Vice-President, Cross Media and Publishing Services: Gary Bennett

Credits and acknowledgments for material borrowed from other sources and reproduced, with permission, in this textbook appear on the appropriate page within the text.


If you purchased this book outside the United States or Canada, you should be aware that it has been imported without the approval of the publisher or the author.

Copyright © 2016 Pearson Canada Inc. All rights reserved. Manufactured in the United States of America. This publication is protected by copyright and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or likewise. To obtain permission(s) to use material from this work, please submit a written request to Pearson Canada Inc., Permissions Department, 26 Prince Andrew Place, Don Mills, Ontario, M3C 2T8, or fax your request to 416-447-3126, or submit a request to Permissions Requests at www.pearsoncanada.ca.

Library and Archives Canada Cataloguing in Publication

978-0-13337029-4
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1</td>
<td>A General Management Perspective</td>
<td>1</td>
</tr>
<tr>
<td>Chapter 2</td>
<td>Strategy</td>
<td>17</td>
</tr>
<tr>
<td>Chapter 3</td>
<td>The Diamond-E Framework</td>
<td>48</td>
</tr>
<tr>
<td>Chapter 4</td>
<td>Tools for Environment Analysis</td>
<td>62</td>
</tr>
<tr>
<td>Chapter 5</td>
<td>Environment Analysis: The Strategy–Environment Linkage</td>
<td>88</td>
</tr>
<tr>
<td>Chapter 8</td>
<td>Strategy and Organization</td>
<td>161</td>
</tr>
<tr>
<td>Chapter 9</td>
<td>Strategic Choice</td>
<td>193</td>
</tr>
<tr>
<td>Chapter 10</td>
<td>Implementing Strategy: Change Agenda and Starting Conditions</td>
<td>214</td>
</tr>
<tr>
<td>Chapter 11</td>
<td>Implementing Strategy: Guidelines and Action</td>
<td>238</td>
</tr>
<tr>
<td>Index</td>
<td></td>
<td>262</td>
</tr>
</tbody>
</table>
## Detailed Table of Contents

**Preface**  ix  
**Acknowledgments**  xii

### 1 A General Management Perspective  1  
- The Job of the General Manager  1  
- Assessing Performance  3  
- Using the Performance Matrix  5  
- Setting Direction: Vision, Mission, Values  6  
- Guiding Philosophy  8  
- Tangible Image  10  
- Reasonable Expectations of a Vision Process  10  
- Process Concerns  11  
- A Final Vision Check  12  
- From Vision, Mission, and Values to Strategy  13  
- Strategic Analysis, Planning, and Business Plans  13  

Summary  14  
Notes  14

### 2 Strategy  17  
- The Essentials of the Strategy Model  17  
- The Role of Strategy  18  
- Strategy in a Single Business  20  
- Goals  20  
- Goal Structures  22  
- Describing Goal Structures  22  
- Goals and Competitive Advantage  23  
- Product Market Focus  24  
- Describing Product Market Focus  25  
- Product Market Focus and Competitive Advantage  26  
- Value Proposition  26  
- Describing Value Propositions  27  
- The Value Proposition and Competitive Advantage  29  
- Core Activities  30  
- Describing Core Activities  31  
- Core Activities and Competitive Advantage  32  
- Putting the Strategy Components Together  33  
- Other Strategy Perspectives  35  
- Corporate Strategy  38  
- Describing Corporate Strategy  40  
- Corporate Strategy and Competitive Advantage  42  
- Corporate Strategy and Corporate General Management  43  

Summary  44  
Notes  45

### 3 The Diamond-E Framework  48  
- Introducing the Diamond-E Framework  48  
- The Criterion of Consistency  49  
- Consistency, Opportunity, and Risk  50  
- Strategy, Strategic Proposals, and Strategic Analysis  52  
- Using the Diamond-E Framework  53  
- The Strategy–Environment Linkage  53  
- The Strategy–Resources Linkage  54  
- The Strategy–Management Preferences Linkage  54  
- The Strategy–Organization Linkage  55  
- Strategic Tension  55  
- The Process of Strategic Analysis  56  
- Step 1: Base Case Analysis  57
Step 2: Strategy Formulation and Testing 59
Step 3: Decision and Execution 60

Summary 60
Notes 61

4 Tools for Environment Analysis 62
PEST 63
Porter’s Five Forces Model 64
Potential Entrants 64
Suppliers 66
Buyers 67
Substitute Products 68
Intensity of Competitive Rivalry 68
Industry and Organizational Value Chain Analysis 70
Cooperation and Competition:
  Game Theory 72
Math for Strategists 74
Scenario Planning 75
New Economy Models 76
Blue Ocean Strategy 78
Global Industry Models 79
Stakeholder Analysis 80

Summary: Comparing and Contrasting Industry Analysis Frameworks 84
Notes 85

5 Environment Analysis: The Strategy–Environment Linkage 88
Conducting Environment Analysis 88
Step 1: Focus the Environment Analysis 88
Performance Assessment as a Focusing Tool 90
The Strategic Proposal as a Focusing Tool 91
Jantzen Technologies: A Case Study 91
The Profit Model as a Focusing Tool 93
Defining the Right Time Horizon 95
Minimizing the Risks of Focus 96
Step 2: Test the Strategy–Environment Linkage 98
Demand 99
Supply 102
Competition 103
Government 105
First Check for Fit or Recycle 108
Step 3: Forecast Performance 109
Step 4: Rank against Other Proposals 110

Summary 110
Notes 111

The Nature of Resources 112
Other Characterizations of Resources 114
Resources and Competitive Advantage 116
The Dual Role of Resources 119
The Constraining Role of Resources 119
The Driving Role of Resources 120
Resource Analysis 120
Step 1: Identify Resource Requirements 123
Step 2: Test the Strategy–Resource Linkage 123
Recycling 126
Step 3: Develop Gap-Closing Analysis 126
Step 4: Move to the Next Step in the Diamond-E Analysis 128
Dynamic Resources 128
Resources and the Scope of the Firm 129

Summary 129
Notes 130

vi Detailed Table of Contents
Value Creation, Capture, and Distribution 132
Reconciling Stakeholder Interests 133
Corporate Governance 134
Corporate Social Responsibility 137
Management as a Key Stakeholder 138
Inconsistency between Proposed and Preferred Strategy 138
Inconsistency between Preferred Strategy and Other Realities 139
The Role of Management Preferences 140
The Roots of Strategic Preference 141
Personal Attributes 141
Character 142
Competencies 143
Job Context 146
Frozen Preference 147
Implications 149
Matching Preferences and Strategy 149
Step 1: Identify the Required Management Preferences 151
Step 2: Test the Strategy–Preferences Linkage 152
Step 3: Develop Gap-Closing Analysis 152
Framing the Gap-Closing Issues—Individual Managers 153
Gap-Closing Actions and Risks—Individual Managers 154
Framing the Gap-Closing Issues—Groups of Managers 155
Management Preferences and Competitive Analysis 157
Summary 158
Notes 159

8 Strategy and Organization 161
Organizational Capabilities 163
Behaviour 166
Culture 167
Step 1: Identify Required Organizational Capabilities 169
Step 2: Identify Capability Gaps 171
Step 3: Develop New Organizational Capabilities 172
Organization Structure 173
Functional Structure 173
Product Organization 175
Geographic Structure 176
Matrix 178
Cellular 178
Strategic Alliances 180
Choosing a Structure 181
Management Processes 182
Decision-Making Processes 182
Operating Processes 184
Performance Assessment and Reward Processes 185
Leadership Behaviour 186
Do You Have the Right Leaders? 187
Using All Three Leverage Points 188
Step 4: Assess Feasibility 188
Summary 190
Notes 191

9 Strategic Choice 193
Strategy as a Dynamic Process 194
Setting Direction 194
Focusing Effort 194
Defining the Organization 194
Providing Consistency 194
Strategy as Planning 196
Strategy as Learning 199
Cognitive Biases 200
Organizational Learning and Strategic Renewal 203
### Detailed Table of Contents

- **Reconciling the Tensions in Strategic Renewal** 205
- **Leadership for Strategic Renewal** 207
- **The Practical Matter of Strategic Choice at a Point of Time** 209

Summary 211
Notes 211

### 10 Implementing Strategy: Change Agenda and Starting Conditions 214

- **Types of Strategic Change** 215
  - Strategic Decline 216
  - Leadership Style 217
  - Implementing Strategic Change 218
- **The Change Plan** 219
- **Change Agenda** 220
- **Analysis of Starting Conditions** 220
- **Need for Change: The Crisis Curve** 221
- **Crisis Change** 223
- **Anticipatory Change** 225
- **Reactive Change** 227
- **Organizational Readiness for Change** 229
  - Target Group Identification 229
  - Target Group Readiness 230

- **Personal Readiness for Change** 232
  - The View From Below 234

Summary 235
Notes 235

### 11 Implementing Strategy: Guidelines and Action 238

- **Establishing Guidelines for Action** 238
  - Priority Objectives 238
  - Behavioural versus Non-Behavioural Objectives 239
- **Action Priorities** 240
- **Adopters and Resistors** 241
- **Picking Starting Points for Action** 244
- **Focus versus Scope** 245
- **Leadership Style** 246
  - Directive Leadership 246
  - The Participative Style 248
- **Pace** 249
  - Implementing Pace Decisions 250
  - Generic Guidelines 250
  - Crisis Change 251
  - Anticipatory Change 252
  - Reactive Change 255
- **Creating an Action Plan** 257
  - Monitoring Performance 258

Summary 259
Notes 259

Index 262
Preface

This book was written to complement case analysis in university and company strategic management courses. It takes the point of view of the general manager and presents a consistent, operational approach to analyzing and acting on strategic problems. Our intent is to introduce you to the breadth of material in strategic management, yet enable you to apply it in a decision-making process. In doing so, we venture beyond current strategic management texts to help reconcile the diversity, breadth, and complexity of the field.

As we point out in Chapter 1, general managers run businesses and other types of organizations, and, while their responsibility may be for a small business, a not-for-profit, public sector, or large corporation, they face the common challenge of guiding their organizations to success in competitive environments. The aim of this book is to develop the basic general management skills required to understand a business organization, sense the opportunities and problems that it faces, deal effectively with strategic decisions, and to set in place the people, structures, and operations to implement those decisions. We refer to this as the general management perspective and, as we describe in Chapter 1, it applies to any person in the organization, not just the general manager. Having a general management perspective requires a disposition to lead, and therefore having a general management perspective is consistent with concepts such as strategic leadership and cross-enterprise leadership.

In preparing the text materials, we have concentrated on analytic concepts that contribute to a practical understanding of specific strategic issues and to the translation of this understanding into personal action. Further, we have linked these discrete concepts into a comprehensive framework—the Diamond-E framework—to ensure that the whole of the situation facing the business is appreciated and that priorities are set for both analysis and action.

We have made two assumptions about our readers. First, we have assumed that they are engaged in trying to solve strategic problems—as students of business doing case analyses or field projects, or as managers on the job. Application and practice are the prime vehicles for understanding the power and limitations of the concepts in this text and, more importantly, for developing general management skills. Second, we have assumed that our readers possess a basic understanding of the background disciplines and functional areas of business, such as the financial analysis and marketing skills provided in early courses in university business programs.

**APPROACH**

The point of view we take on strategic issues is that of a general manager. We assume that you are willing to share this perspective—to see yourself as responsible for the overall direction and success of an organization or business unit. As a general manager, you must think in comprehensive terms of the total problem you are dealing with, taking into account the full breadth of its meaning and consequences for the business. Partial
analyses from a specialist or a functional perspective may be helpful, but they do not meet the general manager’s need for the best overall approach to a situation. In addition to the broad issues of direction, you must worry about the specific steps of execution—about closing the gaps between strategic choice and practical, personal action. Again, the recommendations of a consultant or staff specialist may be useful, but their advice will usually address only the directional aspects of the general manager’s concerns. In short, we ask you to step into a particularly challenging position in which you must think of problems in terms of a total business, set priorities, and plan for tangible, practical action.

Three threads weave their way through the fabric of the text: value, advantage, and globalization. General managers are fundamentally charged with the responsibility of guiding their organizations to create and capture value with an eye to how that value is distributed among various stakeholders, including shareholders. Our perspective is that organizations are mechanisms invented by society to generate value that individuals cannot generate on their own. The value that organizations generate takes many forms (e.g., profit, jobs, self-actualization, goods, and services), and different organizations generate different types of value. All organizations, however, must generate value—that is the reason they exist.

Organizational growth or even survivability depends not merely on the generation of value; businesses must also have comparative or competitive advantage. Why should customers buy your valuable product or service rather than another firm’s? As a general manager, you must ensure that your value-generating organization has competitive advantages.

Thirdly, today’s environments are global. Very few industries are not impacted in some meaningful way by global forces. We deal with some specific issues related to global diversification strategies, but a basic assumption that we hold, and that we encourage you to consider as a general manager, is that globalization is no longer a separate, optional consideration. Globalization is a fundamental element for strategic analysis and action.

Understanding that the role of the general manager has changed in recent years, we have chosen to underscore this change with the term “Cross-Enterprise Leadership.” We summarized these changes, and the distinctions between the general manager and the Cross-Enterprise Leader in an Ivey Business Journal article. There, we concluded that the forces of globalization, rapid change, and time-based competition had redefined the role of the general manager and that organizations, as single entities controlling their own fate, had been supplanted by networks and alliances of enterprises.

Whereas general management focused on integrating the various functions within an organization, the business imperative today requires an approach—Cross-Enterprise Leadership—that can create, capture and distribute value across a network of companies, not just within a company. Second, these networks, which we call enterprises, are complex and dynamic, and must be able to respond as a whole to the emergent challenges that are continually presented. Third, no one leader can “manage” the enterprise, and therefore leadership needs to be distributed. Finally, these changes require an approach to leadership over-and-above that possessed by traditional business leaders. At its core, Cross-Enterprise Leadership recognizes that managers operate in a complex world in which the boundaries of organizations are fluid and dynamic, cutting across functional designations, departments, business units, companies, geography and cultures.
That value is created cross-enterprise is demonstrated by Coca-Cola and Nestlé, who are competitors in bottled water and several beverage categories around the world. But in North America, Coca-Cola is the primary distributor for Nestlé’s Nestea product. Toshiba reduces its shipping costs by having UPS undertake repairs of Toshiba products, and Singapore-based Flextronics undertakes design and manufacturing services for companies in the automotive, industrial, medical, and technology sectors. Health care networks have become a necessary means to deliver on health care needs. While we take the organization as the primary focus, our perspective acknowledges that the boundaries of the organization are often blurry, and models of strategy need the flexibility to take this into account.

For the purpose of this book, we will retain the term “general manager”; however, our view of the role of the general manager has changed, and these changes are reflected in the materials presented. The choice and presentation of material in the book have been guided by experience and practical utility. Our aim has been to provide useful tools organized into one consistent and comprehensive framework. Our intent is to present the diversity and complexity of the field but distill it so that it can be applied in a decision-making process. Additional readings are suggested, where appropriate, at the end of chapters for those who wish to explore specific subjects in greater depth.

Throughout the book, we have frequently used examples to make the connection between the concepts, which have to be somewhat general for flexibility and breadth of application, and specific strategic issues. As you read, you might find it useful to think of examples from your own experience and test the applicability of the concepts against them.

ORGANIZATION

The book is organized according to a general pattern: problem identification to analysis to decision to execution. This is a natural, logical sequence and is effective for the cumulative presentation of concepts. But we do not mean to imply that actual strategic problems can be dealt with in such a neat, serial fashion. On the contrary, most strategic problems require an iterative approach, in which the analysis moves back and forth between choice and action. This point will become evident as you read through the book. Its immediate application, however, is that you should not expect to find business situations, or case problems describing them, that neatly conform to the flow of the text.

Throughout the book we use the terms business, organization, and firm interchangeably. Whether considering a not-for-profit or for-profit organization, a small entrepreneurial firm or a large multi-national, a public or private sector enterprise, the concepts apply to all types of organizations. If there is a particular distinction to be made for a specific type of organization, such as a not-for-profit, we will flag it. However, these instances will be rare as the fundamentals of strategy apply to all types of organizations in all geographic contexts.

There are 11 chapters in the book. Chapters 1 and 2 position the concept of strategy as a crucial general management tool and then provide an operational understanding and definition of it. Chapter 3 introduces the Diamond-E framework and the fundamental logic of strategic analysis. Chapters 4 through 8 elaborate on the processes of analysis by
working through the individual components of the Diamond-E framework with a view to building a comprehensive position on strategic needs and priorities. Chapter 9 discusses the dynamic nature of strategy, providing a transition to Chapters 10 and 11, which concentrate on developing personal action plans to move from the analytic results to the implementation of strategic changes.

SUGGESTIONS FOR USE

At the outset, we suggest that you read Chapters 1 through 3 thoroughly. This will provide a perspective for your thinking and a basic framework for your analysis. Skim the rest of the book so that you know where to turn as specific circumstances dictate.

As you deal with problems, use the book selectively. Try to work back and forth between the problem that you are addressing and the relevant parts of the book. Use the concepts to check your analysis and, as necessary, to expand it. Common sense is very important here. Do not try to force the concepts and procedures on a problem; instead use them to enrich the analysis.

Study the book after you have spent some time working on strategic problems. At that point, you will more readily appreciate the general analytical approach and see the applicability of particular concepts. From then on, the building of skills in strategic analysis and action is a matter of practice and more practice. Remember, you are dealing with the most complex problems in business. Good luck!

NEW TO THIS EDITION

The first edition of this book was published in 1986. In revising it for this ninth edition, we have updated both the examples and recent theory that support the practical and user-friendly aspects of the eighth edition.

Many of the changes in theory and practice in recent years have been toward fragmentation of concepts and pitting one approach against another. We have found this to be counter-productive. For example, emphasizing a dynamic approach to strategy does not negate the importance of understanding strategic positioning at a point in time. Thus, in this edition, we have tried to make connections between concepts that have become increasingly fragmented or polarized.

Throughout the many editions, our consistent aim has been to increase the relevance of the materials for solving general management problems in the field or in the form of written cases.

ACKNOWLEDGMENTS

Our primary acknowledgment goes to Nick Fry and Peter Killing, who launched the first edition in 1986 and who continued as authors through the years into their retirement. They provided a vision and platform that has stood the test of time in its ability to anticipate and adapt to changes in both research and practice. Indeed, virtually all advances in the field of strategy have been easily accommodated within
the approach they imagined. We are grateful for their leadership in resisting some early moves in academia and practice away from a general management perspective to treating strategy as a technical competence. The shortcomings of that approach are apparent—strategy and leadership are tightly intertwined. We are grateful that as Nick and Peter have retired from the book, Cara Maurer and Glenn Rowe have joined the author team.

We have been fortunate to work for many years in institutions that value good teaching and professional relevance. These cultural attributes have been developed and reinforced by many people. In all editions, we have benefited from the new ideas and continuing support of our colleagues in the university and in the private sector. We would particularly like to acknowledge our immediate colleagues at the Ivey Business School and at IMD who, over the years, have included professors Jay Anand, Tima Bansal, Paul Beamish, Oana Branzei, Laurence Capron, the late Harold Crookell, Jim Dowd, Tony Frost, Michael Geringer, Louis Hébert, Gerald Higgins, Amy Hillman, Bryan Hong, Ariff Kachra, Mike Levenhagen, Peter Lorange, Pat MacDonald, Alan Morrison, Eric Morse, Charlene Nicholls-Nixon, Tom Poynter, Paul Strebel, Don Thain, Stewart Thornhill, Jean-Philippe Vergne, Rod White, Mark Zbaracki, Laurina Zhang, and Charlene Zietsma.

We are also extremely grateful to the following reviewers for their comments and suggestions: Wael Ramadan, Sheridan College; Natalie Slawinski, Memorial University of Newfoundland; Jianyun Tang, Memorial University of Newfoundland; Bob Thompson, Seneca College.

We are indebted to our publisher, Pearson Canada, and, in particular, Kathleen McGill, Madhu Ranadive, Kristina Joie, and Alanna Ferguson for their help in producing and promoting this book. At Ivey, we are obliged to Nicole Haney for her tremendous organizational and administrative support.

Mary M. Crossan,
Michael J. Rouse,
Cara C. Maurer,
W. Glenn Rowe
London, Ontario

SUPPLEMENTS
This test bank in Microsoft Word format includes over 300 questions. There are approximately 55 questions per chapter, including multiple choice, true/false, and short answer. The Test Item File is available for download from a password-protected section of Pearson Canada’s online catalogue. Navigate to your book's catalogue page to view a list of those supplements that are available. See your local sales representative for details and access.
CourseSmart for Instructors

CourseSmart goes beyond traditional expectations—providing instant, online access to the textbooks and course materials you need at a lower cost for students. And even as students save money, you can save time and hassle with a digital eTextbook that allows you to search for the most relevant content at the very moment you need it. Whether it’s evaluating textbooks or creating lecture notes to help students with difficult concepts, CourseSmart can make life a little easier. See how when you visit www.coursesmart.com/instructors.

CourseSmart for Students

CourseSmart goes beyond traditional expectations—providing instant, online access to the textbooks and course materials you need at an average savings of 60 percent. With instant access from any computer and the ability to search your text, you’ll find the content you need quickly, no matter where you are. And with online tools like highlighting and note-taking, you can save time and study efficiently. See all the benefits at www.coursesmart.com/students.

Learning Solutions Managers

Pearson’s Learning Solutions Managers work with faculty and campus course designers to ensure that Pearson technology products, assessment tools, and online course materials are tailored to meet your specific needs. This highly qualified team is dedicated to helping schools take full advantage of a wide range of educational resources, by assisting in the integration of a variety of instructional materials and media formats. Your local Pearson Canada sales representative can provide you with more details on this service program.

Notes

Strategic Analysis and Action: Guidelines and Action Establishing Guidelines for Action Priority Objectives Behavioural Versus Non-Behavioural Objectives. Action Priorities. Priority Targets Picking Starting Points for Action Focus Versus Scope. Leadership Style Directive Leadership The Participative Style Pace. Strategic analysis is a process that involves researching an organization’s business environment within which it operates. Learn about SWOT Analysis and its role in internal strategic analysis and PESTLE Analysis and its role in external strategic analysis. Also learn about Strategic Analysis and Action, Aalborg, Denmark. 61 likes. 4Mativ Strategi og ledelsesbøger. Buy The FT Guide to the Gurus: Strategy - The Top 20 Strategic Thinkers and What They Can Do For You: Includes Clayton Christensen, Jim Collins, Kim & Mauborgne, Michael Porter and many more by Vaughan Evans from Pearson Education's online bookshop. Buy The FT Guide to the Gurus: Strategy - The Top 20 Strategic Thinkers and What They Can Do For You: Includes Clayton Christensen, Jim Collins, Kim & Mauborgne, Michael Porter and many more by Vaughan Evans from Pearson Education's online bookshop. Strategic Analysis and Action. 11 February 2014 · If IMD professor Garelli • Strategic Analysis and Action. APPROACH The book was prepared as a practical guide for strategic analysis and action. We have designed it for readers who are working on applied strategic problems, either through case studies or on-the-job assignments. It provides an organized set of concepts and procedures to help readers identify strategic issues, make choices, and implement decisions.