

NINTH EDITION

STRATEGIC
.....
ANALYSIS
AND ACTION
.....

MARY M. CROSSAN • MICHAEL J. ROUSE
• W. GLENN ROWE • CARA C. MAURER

PEARSON

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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.¹

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.

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Mary M. Crossan,

Michael J. Rouse,

Cara C. Maurer,

W. Glenn Rowe

London, Ontario

SUPPLEMENTS

Test Item File (ISBN 978-0-13-430808-1)

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.

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Notes

1. Crossan, M., Olivera, F. "Cross-Enterprise Leadership: A New Approach for the 21st Century," *Ivey Business Journal*, May/June, 2006.

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