

PEARCE & ROBINSON

FORMULATION, IMPLEMENTATION, AND CONTROL OF  
**COMPETITIVE STRATEGY**  
NINTH EDITION

**BusinessWeek**



# Formulation, Implementation, and Control of Competitive Strategy

**GIFT OF THE ASIA FOUNDATION  
NOT FOR RE-SALE**

**QUÀ TẶNG CỦA QUỸ CHÂU Á  
KHÔNG ĐƯỢC BÁN LẠI**



Ninth Edition

**John A. Pearce II**

*College of Commerce and Finance  
Villanova University*

**Richard B. Robinson, Jr.**

*Moore School of Business  
University of South Carolina*

**McGraw-Hill  
Irwin**

Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco St. Louis  
Bangkok Bogotá Caracas Kuala Lumpur Lisbon London Madrid Mexico City  
Milan Montreal New Delhi Santiago Seoul Singapore Sydney Taipei Toronto





# FORMULATION, IMPLEMENTATION, AND CONTROL OF COMPETITIVE STRATEGY

Published by McGraw-Hill/Irwin, a business unit of The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, NY, 10020. Copyright © 2005, 2003, 2000, 1997, 1994, 1991, 1988, 1985, 1982 by The McGraw-Hill Companies, Inc. All rights reserved. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written consent of The McGraw-Hill Companies, Inc., including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

Some ancillaries, including electronic and print components, may not be available to customers outside the United States.

This book is printed on acid-free paper.

domestic 3 4 5 6 7 8 9 0 DOW/DOW 0 9 8 7 6 5  
international 1 2 3 4 5 6 7 8 9 0 DOW/DOW 0 9 8 7 6 5 4

ISBN 0-07-294688-1

**Vice president and editor-in-chief:** *Robin J. Zwettler*

**Editorial director:** *John E. Biernat*

**Senior sponsoring editor:** *Andy Winston*

**Development editor:** *Natalie Ruffatto*

**Marketing manager:** *Lisa Nicks*

**Lead producer, Media technology:** *Victoria Parker*

**Project manager:** *Marlena Pechan*

**Senior production supervisor:** *Sesha Bolisetty*

**Freelance design coordinator:** *Kami Carter*

**Supplement producer:** *Matthew Perry*

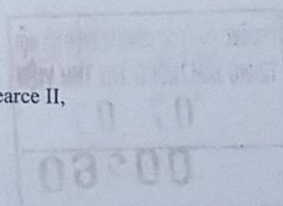
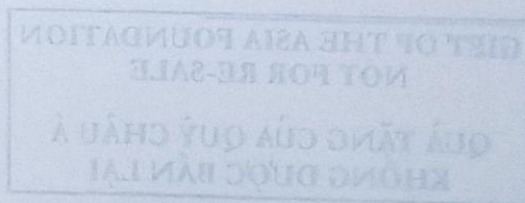
**Senior digital content specialist:** *Brian Nacik*

**Cover design:** *Kiera Pohl*

**Typeface:** *10/12 Times New Roman*

**Compositor:** *Carlisle Communications, Ltd.*

**Printer:** *R. R. Donnelley*



## Library of Congress Cataloging-in-Publication Data

Pearce, John A.

Formulation, implementation, and control of competitive strategy / John A. Pearce II,

Richard B. Robinson, Jr.—9th ed.

p. cm.

Includes index.

ISBN 0-07-294688-1 (alk. paper)

1. Strategic planning. 2. Strategic planning—Case studies. I. Robinson, Richard B. (Richard Braden), 1947-II. Title.

HD30.28.P3385 2005

658.4'01—dc22

2003065112

INTERNATIONAL EDITION ISBN 0-07-111174-3

Copyright © 2005. Exclusive rights by The McGraw-Hill Companies, Inc. for manufacture and export. This book cannot be re-exported from the country to which it is sold by McGraw-Hill. The International Edition is not available in North America.

www.mhhe.com



# Brief Contents

## PART ONE

### Overview of Strategic Management 1

- 1 Strategic Management 2

## PART TWO

### Strategy Formulation 23

- 2 Defining the Company Mission and Social Responsibility 25
- 3 The External Environment 77
- 4 The Global Environment: Strategic Considerations for Multinational Firms 119
- 5 Internal Analysis 147
- 6 Formulating Long-Term Objectives and Grand Strategies 190
- 7 Strategic Analysis and Choice in Single- or Dominant-Product Businesses: Building Sustainable Competitive Advantages 228

- 8 Strategic Analysis and Choice in the Multibusiness Company: Rationalizing Diversification and Building Shareholder Value 259

## PART THREE

### Strategy Implementation 285

- 9 Implementing Strategy through Short-Term Objectives, Functional Tactics, Reward System, and Employee Empowerment 287
- 10 Implementing Strategy: Structure, Leadership, and Culture 320
- 11 Strategic Control and Continuous Improvement 365



# Contents

## PART ONE

### OVERVIEW OF STRATEGIC MANAGEMENT 1

#### Chapter 1

#### Strategic Management 2

The Nature and Value of Strategic Management	3
<i>Dimensions of Strategic Decisions</i>	4
<i>Formality in Strategic Management</i>	9
<i>Benefits of Strategic Management</i>	10
<i>Risks of Strategic Management</i>	11
The Strategic Management Process	12
<i>Components of the Strategic Management Model</i>	12
<i>Strategic Management as a Process</i>	18
Summary	19
Questions for Discussion	19
Discussion Case: Kraft's Global Strategy: Can Kraft Be a Big Cheese Abroad?	21

## PART TWO

### STRATEGY FORMULATION 23

#### Chapter 2

#### Defining the Company's Mission and Social Responsibility 25

What Is a Company Mission?	26
<i>The Need for an Explicit Mission</i>	26
Formulating a Mission	26
<i>Basic Product or Service; Primary Market; Principal Technology</i>	29
<i>Company Goals: Survival, Growth, Profitability</i>	29
<i>Company Philosophy</i>	31
<i>Public Image</i>	32
<i>Company Self-Concept</i>	34
<i>Newest Trends in Mission Components</i>	35
<i>An Exemplary Mission Statement</i>	37
Boards of Directors	38
Sarbanes-Oxley Act of 2002	39
<i>The New Corporate Governance Structure</i>	42
Agency Theory	43
<i>How Agency Problems Occur</i>	43

<i>Problems That Can Result from Agency</i>	44
<i>Solutions to the Agency Problem</i>	45
The Stakeholder Approach to Social Responsibility	45
<i>The Dynamics of Social Responsibility</i>	45
A Continuum of Social Responsibility	48
<i>Corporate Social Responsibility and Profitability</i>	53
<i>CSR's Effect on the Mission Statement</i>	59
<i>Social Audit</i>	59
Management Ethics	60
<i>The Nature of Ethics in Business</i>	60
<i>Approaches to Questions of Ethics</i>	62
Summary	63
Questions for Discussion	63
Discussion Case: Inside a Chinese Sweatshop	65
Appendix 2: BB&T Vision, Mission, and Purpose	68

#### Chapter 3

#### The External Environment 77

Remote Environment	79
<i>Economic Factors</i>	79
<i>Social Factors</i>	79
<i>Political Factors</i>	81
<i>Technological Factors</i>	84
<i>Ecological Factors</i>	85
International Environment	89
Industry Environment	90
Overview	90
How Competitive Forces Shape Strategy	90
Contending Forces	91
<i>Threat of Entry</i>	92
<i>Powerful Suppliers</i>	94
<i>Powerful Buyers</i>	95
<i>Substitute Products</i>	96
<i>Jockeying for Position</i>	96
Industry Analysis and Competitive Analysis	97
<i>Industry Boundaries</i>	97
<i>Industry Structure</i>	99
<i>Competitive Analysis</i>	101
Operating Environment	102
<i>Competitive Position</i>	102
<i>Customer Profiles</i>	103



Suppliers	104
Creditors	105
Human Resources: Nature of the Labor Market	106
Emphasis on Environmental Factors	106
Summary	107
Questions for Discussion	110
Discussion Case: McDonald's Hamburger Hell	111
Appendix 3: Sources for Environmental Forecasting	115

## Chapter 4

### The Global Environment: Strategic Considerations for Multinational Firms 119

Development of a Global Corporation	120
Why Firms Globalize	122
Strategic Orientations of Global Firms	123
At the Start of Globalization	126
Complexity of the Global Environment	126
Control Problems of the Global Firm	127
Global Strategic Planning	129
Multidomestic Industries and Global Industries	129
The Global Challenge	131
Market Requirements and Product Characteristics	133
International Strategy Options	134
Competitive Strategies for Firms in Foreign Markets	135
Niche Market Exporting	135
Licensing/Contract Manufacturing	136
Franchising	137
Joint Ventures	137
Foreign Branching	138
Wholly Owned Subsidiaries	138
Summary	138
Questions for Discussion	139
Discussion Case: Planet Starbucks	140
Appendix 4: Components of the Multinational Environment	145

## Chapter 5

### Internal Analysis 147

Resource-Based View of the Firm	150
Three Basic Resources: Tangible Assets, Intangible Assets, and Organizational Capabilities	150
What Makes a Resource Valuable?	151
Using the Resource-Based View in Internal Analysis	156
Value Chain Analysis	159
Conducting a Value Chain Analysis	161

### SWOT Analysis 166

Opportunities	166
Threats	166
Strengths	167
Weaknesses	167
Internal Analysis: Making Meaningful Comparisons	169
Comparison with Past Performance	169
Stages of Industry Evolution	169
Benchmarking—Comparison with Competitors	172
Comparison with Success Factors in the Industry	172
Summary	174
Questions for Discussion	175
Discussion Case: Can Dunkin' KO Krispy?	176
Appendix 5: Using Financial Analysis	178

## Chapter 6

### Formulating Long-Term Objectives and Grand Strategies 190

Long-Term Objectives	191
Qualities of Long-Term Objectives	193
The Balanced Scorecard	194
Generic Strategies	195
The Value Disciplines	197
Operational Excellence	197
Customer Intimacy	198
Product Leadership	199
Grand Strategies	200
Concentrated Growth	200
Market Development	203
Product Development	206
Innovation	207
Horizontal Integration	208
Vertical Integration	209
Concentric Diversification	210
Conglomerate Diversification	210
Turnaround	212
Divestiture	213
Liquidation	214
Bankruptcy	215
Corporate Combinations	217
Joint Ventures	218
Strategic Alliances	218
Consortia, Keiretsus, and Chaebols	221
Selection of Long-Term Objectives and Grand Strategy Sets	221
Sequence of Objectives and Strategy Selection	222
Summary	223
Questions for Discussion	224
Discussion Case: Novartis	225



## Chapter 7

### Strategic Analysis and Choice in Single- or Dominant-Product Businesses: Building Sustainable Competitive Advantages 228

Evaluating and Choosing Business Strategies: Seeking Sustained Competitive Advantage 229

*Evaluating Cost Leadership Opportunities* 230

*Evaluating Differentiation Opportunities* 233

*Evaluating Speed as a Competitive Advantage* 236

*Evaluating Market Focus as a Way to Competitive Advantage* 238

Selected Industry Environments and Business Strategy Choices 240

*Competitive Advantage in Emerging Industries* 242

*Competitive Advantage in the Transition to Industry Maturity* 244

*Competitive Advantage in Mature and Declining Industries* 245

*Competitive Advantage in Fragmented Industries* 246

*Competitive Advantage in Global Industries* 247

Dominant Product/Service Businesses: Evaluating and Choosing to Diversify to Build Value 248

*Grand Strategy Selection Matrix* 248

*Model of Grand Strategy Clusters* 250

*Opportunities for Building Value as a Basis for Choosing Diversification or Integration* 252

Summary 252

Questions for Discussion 252

Discussion Case: The Samsung Way 254

## Chapter 8

### Strategic Analysis and Choice in the Multibusiness Company: Rationalizing Diversification and Building Shareholder Value 259

The Portfolio Approach 260

*The BCG Growth-Share Matrix* 260

*The Industry Attractiveness-Business Strength Matrix* 262

*The Life Cycle-Competitive Strength Matrix* 264

*BCG's Strategic Environments Matrix* 265

*Limitations of Portfolio Approaches* 266

The Synergy Approach: Leveraging Capabilities and Core Competencies 267

*Capitalize on Core Competencies* 270

*Each Core Competency Should Provide a Relevant Competitive Advantage to the Intended Business* 270  
*Businesses in the Portfolio Should be Related in Ways That Make the Core Competencies Beneficial* 272

*Any Combination of Competencies Must Be Unique or Difficult to Re-create* 272

Strategic Analysis and Choice in Multibusiness Companies: The Corporate Parent Role 273

*The Parenting Framework* 274

*The Patching Approach* 276

Summary 278

Questions for Discussion 278

Discussion Case: Quanta Group—Is Diversification Wise? 280

## PART THREE

### STRATEGY IMPLEMENTATION 285

## Chapter 9

### Implementing Strategy through Short-Term Objectives, Functional Tactics, Reward System, and Employee Empowerment 287

Short-Term Objectives 288

*Qualities of Effective Short-Term Objectives* 289

*The Value-Added Benefits of Short-Term Objectives and Action Plans* 292

Functional Tactics That Implement Business Strategies 293

*Differences between Business Strategies and Functional Tactics* 293

Empowering Operating Personnel: The Role of Policies 295

*Creating Policies That Empower* 297

Executive Bonus Compensation Plans 299

*Major Plan Types* 299

*Matching Bonus Plans and Corporate Goals* 305

Summary 308

Questions for Discussion 308

Discussion Cases: General Mills: Thinking Outside the Cereal Box; and Is Kohl's Becoming Unbuttoned? 309

Appendix 9: Functional Tactics 312

## Chapter 10

### Implementing Strategy: Structure, Leadership, and Culture 320

Structuring an Effective Organization 323

Organizational Leadership 339

*Strategic Leadership: Embracing Change* 339

*Recruiting and Developing Talented Operational Leadership* 343



Organizational Culture	345
Summary	352
Questions for Discussion	352
Discussion Case: P&G: New and Improved	353
Appendix 10: Primary Organizational Structures and Their Strategy-Related Pros and Cons	359

## Chapter 11

### Strategic Control and Continuous Improvement 365

Establishing Strategic Controls	366
Premise Control	366
Strategic Surveillance	368
Special Alert Control	368
Implementation Control	369

The Quality Imperative: Continuous Improvement to Build Customer Value	372
--	-----

Six-Sigma Approach to Continuous Improvement	376
ISO 9004 and the Era of International Standards	378
The Balanced Scorecard Methodology	383

Summary	386
Questions for Discussion	386
Discussion Cases: Strategic Control at Xerox under Ann Mulcahy's Watch; and The Web of Quality: Worldwide Links Mean Better Products	388

## Index I-1