Contents

Introduction
Chapter 1
What Is Strategy? 3
Why Study Business Strategy? 3
What Defines a Successful Strategy? 5
How Important Is Strategy, Really? 8
The Origins of Strategy 10
Industry Analysis 12
Strategy over Time: Growth and Innovation 13
Strategic Planning and Strategy Execution 14
Outsourcing, Vertical Integration, and Strategic Alliances 15
Global Strategy 17
Strategy in Multibusiness Firms 17
Corporate Governance 18
Summary 19
End Notes 19

Building Competitive Advantage
Chapter 2
Competitive Advantage 23
Introduction 23
Creating the Superior Market Position: Value and Cost 24
The Value–Cost Framework 24
Generic Strategies 28
Value versus Cost Advantage 33
Value and Cost Drivers 35

Value Drivers 35
Cost Drivers 43
Defending the Superior Market Position: Isolating Mechanisms 47
Increasing Customer Retention 48
Preventing Imitation 49
Summary 55
Questions for Practice 56
End Notes 57

Chapter 3
Industry Analysis 61
Introduction 61
Defining Industry Boundaries 62
How Industry Forces Influence Profitability 64
Industry Forces That Drive Profits Down: The Five Forces 65
Buyers 66
Suppliers 68
Substitutes 70
Entrants and Entry Barriers 71
Competition 74
Summary Table on the Five Forces and the Value Net 91
Complementors 88
Cooperation with Buyers and Suppliers 89
Coordination among Competitors 90
Summary 92
Questions for Practice 93
End Notes 94
Chapter 4
Strategy over Time: Growth and Innovation 97

Introduction 97
The Stages of Industry Evolution 98
Stage One—Growth 102
   Dynamic Capabilities and the Growth of the Firm 103
   Developing Scalable Value and Cost Drivers 106
   Early Mover Advantage 109
   Strategic Pricing 110
Stage Two—Shakeout 111
   The Maturation of the Product Life Cycle 111
   The Emergence of a Dominant Design 112
   Shakeout Duration and Severity 113
Stage Three—Maturity 115
   Decline in the Market Growth Rate 116
   An Increase in Buyer Experience 117
   The Concentration of Market Share among Similar Large Firms 117
   The Persistence of Niche Markets 119
Industry Disruption 120
   Technological Substitution 121
   Sustaining and Disruptive Technologies 123
   Disruption by Regulatory Change 125

Summary 126
Questions for Practice 128
End Notes 129

Chapter 5
Strategy Execution and Strategic Planning

Strategy Execution 135

Introduction 135

The Basic Elements of Strategy Execution:
   Resources and Capabilities 136
      Resources 136
      Capabilities 137
   Relating Resources and Capabilities 139
   Building Capabilities 141
      The Value Chain 142
      Activity Systems 143
   The Organizational Dimensions of Capability Development 145
      Complementarity and Consistency 146
      Control and Coordination Systems 148
      Compensation and Incentive Systems 153
      Piece Rate 154
   Culture and Learning 155
      Culture 155
      Learning 159

Summary 163
Questions for Practice 165
End Notes 165

Chapter 6
Strategic Planning 169

What Is Strategic Planning? 169
Planning in a Single Business 170
   Statement of Intent and Business Scope: Vision and Mission 172
   Analysis of Industry Structure and Trends 173
   Statement of Financial Goals and Related Metrics 175
   The Planning Period 176
   Financial and Operating Metrics 177
   Performance Metrics 177
   Setting Goals 179
   Development of Strategic Initiatives 179
## Programs to Implement Strategic Initiatives 180

- Program Accountability and Schedule 180
- Program Valuation 180

## Planning in Multibusiness Firms 182

- Resource Allocation 185
- Portfolio Management 186
- Interbusiness Relationships 186
- Centralization of Activities 186
- Top-Down Initiatives 186
- Corporate Infrastructure 187

## Strategic Boundaries

### Chapter 7

#### Vertical Integration and Outsourcing 193

- Introduction 193
- The Employment Relationship 194
- Transaction Cost Theory 196
- The Property Rights Approach 197
- Strategy and Control 199
  - Control over the Supplier's Price 199
  - Control over the Supplier's Investment Decisions 200
  - Control over Incentives 200
  - Control over Information 202
- Strategy and Relative Capability 202
- The Strategic Sourcing Framework 206
  - Explaining Vertical Integration 207
  - Explaining Outsourcing 207
- Hybrid Sourcing Arrangements 210
- Additional Issues 213
  - Differences among Types of Uncertainty 213

## The Problem of Consistency 214

- Industry Dynamics 215

## Summary 215

## Questions for Practice 217

## End Notes 218

## Chapter 8

### Partnering 223

- Introduction 224
- Recent Trends in Partnership Formation 224
  - Global Integration 224
  - The Diffusion of Japanese Partnership Practices 225
  - The Diffusion of Supplier Partnerships 225
  - The Outsourcing Wave in Services 225
  - The Rise of Supply Chain Management Practices 226
  - The Growth of Technology-intensive Industries 226
  - The Emergence of Cooperation in Regional Networks 227
- Motivations behind Partnerships 227
  - Technology Transfer and Development 227
  - Market Access 229
  - Cost Reduction 230
  - Risk Reduction 232
  - Influence on Industry Structure 232
- The Disadvantages of Partnering 232
  - Reduced Control over Decision Making 233
  - Strategic Inflexibility 233
  - Weaker Organizational Identity 234
  - Antitrust Issues 234
- Partner Selection 234
  - The Partner's Current Capabilities 235
  - The Partner's Future Capabilities 235
  - Alternative Partners 235
Expanding the Scope of the Firm

Chapter 9

Global Strategy 253

Introduction 253

Why Do Regions Matter? 254

Labor Pooling 255

Specialized Local Suppliers 255

Technological Spillovers 255

Why Do Countries Matter? 257

Laws and Regulations 257

National Cultures 259

Natural Resources and Geography 261

Porter's Diamond Model 262

A Framework for Global Competition 266

Nationally Segmented Industries 269

Industries Vertically Integrated across Countries 271

Horizontally Integrated Industries 271

Vertically and Horizontally Integrated Industries 272
Chapter 11
Managing the Multibusiness Firm 311

Introduction 311
Managing the Internal Capital Market 312
Managing the Portfolio of Businesses 315
Relationships among the Business Units:
Transfers and Centralization 320
  Interunit Transfers of Goods and Services 320
  The Centralization of Activities 323
  Centralizing Technology Development 324
Top-down Initiatives 325
  Centralized Process Innovation at GE 325
Developing Corporate Infrastructure 328
  Control and Coordination 328
  Compensation and Incentives 329
  Culture 331
Summary 332

Questions for Practice 334
End Notes 334

Corporate Governance 339

Introduction 339
What Is Corporate Governance? 340
Agency Theory 340
The Board of Directors 342
  The Legal Duties of the Board 343
The Fall of Enron 348
  The Response to the Collapse of Enron 349
Board of Directors Effectiveness 351
CEO Compensation 354
  Trends in CEO Compensation in the Health Insurance Industry 354
Governance in Different Countries 356
Summary 358
Questions for Practice 360
End Notes 361

Glossary 366
Name Index 375
Subject Index 381