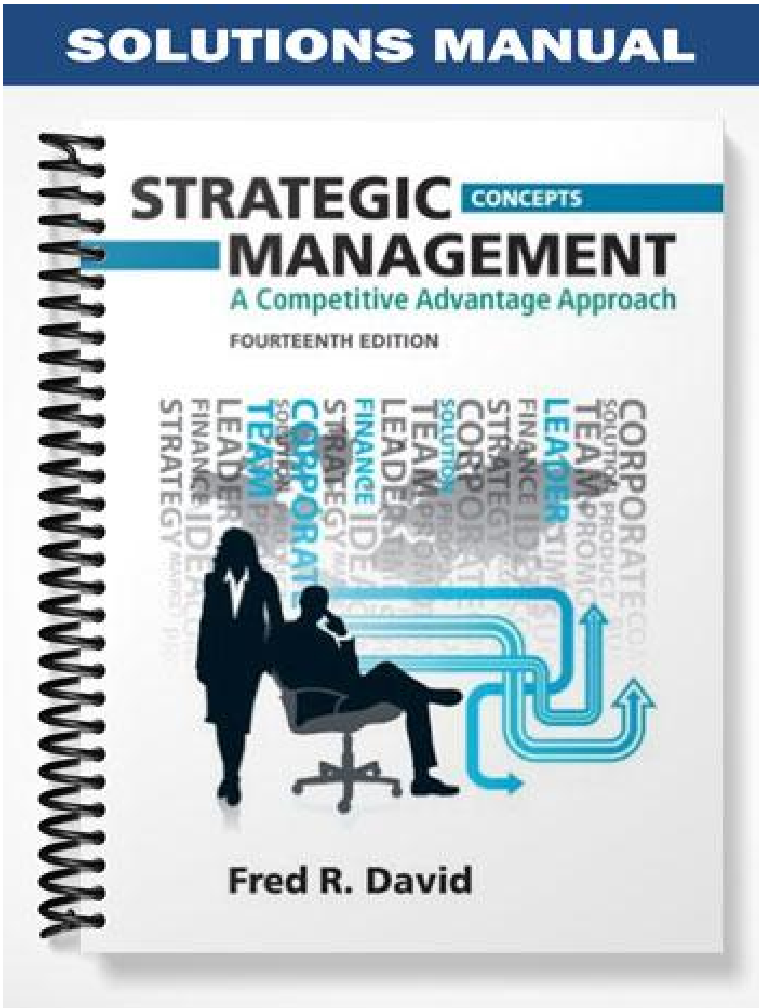
SOLUTIONS MANUAL
STRATEGIC MANAGEMENT
CONCEPTS
A Competitive Advantage Approach
FOURTEENTH EDITION
Fred R. David

PART III

LECTURE NOTES

CHAPTER 1

THE NATURE OF STRATEGIC MANAGEMENT

CHAPTER OUTLINE

- What is Strategic Management?
- Key Terms in Strategic Management
- The Strategic-Management Model
- Benefits of Strategic Management
- Why Some Firms Do No Strategic Planning
- Pitfalls in Strategic Planning
- Guidelines for Effective Strategic Management
- Business Ethics and Strategic Management
- Comparing Business and Military Strategy
- The Nature of Global Competition
- The Cohesion Case: Disney

CHAPTER OBJECTIVES

After studying this chapter, you should be able to do the following:

1. Describe the strategic-management process.
2. Explain the need for integrating analysis and intuition in strategic management.
3. Define and give examples of key terms in strategic management.
4. Discuss the nature of strategy formulation, implementation, and evaluation activities.
5. Describe the benefits of good strategic management.
6. Explain why good ethics is good business in strategic management.
7. Explain the advantages and disadvantages of entering global markets.
8. Discuss the relevance of Sun Tzu's *The Art of War* to strategic management.
9. Discuss how a firm may achieve sustained competitive advantage.
10. Explain ISO 14000 and 14001

CHAPTER OVERVIEW

Chapter 1 provides an overview of strategic management. A practical, integrative model of the strategic-management process is introduced. Basic activities and terms in strategic management are defined. The benefits of strategic management are presented. Important relationships between business ethics and strategic management are discussed. In addition, the chapter initiates discussion of two themes that are present throughout the text: global considerations and the strategic implications of the natural environment.

VTN (Visit the Net): The website www.strategyclub.com, designed by Dr. David, provides strategic planning tools, templates, links, and information to help strategic management students analyze cases.

The first theme is that global considerations impact virtually all strategic decisions. The boundaries of countries can no longer be the boundary of our minds. It has become a matter of survival for businesses to see and appreciate the world from the perspective of others. The underpinnings of strategic management hinge on managers gaining an understanding of competitors, markets, prices, suppliers, distributors, governments, creditors, shareholders, and customers worldwide. The price and quality of a firm's products and services must be competitive on a world basis, not just a local basis. A Global Perspective illustration is provided in all chapters of this text to emphasize the importance of global factors in strategic management.

A second theme evidenced throughout this text is that the natural environment is an important strategic issue. Perhaps no greater threat exists to business and society than the continuous decimation and degradation of our natural environment. This is a strategic issue that needs immediate and substantive attention by all businesses and managers. A Natural Environment Perspective is provided in all chapters. Like the Global Perspectives, these are boxed inserts.

VTN (Visit The Net): The website www.prenhall.com/david provides sample tests and supplemental material for each chapter.

EXTENDED CHAPTER OUTLINE WITH TEACHING TIPS

I. WHAT IS STRATEGIC MANAGEMENT?

A. Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives.

1. The term *strategic management* is used synonymously with strategic planning.

2. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow while long-range planning tries to optimize for tomorrow the trends of today.

B. Stages of Strategic Management

1. The strategic-management process consists of three stages.

   a. Strategy formulation includes developing a vision and mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue.

   b. Strategy implementation requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed; strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance.

   c. Strategy evaluation is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information.

VTN (Visit The Net): The website www.spsu.edu/planassess/strategic.htm provides a narrative on strategy formulation and implementation at Southern Polytechnic State University.

2. Three fundamental strategy evaluation activities are provided below:
   a. Reviewing external and internal factors that are the bases for current strategies
   b. Measuring performance
   c. Taking corrective action

3. Strategy formulation, implementation, and evaluation activities occur at three hierarchical levels in a large organization: corporate, divisional, and functional. Smaller businesses may only have the corporate and functional levels.

C. Integrating Intuition and Analysis

The strategic-management process can be described as an objective, logical, systematic approach for making major decisions in an organization. It attempts to organize qualitative and quantitative information in a way that allows effective decisions to be made under conditions of uncertainty.

D. Adapting to Change

1. The strategic-management process is based on the belief that organizations should continually monitor internal and external events and trends so that timely changes can be made as needed. The rate and magnitude of changes that affect organizations are increasing dramatically.

2. The need to adapt to change leads organizations to key strategic-management questions, such as, "What kind of business should be become?" "Are we in the right field?" "Should we reshape our business?" "What new competitors are entering our industry?"

***Teaching Tip*:** Strategy & Business is a magazine that publishes articles that focus on strategic management issues. The magazine, which contains excellent feature articles, is available online at {http://www.strategy-business.com/}.

***Teaching Tip*:** The Business Policy & Strategy Division of the Academy of Management maintains a website that contains a wide variety of useful information on strategic management topics. The site is available at {http://www.aom.pace.edu/bps}.

VTN (Visit The Net): The website www.csuchico.edu/mgmt/strategy/module1/sld041.htm reveals that strategies must be constantly changed.

VTN (Visit The Net): The website www.csuchico.edu/mgmt/strategy/module1/sld032.htm reveals that actual strategy results from planned strategy coupled with reactive changes.

II. KEY TERMS IN STRATEGIC MANAGEMENT

A. Competitive Advantage

1. Competitive advantage is defined as anything that a firm does especially well compared to rival firms.

2. Firms should seek a sustained competitive advantage by continually adapting to changes in external trends and internal capabilities and evaluating strategies that capitalize on those factors.

B. Strategists

1. Strategists are individuals who are most responsible for the success or failure of an organization.

2. Strategists hold various job titles, such as chief executive officers, president, owner, chair of the board, executive director, chancellor, dean, or entrepreneur.

3. Strategists help an organization gather, analyze, and organize information. They track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans.

C. Vision and Mission Statements

1. Vision statements answer the question: "What do we want to become?"

2. Mission statements are "enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms." It addresses the basic question that faces all strategists: "What is our business?" It should include the values and priorities of an organization.

D. External Opportunities and Threats

1. External opportunities and external threats refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future.

2. Opportunities and threats are largely beyond the control of a single organization, thus the term *external*.

3. A basic tenet of strategic management is that firms need to formulate strategies to take advantage of external opportunities and to avoid or reduce the impact of external threats.

4. The process of conducting research and gathering and assimilating external information is called environmental scanning or industry analysis.

E. Internal Strengths and Weaknesses

1. Internal strengths and internal weaknesses are an organization's controllable activities that are performed especially well or poorly.

2. Identifying and evaluating organizational strengths and weaknesses in the functional areas of a business is an essential strategic-management activity.

3. Strengths and weaknesses are determined relative to competitors and may be determined by both performance and elements of being.

F. Long-Term Objectives

1. Objectives can be defined as specific results that an organization seeks to achieve in pursuing its basic mission.

2. Long term means more than one year.

3. Objectives state direction, aid in evaluation, create synergy, reveal priorities, focus coordination, and provide a basis for effective planning, organizing, motivating and controlling activities.

4. Objectives should be challenging, measurable, consistent, reasonable, and clear.

G. Strategies

1. Strategies are the means by which long-term objectives will be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint venture.

2. Strategies currently being pursued by McDonald's and American General are described in Table 1-1.

H. Annual Objectives

1. Annual objectives are short-term milestones that organizations must achieve to reach long-term objectives.

2. Like long-term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized.

I. Policies

1. Policies are the means by which annual objectives will be achieved. Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives.

2. Policies are most often stated in terms of management, marketing, finance/accounting, production/operations, research and development, and computer information systems activities.

Global Perspective Box: The Largest Companies in the World. This box explains the growing dominance of non-U.S.-based firms in several industries. A list of the largest companies in the world, pulled from Fortune magazine's annual ranking, includes firms from Britain, Netherlands, Germany, Japan, France, Italy, Belgium, and China.

III. THE STRATEGIC MANAGEMENT MODEL

A. The Strategic Management Model is shown in Figure 1-1.

1. The framework illustrated in Figure 1-1 is a widely accepted, comprehensive model of the strategic-management process. This model does not guarantee success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies.

2. The strategic-management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components.

VTN (Visit the Net): The website www.planware.org/strategy.htm#1 explains in detail how to prepare a strategic plan and compares this document to a business plan.

IV. BENEFITS OF STRATEGIC MANAGEMENT

The principle benefit of strategic management has beeen to help organizations formulate better strategies through the use of a more systematic, logical, and rational approach to strategic choice. Communication is a key to successful strategic management. The major aim of the communication process is to achieve understanding and commitment throughout the organization. It results in the great benefit of empowerment.

A. Financial Benefits

1. Research indicates that organizations using strategic-management concepts are more profitable and successful than those that do not.

2. High-performing firms tend to do systematic planning to prepare for future fluctuations in the external and internal environments. Firms with planning systems more closely resembling strategic-management theory generally exhibit superior long-term financial performance relative to their industry.

B. Nonfinancial Benefits

1. Besides helping firms avoid financial demise, strategic management offers other tangible benefits, such as an enhanced awareness of external threats, an improved understanding of competitors' strengths, increased employee productivity, reduced resistance to change, and a clearer understanding of performance-reward relationships.

2. In addition to empowering managers and employees, strategic management often brings order and discipline to an otherwise floundering firm.

3. Greenley stated that strategic management offers these benefits:

a. It allows for identification, prioritization, and exploitation of opportunities.
b. It provides an objective view of management problems.
c. It represents a framework for improved coordination and control of activities.
d. It minimizes the effects of adverse conditions and changes.
e. It allows major decisions to better support established objectives.
f. It allows more effective allocation of time and resources to identified opportunities.
g. It allows fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.
h. It creates a framework for internal communication among personnel.
i. It helps integrate the behavior of individuals into a total effort.
j. It provides a basis for clarifying individual responsibilities.
k. It encourages forward thinking.
l. It provides a cooperative, integrated, and enthusiastic approach to tackling problems and opportunities.
m. It encourages a favorable attitude toward change.
n. It gives a degree of discipline and formality to the management of a business.

VTN (Visit the Net): The website www.entarga.com/stratplan/index.htm provides an excellent narrative on the benefits of strategic planning, pitfalls in planning, and steps in doing strategic planning.

V. WHY SOME FIRMS DO NO STRATEGIC PLANNING

Some reasons for poor or no strategic planning are as follows:

* Poor reward structures
* Fire fighting
* Waste of time
* Too expensive
* Laziness
* Content with success
* Fear of failure
* Overconfidence
* Prior bad experience
* Self-interest
* Fear of the unknown
* Honest difference of opinion
* Suspicion

VTN (Visit the Net): The website www.mindtools.com/plfailpl.html gives reasons many organizations avoid strategic planning.
VTN (Visit the Net): The website www.des.calstate.edu/limitations.html provides a discussion of the limitations of strategic planning.

VI. PITFALLS IN STRATEGIC PLANNING

Some pitfalls to watch for and avoid in strategic planning are provided below:

* Using strategic planning to gain control over decisions and resources
* Doing strategic planning only to satisfy accreditation or regulatory requirements
* Too hastily moving from mission development to strategy formulation
* Failing to communicate the plan to employees, who continue working in the dark
* Top managers making many intuitive decisions that conflict with the formal plan
* Top managers not actively supporting the strategic-planning process
* Failing to use plans as a standard for measuring performance
* Delegating planning to a "planner" rather than involving all managers
* Failing to involve key employees in all phases of planning
* Failing to create a collaborative climate supportive of change
* Viewing planning to be unnecessary or unimportant
* Becoming so engrossed in current problems that insufficient or no planning is done
* Being so formal in planning that flexibility and creativity are stifled

VII. GUIDELINES FOR EFFECTIVE STRATEGIC MANAGEMENT

A. Failure to Follow Certain Guidelines in Planning Can Cause Problems

1. An integral part of strategy evaluation must be to evaluate the quality of the strategic-management process. Issues such as “Is strategic management in our firm a people process or a paper process?” should be addressed.

2. Strategic decisions require trade-offs such as long-range versus short-range considerations or maximizing profits versus increasing shareholders’ wealth.

3. Subjective factors such as attitudes toward risk, concern for social responsibility, and organizational culture will always affect strategy-formulation decisions, but organizations must remain as objective as possible.

VIII. BUSINESS ETHICS AND STRATEGIC MANAGEMENT

A. Business Ethics

1. Business ethics can be defined as principles of conduct within organizations that guide decision making and behavior. Good business ethics are a prerequisite for good strategic management; good ethics is just good business.

2. A code of business ethics can provide a basis on which policies can be devised to guide daily behavior and decisions at the work site.

3. Organizations need to conduct periodic ethics workshops to sensitize people to workplace circumstances in which ethics issues may arise.

VTN (Visit the Net): The website www.ethicsweb.ca/codes describes why organizations should have ethics codes and gives guidelines for preparing codes of ethics.

VTN (Visit the Net): Professor Hansen at Stetson University provides a strategic management slide show for this entire text at www.stetson.edu/~rhansen/strategy.

Teaching Tip: *Business Ethics* magazine posts selected articles from each bi-monthly issue on the magazine’s website at {http://www.business-ethics.com}. These articles provide rich information for lecture material. It also lists the top 100 corporate citizens at {http://www.business-ethics.com/Be100all.htm}.

Teaching Tip**:** The following are websites that provide examples of codes of ethics.

- National Association of Realtors: {http://www.realtor.org/mempolweb.nsf/pages/code?opendocument}
- American Psychological Association: {http://www.apa.org/ethics/code.html}
- Johnson & Johnson: { http://www.investor.jnj.com/governance/conduct.cfm}

Natural Environment Perspective Box*:* This insert discusses the use of ISO 14000 Certification to gain strategic advantage. The ISO (International Organization for Standardization) is based in Geneva, Switzerland and represents a network of the national standards institutes for 147 countries. Its standards are voluntary but widely accepted worldwide. ISO 14000 is a series of voluntary standards in the environmental field. This family of standards addresses the extent to which a firm minimizes harmful effects on the environment caused by its activities and continually monitors and improves its own environmental performance. The U.S. Environmental Protection Agency offers a guide on becoming ISO 14001 certified.

IX. COMPARING BUSINESS AND MILITARY STRATEGY

A. A Strong Military Heritage Underlies the Study of Strategic Management

1. Terms such as *objectives, mission, strengths,* and *weaknesses* were first formulated to address problems on the battlefield.

2. A fundamental difference between military and business strategy is that business strategy is formulated, implemented, and evaluated with the assumption of competition, while military strategy is based on an assumption of conflict.

3. The similarities between military and business strategy can be seen in Sun Tzu's *The Art of War*. Table 1-2 provides excerpts.

X. THE NATURE OF GLOBAL COMPETITION

A. International Firms or Multinational Corporations

1. Organizations that conduct business operations across national borders are called international firms or multinational corporations.

2. The term *parent company* refers to a firm investing in international operations; host country is the country where that business is conducted.

B. Advantages and Disadvantages of International Operations

1. Advantages of International Operations

a. Firms have numerous reasons to formulate and implement strategies that initiate, continue, or expand involvement in business operations across borders.

   1. Foreign operations can absorb excess capacity, reduce unit costs, and spread economic risks over a wider number of markets.
   2. Foreign operations can allow firms to establish low-cost production facilities in locations close to raw materials and/or cheap labor.
   3. Competitors in foreign markets may not exist, or competition may be less intense than in domestic markets.
   4. Foreign operations may result in reduced tariffs, lower taxes, and favorable political treatment in other countries.
   5. Joint ventures can enable firms to learn the technology, culture, and business practices of other people and to make contacts with potential customers, suppliers, creditors, and distributors in foreign countries.
   6. Many foreign governments and countries offer varied incentives to encourage foreign investment in specific locations.
   7. Economics of scale can be achieved from operation in global rather than solely domestic markets. Larger-scale production and better efficiencies allow higher sales volumes and lower price offerings.

b. Perhaps the greatest advantage is that firms can gain new customers for their products and services, thus increasing revenues.

2. Disadvantages of International Operations

   a. There are also numerous potential disadvantages of initiating, continuing, or expanding business across national borders.

      1. Firms confront different social, cultural, demographic, environmental, political, governmental, legal, technological, economic, and competitive forces when doing business internationally.
      2. Weaknesses of competitors in foreign lands are often overestimated and strengths underestimated.
      3. Language, culture, and value systems differ among countries.
      4. It is necessary to gain an understanding of regional organizations such as the European Economic Community and the Latin American Free Trade Area.
      5. Dealing with two or more monetary systems can complicate international business operations.
      6. The availability, depth, and reliability of economic and marketing information in different countries vary extensively, as do industrial structures, business practices, and nature of regional organizations.

***Teaching Tip*:** A fun website that demonstrates the global breadth of one company is the site entitled “The Coca-Cola Bottles of the World” {http://www.pl8s.com/coke.htm}. This site shows how Coke has adapted its bottle to reflect the language and customs of the different countries that it operates in.

Teaching Tip: You are invited to visit text’s website at {http://www.prenhall.com/david} for this chapter’s World Wide Web exercises.

ISSUES FOR REVIEW AND DISCUSSION

1. **Explain why Strategic Management often is called a “capstone course.”**

   Answer: Business policy is commonly called a capstone course because students’ major responsibility in this class is to use all knowledge gained in prior courses to chart the future direction of different organizations.

2. **What aspect of strategy formulation do you think requires the most time? Why?**

   Answer: Important aspects of strategy formulation include developing a business mission, performing an external audit, conducting an internal audit, generating alternative strategies, and choosing among alternative strategies. Performing an external audit generally takes the most time. For example, identifying competitors’ strengths and weaknesses is an essential aspect of the external audit. Effective use of the Internet can reduce the time required for performing an external audit.

3. **Why is strategy implementation often considered the most difficult stage in the strategic-management process?**

   Answer: Strategy implementation is often considered to be the most difficult stage in strategic management because it requires discipline, sacrifice, commitment, and hard work from all employees and managers. It is always more difficult to do something than to say you’re going to do it.

4. **Why is it so important to integrate intuition and analysis in strategic management?**

   Answer: Neither intuition nor analysis alone is sufficient for making good strategic decisions. Intuition, based on one’s past experiences, judgment, and “gut” feelings, does not include the use of analytical strategic-management concepts that have been developed and successfully tested in the business world. To ignore these techniques that are based on historical learning is like trying to reinvent the wheel. However, no analytical tools can capture all aspects of a given organization’s culture and situation. Nor can analytical tools assimilate all the subjective information that must be considered in strategic management, such as personalities, emotions, values, beliefs, customs, and ethical factors. Thus, it is very important to integrate intuition and analysis in strategic management.

5. Explain the importance of a vision and mission statement.

Answer: Reaching agreement on formal vision and mission statements can greatly facilitate the process of reaching agreement on an organization's strategies, objectives, and policies. Organizational success depends on reasonable agreement on these issues, so a clear mission statement is a most important strategic-management tool.

6. Discuss relationships among objectives, strategies, and policies.

Answer: Long-term objectives and strategies are products of strategy formulation. Short-term (annual) objectives and policies are products of strategy implementation. Firms should translate long-term objectives into annual objectives. Similarly, strategies should be supported with clear policies.

7. Why do you think some chief executive officers fail to use a strategic-management approach to decision making?

Answer: Some chief executive officers, strategists, and organizations have been successful, to date, without using strategic-management concepts and techniques. However, success today is no guarantee for success tomorrow. The business world is becoming global in scope; technology is changing the nature of competition in all industries. Strategic management enables organizations to recognize and adapt to change more readily; successfully adapting to change is the key to survival and prosperity. There is no good alternative approach to strategic management.

8. Discuss the importance of feedback in the strategic-management model.

Answer: Note in the strategic-management model that feedback is critically important. Changes can occur that impact all strategic-management activities. Feedback allows these changes to be identified and adjustments to be made. Feedback in the strategic-management process promotes the creation of a climate for two-way communication and, thus, allows esprit de corps to be achieved in an organization.

9. How can strategists best ensure that strategies will be effectively implemented?

Answer: Strategists can best assure that strategies formulated will be effectively implemented by involving as many managers as possible in the strategy formulation process. Also, it is important to communicate effectively why changes are needed.

10. Give an example of a recent political development that changed the overall strategy of an organization.

Answer: Students' answers will vary. Some possible examples might include 1) the recent tariffs placed on steel imported into the US and how that has changed strategy for steel companies both at home and abroad, 2) the change in guidelines and requirements for airport safety and subsequent changes in the strategies of airlines, or 3) the political investigations into the Enron case and potential changes that may result in major accounting/consulting firms.

11. Who are the major competitors of your college or university? What are their strengths and weaknesses? How successful are these institutions compared to your college?

Answer: Answers to this question will vary by institution.

12. If you owned a small business, would you develop a code of business conduct? If yes, what variables would you include? If no, how would you ensure that your employees were following ethical business standards?

Answer: It is advisable for all businesses, large and small, to have a clear code of business ethics. Such codes provide a guideline for appropriate behavior and aid in decision making. Chris MacDonald states these guidelines (available at www.ethicsweb.ca) for developing a code of ethics:

- What will be the *purpose* of your new code? Is it to regulate behavior? To inspire?
- Different kinds of documents serve different purposes. Is your new document intended to *guide* people or to set out *requirements*? Is it really a Code of Ethics that you need? You might consider creating a Statement of Values, a Policy, a Mission Statement, and a Code of Conduct.
- A code of ethics should be tailored to the needs and values of your organization.
- Many ethics codes have two components. First, an *aspirational* section, often in the preamble, that outlines what the organization aspires to, or the ideals it hopes to live up to. Second, an ethics code will typically list some *rules or principles*, which members of the organization will be expected to adhere to.
- Will your new ethics document include some sort of enforcement? If so, what kind?
- Often the principles or values listed in an ethics document will be listed in rough order of importance to the organization. The ordering need not be strict, but generally the value or principle listed first will have a natural prominence.
- Think carefully about the *process* by which you create your new code. Who will be involved? A small working group? Or all the people affected by the code? How will you distill the needs of your organization and the beliefs of your members into a document? The process may matter as much as the final product.

- How will your new code be implemented? How will it be *publicized*, both inside and outside of your organization? What steps, if any, will be taken to ensure that the values embodied in your code get implemented in organizational policies and practices?
- How/when will your code be reviewed/revised?

13. Would strategic-management concepts and techniques benefit foreign businesses as much as domestic firms? Justify your answer.

Answer: The answer to this question is yes. Many foreign businesses are using strategic-management concepts and techniques effectively. Students could look in the England-based journal *Long Range Planning* to read about foreign firms also benefiting from strategic-management ideas. Another good foreign-based business journal that carries strategic-management articles is the *Journal of Management Studies.*

14. What do you believe are some potential pitfalls or risks in using a strategic-management approach to decision making?

Answer: There is a risk of too little top management support for the process. There is a risk of too little involvement by line managers and employees. There is a risk that top managers will underestimate the importance of understanding and commitment.

15. In your opinion, what is the single major benefit of using a strategic-management approach to decision making? Justify your answer.

Answer: The single major benefit is the potential for improved understanding of the business and industry on the part of all managers and employees. Understanding generally leads to increased commitment, which, in turn, leads to creativity, innovativeness, and overall cooperativeness. The process is more important than the plan. Also, the strategic-management process allows an organization to initiate and influence, rather than just respond and react to its environment. That is, it allows an organization to be proactive, rather than reactive, in controlling its own destiny. Strategic-management concepts provide an objective basis for allocating resources and for reducing internal conflicts that can arise when subjectivity alone is the basis for major decisions.

16. Compare business strategy and military strategy.

Answer: As discussed in the latter part of this chapter, business and military strategy are similar in many respects. Many of the ideas developed in business strategy were first formulated as military strategy. Both military and business organizations have competitors. A fundamental difference between military and business strategy is that business strategy is formulated, implemented, and evaluated with the assumption of competition, while military strategy is based on an assumption of conflict.

17. What do you feel is the relationship between personal ethics and business ethics? Are they, or should they be, the same?

Answer: Personal ethics is the foundation of business ethics. Business ethics encompass more situations than personal ethics, but a personal ethics doctrine still provides a basis for all business ethics decisions.

18. Why is it important for all business majors to study strategic management, as most students will never become a chief executive officer or even a top manager in a large company?

Answer: Strategic management takes place at multiple levels within an organization. Although most students may never become the CEO of a corporation, they may become the "branch manager" or department head of a larger firm. In these roles, they may be asked to complete a strategic plan for their branch or department. In addition, employees at all levels are frequently asked to contribute to the development of their firm's strategic plan. As a result, an understanding of the strategic-management process is important.

19. Explain why consumption patterns are becoming similar worldwide. What are the strategic implications of this trend?

Answer: As a result of improvements in global communications, consumers across the world are increasingly being exposed to the same advertising, the same cultural events, the same news, and the same forms of entertainment. As a result, the tastes of consumers across the world are converging. This development helps to explain why consumption patterns are becoming similar worldwide.

20. What are the advantages and disadvantages of beginning export operations in a foreign country?

Answer: The following are the primary advantages and disadvantages of initiating export operations in a foreign country.

Advantages:

- Export operations can absorb excess capacity, reduce unit costs, and spread economic risks over a wider number of markets.
- Firms can gain new customers for their products and services, thus increasing revenues.
- Competitors in foreign markets may not exist, or competition may be less intense than in domestic markets.

Disadvantages:

- Firms confront different and often little understood social, cultural, demographic, and competitive forces when doing business overseas.
- Weaknesses of competitors in foreign lands are often overestimated, and strengths are often underestimated.
- Language, cultural, and value systems differ among countries, and this can create barriers of communication and other problems.

21. Describe the content available on the SMCO (www.strategyclub.com) website.

Answer: The SMCO website provides links to websites with information useful for case analysis such as corporate websites, business analysis services, news sites, magazines, governmental sites, and financial ratio analyses. It also provides links to job search websites, graduate school websites, and websites related to strategic planning. Several software packages are available for purchase on the site including a template for generating the matrices required for case analyses.

22. List four financial and four nonfinancial benefits of a firm engaging in strategic planning.

Answer: Businesses engaging in strategic planning experience the following financial benefits. They show significant improvement in sales, profitability, and productivity compared to firms without strategic planning activities. Firms using strategic planning generally exhibit superior long-term financial performance relative to their industry and seem to make more informed decisions with good anticipation of both short and long-term consequences. They are also prepared for fluctuations in their external and internal environments.

In addition to the financial benefits, firms using strategic planning also experience nonfinancial benefits. These include an enhanced awareness of external threats, an improved understanding of competitors' strategies, increased employee productivity, reduced resistance to change, and a clearer understanding of performance-reward relationships.

23. Why is it that a firm can sustain a competitive advantage normally for only a limited period of time?

Answer: A firm can sustain a competitive advantage for only a certain period of time due to rival firms. These competing firms will attempt to imitate the competitive advantage in order to undermine the leader.

24. Why is it not adequate to simply obtain a competitive advantage?

Answer: Because other firms will constantly attempt to undermine firms with competitive advantages and imitate those advantages, organizations must constantly strive to achieve a sustained competitive advantage.

25. How can a firm best achieve a sustained competitive advantage?

Answer: A sustained competitive advantage can best be achieved by 1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources, and by 2) effectively formulating, implementing, and evaluating strategies that capitalize upon those factors.

26. Compare and contrast ISO 14000 and 14001.

Answer: ISO 14000 focuses on operating in an environmentally-friendly manner. The standards were created by the International Organization for Standardization and provide universal guidelines for standardization. ISO 14000 is a series of standards in the environmental field. ISO 14001 is part of the 14000 family of standards. 14001 standards offer a universal technical standard for environmental compliance in fields such as environmental auditing, environmental performance evaluation, environmental labeling, and life-cycle assessment.