercise 3D: Developing a Competitive Profile Matrix for Walt Disney Company 100

Experiential Exercise 3E: Developing a Competitive Profile Matrix for My University 100

**Chapter 4**

**The Internal Assessment 102**

**The Nature of an Internal Audit 104**

Key Internal Forces 104 P The Process of Performing an Internal Audit 105

**The Resource-Based View (RBV) 106****Integrating Strategy and Culture 107**

U.S. versus Foreign Cultures 109

**Management 111**

Planning 111    D Organizing 113    • Motivating 113    • Staffing 114    • Controlling 115    D  
Management Audit Checklist of Questions 115

**Marketing 116**

Customer Analysis 116    D Selling Products/Services 116    • Product and Service Planning 117    • Pricing  
117    • Distribution 118    • Marketing Research 118    • Opportunity Analysis 118    • Marketing Audit  
Checklist of Questions 119

**Finance/Accounting 119**

Finance/Accounting Functions 119    • Basic Types of Financial Ratios 120    D Finance/Accounting Audit  
Checklist 125    \*\*\*\_

**Production/Operations 126**

Production/Operations Audit Checklist 129

**Research and Development 129**

Internal and External R&D 129    • Research and Development Audit 130

**Management Information Systems 130**

Strategic-Planning Software 131    • Management Information Systems Audit 131

**Value Chain Analysis (VCA) 132**

Benchmarking 134

**The Internal Factor Evaluation (IFE) Matrix 134****EXPERIENTIAL EXERCISES 140**

Experiential Exercise 4A: Performing a Financial Ratio Analysis for Walt Disney Company 140

Experiential Exercise 4B: Constructing an IFE Matrix for Walt Disney Company 141

Experiential Exercise 4C: Constructing an IFE Matrix for My University 141

**Chapter 5****Strategies in Action 142****Long-Term Objectives 144**

The Nature of Long-Term Objectives 144    • Financial versus Strategic Objectives 145    • Not Managing  
by Objectives 145

**The Balanced Scorecard 146****Types of Strategies 146**

• Levels of Strategies 148

**Integration Strategies 148**

Forward Integration 149    D Backward Integration 150    D Horizontal Integration 150

**Intensive Strategies 151**

Market Penetration 151    O Market Development 151    • Product Development 152

**Diversification Strategies 152**

Related Diversification 153    D Unrelated Diversification 155

**Defensive Strategies 157**

Retrenchment 157    • Divestiture 158    • Liquidation 160

**Michael Porter's Five Generic Strategies 160**

Cost Leadership Strategies (Type 1 and Type 2) 161    D Differentiation Strategies (Type 3) 162    • Focus  
Strategies (Type 4 and Type 5) 163    • Strategies for Competing in Turbulent, High-Velocity Markets 164

**Means for Achieving Strategies 165**

Joint Venture/Partnering 165    • Merger/Acquisition 167    • Private-Equity Acquisitions 168    • First  
Mover Advantages 171    • Outsourcing 171

**Strategic Management in Nonprofit and Governmental Organizations 174**  
Educational Institutions 174 D Medical Organizations 174 D Governmental Agencies and  
Departments 175

**Strategic Management in Small Firms 175**

**EXPERIENTIAL EXERCISES 181**

Experiential Exercise 5A: What Strategies Should Walt Disney Pursue in 2008-2009? 181

Experiential Exercise 5B: Examining Strategy Articles 182

Experiential Exercise 5C: Classifying Some Year 2007 Strategies 182

Experiential Exercise 5D: How Risky Are Various Alternative Strategies? 183

Experiential Exercise 5E: Developing Alternative Strategies for My University 183

Experiential Exercise 5F: Lessons in Doing Business Globally 184

**Chapter 6**

**Strategy Analysis and Choice 186**                   '''

**The Nature of Strategy Analysis and Choice 188**

The Process of Generating and Selecting Strategies 190

**A Comprehensive Strategy-Formulation Framework 190**

**The Input Stage 191**

**The Matching Stage 191**

The Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix 192 • The Strategic Position and Action  
Evaluation (SPACE) Matrix 194 • The Boston Consulting Group (BCG) Matrix 197 D The Internal-External  
(IE) Matrix 201 • The Grand Strategy Matrix 204

**The Decision Stage 206**

The Quantitative Strategic Planning Matrix (QSPM) 206 • Positive Features and Limitations  
of the QSPM 209

**Cultural Aspects of Strategy Choice 210**

**The Politics of Strategy Choice 210**

**Governance Issues 211**

**EXPERIENTIAL EXERCISES 219**

Experiential Exercise 6A: Developing a SWOT Matrix for Walt Disney 219

Experiential Exercise 6B: Developing a SPACE Matrix for Walt Disney 219

Experiential Exercise 6C: Developing a BCG Matrix for Watt Disney 219

Experiential Exercise 6D: Developing a QSPM for Walt Disney 220

Experiential Exercise 6E: Formulating Individual Strategies 221

Experiential Exercise 6F: The Mach Test 221

Experiential Exercise 6G; Developing a BCG Matrix for My University 223

Experiential Exercise 6H: The Role of Boards of Directors 223

Experiential Exercise 6I: Locating Companies in a Grand Strategy Matrix 223

**Part 3**

**Strategy Implementation 226**

**Chapter 7**

**Implementing Strategies: Management and Operations Issues 226**

**The Nature of Strategy Implementation 228**

Management Perspectives 229

**Annual Objectives 230**

**Policies 232**

**Resource Allocation 233**

<b>Managing Conflict</b>	<b>234</b>	<b>ii</b>
<b>Matching Structure with Strategy</b>	<b>234</b>	
The Functional Structure	235	
The Divisional Structure	236	
The Strategic Business Unit (SBU) Structure	238	
The Matrix Structure	239	
Some Do's and Don'ts in Developing Organizational Charts	240	
<b>Restructuring, Reengineering, and E-Engineering</b>	<b>242</b>	
Restructuring	243	
Reengineering	244	
<b>Linking Performance and Pay to Strategies</b>	<b>244</b>	
<b>Managing Resistance to Change</b>	<b>246</b>	
<b>Managing the Natural Environment</b>	<b>248</b>	
<b>Creating a Strategy-Supportive Culture</b>	<b>250</b>	
The Mexican Culture	250	
The Japanese Culture	251	
<b>Production/Operations Concerns When Implementing Strategies</b>	<b>253</b>	
<b>Human Resource Concerns When Implementing Strategies</b>	<b>254</b>	<b>*</b>
Employee Stock Ownership Plans (ESOPs)	255	
Balancing Work Life and Home Life	256	
Benefits of a Diverse Workforce	257	
EXPERIENTIAL EXERCISES	262	
Experiential Exercise 7A: Revising Walt Disney's Organizational Chart	262	
Experiential Exercise 7B: Do Organizations Really Establish Objectives?	262	
Experiential Exercise 7C: Understanding My University's Culture	263	
<b>Chapter 8</b>		
<b>Implementing Strategies: Marketing, Finance/Accounting, R&amp;D, and MIS Issues</b>	<b>264</b>	
<b>The Nature of Strategy Implementation</b>	<b>266</b>	
Marketing Issues	266	
Market Segmentation	267	
Does the Internet Make Market Segmentation Easier?	270	
Product Positioning	270	
<b>Finance/Accounting Issues</b>	<b>272</b>	
Acquiring Capital to Implement Strategies	273	
Projected Financial Statements	278	
Projected Financial Statement Analysis for Mattel, Inc.	280	
Financial Budgets	283	
Evaluating the Worth of a Business	284	
Deciding Whether to Go Public	288	
<b>Research and Development (R&amp;D) Issues</b>	<b>288</b>	
<b>Management Information Systems (MIS) Issues</b>	<b>290</b>	
EXPERIENTIAL EXERCISES	293	
Experiential Exercise 8A: Developing a Product-Positioning Map for Walt Disney	293	
Experiential Exercise 8B: Performing an EPS/EBIT Analysis for Walt Disney	293	
Experiential Exercise 8C: Preparing Projected Financial Statements for Walt Disney	294	
Experiential Exercise 8D: Determining the Cash Value of Walt Disney	294	
Experiential Exercise 8E: Developing a Product-Positioning Map for My University	294	
Experiential Exercise 8F: Do Banks Require Projected Financial Statements?	295	
<b>Part 4</b>		
<b>Strategy Evaluation</b>	<b>296</b>	
<b>Chapter 9</b>		
<b>Strategy Review, Evaluation, and Control</b>	<b>296</b>	
<b>The Nature of Strategy Evaluation</b>	<b>298</b>	
The Process of Evaluating Strategies	301	
<b>A Strategy-Evaluation Framework</b>	<b>301</b>	
Reviewing Bases of Strategy	302	
Measuring Organizational Performance	304	
Taking Corrective Actions	305	

**The Balanced Scorecard 306**

**Published Sources of Strategy-Evaluation Information 306**

**Characteristics of an Effective Evaluation System 307**

**Contingency Planning 309**

**Auditing 311**

The Environmental Audit 312

**Twenty-First-Century Challenges in Strategic Management 312**

The Art or Science Issue 312 DThe Visible or Hidden Issue 314 DThe Top-Down or Bottom-Up Approach 315

**EXPERIENTIAL EXERCISES 318**

Experiential Exercise 9A: Preparing a Strategy-Evaluation Report for Walt Disney 318

Experiential Exercise 9B: Evaluating My University Strategies 319

Experiential Exercise 9C: Who Prepares an Environmental Audit? 319

**Part 5**

**Strategic Management Case Analysis 320**

**How to Prepare and Present a Case Analysis 320**

**What Is a Strategic-Management Case? 322**

**Guidelines for Preparing Case Analyses 322**

The Need for Practicality 322 D The Need for Justification 322 D The Need for Realism 322 DThe Need for Specificity 323 D The Need for Originality 323 D The Need to Contribute 323

**Preparing a Case for Class Discussion 323**

The Case Method versus Lecture Approach 323 DThe Cross-Examination 324

**Preparing a Written Case Analysis 324**

The Executive Summary 324 DThe Comprehensive Written Analysis 324 D Steps in Preparing a Comprehensive Written Analysis 325

**Making an Oral Presentation 325**

Organizing the Presentation 325 • Controlling Your Voice 326 D Managing Body Language 326 D Speaking from Notes 326 D Constructing Visual Aids 326 D Answering Questions 326 D Tips for Success in Case Analysis 327 D Content Tips 327 D Process Tips 328 D Sample Case Analysis Outline 329

**STEPS IN PRESENTING AN ORAL CASE ANALYSIS**

Oral Presentation-Step 1: Introduction (2 minutes) 330

Oral Presentation-Step 2: Mission/Vision (4 minutes) 330

Oral Presentation-Step 3: Internal Assessment (8 minutes) 330

Oral Presentation-Step 4: External Assessment (8 minutes) 330

Oral Presentation-Step 5: Strategy Formulation (14 minutes) 331

Oral Presentation-Step 6: Strategy Implementation (8 minutes) 331

Oral Presentation-Step 7: Strategy Evaluation (2 minutes) 331

Oral Presentation-Step 8: Conclusion (4 minutes) 331

*Name Index 332*

*Subject Index 334*