

GLOBAL
EDITION



Strategic Management and Competitive Advantage

SIXTH EDITION

Concepts and Cases

Jay B. Barney • William S. Hesterly





“**V**ALUE. **R**ARITY. **I**MITABILITY. **O**RGANIZATION.”

What Is It?

This book is not just a list of concepts, models, and theories. It is the first undergraduate textbook to introduce a **theory-based, multi-chapter organizing framework** to add additional structure to the field of strategic management.

“VRIO” is a mechanism that integrates two existing theoretical frameworks: the positioning perspective and the resource-based view. It is the primary tool for accomplishing internal analysis. It stands for four questions one must ask about a resource or capability to determine its competitive potential:

1. **The Question of Value:** Does a resource enable a firm to exploit an environmental opportunity, and/or neutralize an environmental threat?
2. **The Question of Rarity:** Is a resource currently controlled by only a small number of competing firms?
3. **The Question of Imitability:** Do firms without a resource face a cost disadvantage in obtaining or developing it?
4. **The Question of Organization:** Are a firm’s other policies and procedures organized to support the exploitation of its valuable, rare, and costly-to-imitate resources?

What’s the Benefit of the VRIO Framework?

The VRIO framework is the organizational foundation of the text. **It creates a decision-making framework for students** to use in analyzing case and business situations.

Students tend to view concepts, models, and theories (in all of their coursework) as fragmented and disconnected. Strategy is no exception. This view encourages rote memorization, not real understanding. VRIO, by serving as a consistent framework, connects ideas together. This encourages real understanding, not memorization.

This understanding enables students to better analyze business cases and situations—the goal of the course.

Within each chapter, the VRIO framework makes it possible to discuss the formulation and implementation of a strategy simultaneously.

Because the VRIO framework provides a simple integrative structure, we are actually able to address issues in this book that are largely ignored elsewhere—including discussions of vertical integration, outsourcing, real options logic, and mergers and acquisitions, to name just a few.

Strategic Management and Competitive Advantage: Concepts and Cases, Global Edition

Table of Contents

Cover

Title Page

Copyright Page

Dedication

Brief Contents

Contents

Preface

Acknowledgments

Part 1: THE TOOLS OF STRATEGIC ANALYSIS

CHAPTER 1 What Is Strategy and the Strategic Management Process?

Go, Pokémon Go

Strategy and the Strategic Management Process

Defining Strategy

The Strategic Management Process

What is Competitive Advantage?

Research Made Relevant: How Sustainable Are Competitive Advantages?

The Strategic Management Process, Revisited

Measuring Competitive Advantage

Accounting Measures of Competitive Advantage

Strategy in Depth: The Business Model Canvas

Economic Measures of Competitive Advantage

Ethics and Strategy: Stockholders Versus Stakeholders

The Relationship Between Economic and Accounting Performance Measures

Emergent Versus Intended Strategies

Why you Need to Know About Strategy

Summary

Challenge Questions

Table of Contents

Problem Set

End Notes

CHAPTER 2 Evaluating a Firms External Environment

How Attractive is the Music Streaming Industry?

Understanding a Firms General Environment

The StructureConductPerformance Model of Firm Performance

Ethics and Strategy: Is a Firm Gaining a Competitive Advantage Good for Society?

A Model of Environmental Threats

Threat from New Competition

Strategy in Depth: Environmental Threats and the SCP Model

Another Environmental Force: Complements

Industry Structure and Environmental Opportunities

Research Made Relevant: The Impact of Industry and Firm Characteristics on Firm Performance

Strategy in Depth: Network and Empty Core Industries

Opportunities in Fragmented Industries: Consolidation

Opportunities in Emerging Industries: FirstMover Advantages

Opportunities in Mature Industries: Product Refinement, Service, and Process Innovation

Opportunities in Declining Industries: Leadership, Niche, Harvest, and Divestment

Summary

Challenge Questions

Problem Set

End Notes

CHAPTER 3 Evaluating a Firms Internal Capabilities

When a Noun Becomes a Verb

The ResourceBased View of the Firm

What Are Resources and Capabilities?

Critical Assumptions of the ResourceBased View

Strategy in Depth: Ricardian Economics and the ResourceBased View

The VRIO Framework

The Question of Value

Ethics and Strategy: Externalities and the Broader Consequences of Profit Maximization

The Question of Rarity

The Question of Imitability

The Question of Organization

Research Made Relevant: Strategic Human Resource Management Research

Table of Contents

Applying the VRIO Framework

- Applying the VRIO Framework to Southwest Airlines
- Southwest's PeopleManagement and Competitive Advantage

Imitation and Competitive Dynamics in an Industry

- Not Responding to Another Firms Competitive Advantage
- Changing Tactics in Response to Another Firms Competitive Advantage
- Changing Strategies in Response to Another Firms Competitive Advantage

Implications of the ResourceBased View

- Where Does the Responsibility for Competitive Advantage in a Firm Reside?
- Competitive Parity and Competitive Advantage
- DifficulttoImplement Strategies
- Socially Complex Resources
- The Role of Organization

Summary

Challenge Questions

Problem Set

End Notes

End of Part 1 Cases

- Case 11: Can SodaStream Disrupt the Carbonated Soft Drink Market?
- Case 12: True Religion Jeans: Flash in the Pants or Enduring Brand?
- Case 13: Walmart Stores, Inc.
- Case 14: Harlequin Enterprises: The Mira Decision

Part 2: BUSINESSLEVEL STRATEGIES

CHAPTER 4 Cost Leadership

Brathwait: A Transparent Watchmaker

What is BusinessLevel Strategy?

What is Cost Leadership?

- Sources of Cost Advantages
- Strategy in Depth: Determining the Optimal Level of Production in an Industry
- Research Made Relevant: How Valuable Is Market ShareReally?
- Ethics and Strategy: The Race to the Bottom

The Value of Cost Leadership

- Cost Leadership and Environmental Threats
- Strategy in Depth: The Economics of Cost Leadership

Cost Leadership and Sustained Competitive Advantage

Table of Contents

The Rarity of Sources of Cost Advantage

The Imitability of Sources of Cost Advantage

Organizing to Implement Cost Leadership

Organizational Structure in Implementing Cost Leadership

Summary

Challenge Questions

Problem Set

End Notes

CHAPTER 5 Product Differentiation

Who Is Victoria, and What Is Her Secret?

What is Product Differentiation?

Bases of Product Differentiation

Research Made Relevant: Discovering the Bases of Product Differentiation

Product Differentiation and Creativity

The Value of Product Differentiation

Product Differentiation and Environmental Threats

Strategy in Depth: The Economics of Product Differentiation

Product Differentiation and Environmental Opportunities

Ethics and Strategy: Product Claims and the Ethical Dilemmas in Health Care

Product Differentiation and Sustained Competitive Advantage

Rare Bases for Product Differentiation

The Imitability of Product Differentiation

Organizing to Implement Product Differentiation

Organizational Structure and Implementing Product Differentiation

Management Controls and Implementing Product Differentiation

Strategy in Depth: Going in Search of Blue Oceans

Compensation Policies and Implementing Product Differentiation Strategies

Can Firms Implement Product Differentiation and Cost Leadership Simultaneously?

No: These Strategies Cannot Be Implemented Simultaneously

Yes: These Strategies Can Be Implemented Simultaneously

Summary

Challenge Questions

Problem Set

End Notes

CHAPTER 6 Flexibility and Real Options

Table of Contents

Why Is Netflix called Netflix?

What is Strategic Flexibility?

Types of Flexibility

The Value of Strategic Flexibility

Incorporating Risk in Strategic Decision Making

Limitations of Risk Based Decision Making Under Uncertainty

Valuing Flexibility

Strategy in Depth: The BlackScholes Model for Valuing Financial Options

Research Made Relevant: The Value of Real Options Thinking

Strategic Flexibility and Sustained Competitive Advantage

Rare and Costly to Imitate Flexibility

Organizing to Implement Strategic Flexibility

Ethics and Strategy Feature: Treating Employees as Flexible Assets

Summary

Challenge Questions

Problem Set

End Notes

CHAPTER 7 Collusion

A Gas Station Conundrum

What is Collusion?

Ethics and Strategy Feature: The Ethics of Collusion

The Value of Collusion

Colluding to Reduce the Threat of New Competitors

Colluding to Reduce the Threat of Current Competitors

Strategy in Depth: How Colluding Firms Generate Economic Profits

Colluding to Reduce Other Competitive Threats

Collusion and Sustained Competitive Advantage

Ways Firms Can Cheat on Collusive Agreements

Explicit and Tacit Collusion

Industry Attributes and the Threat of Cheating

Research Made Relevant: Sending Signals to Maintain Collusion

Rarity and Costly to Imitate Collusion Strategies

Organizing to Implement Tacit Collusion

Organizational Efficiency

Organizational Self-Discipline

Summary

Table of Contents

Challenge Questions

Problem Set

End Notes

End of Part 2 Cases

Case 21: McDonalds: Comeback in the U.S. Burger Market?

Case 22: The Levis Personal Pair Proposal

Case 23: Papa Johns International, Inc.: Growth Challenges

Case 24: Ryanair The Low Fares Airline

Case 25: Torrey Nano, Inc.

Case 26: Collusion in Major League Baseball

Part 3: CORPORATE STRATEGIES

CHAPTER 8 Vertical Integration

Outsourcing Services

What Is Corporate Strategy?

What Is Vertical Integration?

The Value of Vertical Integration

Strategy in Depth: Measuring Vertical Integration

Vertical Integration and the Threat of Opportunism

Vertical Integration and Firm Capabilities

Vertical Integration and Flexibility

Applying the Theories to the Management of Call Centers

Research Made Relevant: Empirical Tests of Theories of Vertical Integration

Integrating Different Theories of Vertical Integration

Vertical Integration and Sustained Competitive Advantage

The Rarity of Vertical Integration

Ethics and Strategy: The Ethics of Outsourcing

The Imitability of Vertical Integration

Organizing to Implement Vertical Integration

Organizational Structure and Implementing Vertical Integration

Management Controls and Implementing Vertical Integration

Compensation in Implementing Vertical Integration Strategies

Summary

Challenge Questions

Problem Set

Table of Contents

End Notes

CHAPTER 9 Corporate Diversification

Diversifying with a Core Mission

What is Corporate Diversification?

Types of Corporate Diversification

Limited Corporate Diversification

Related Corporate Diversification

Unrelated Corporate Diversification

The Value of Corporate Diversification

What Are Valuable Economies of Scope?

Research Made Relevant: How Valuable Are Economies of Scope?

Can Equity Holders Realize These Economies of Scope on Their Own?

Ethics and Strategy: Globalization and the Threat of the Multinational Firm

Corporate Diversification and Sustained Competitive Advantage

The Rarity of Diversification

Strategy in Depth: Risk-Reducing Diversification and a Firm's Other Stakeholders

The Imitability of Diversification

Summary

Challenge Questions

Problem Set

End Notes

CHAPTER 10 Organizing to Implement Corporate Diversification

Is It Soup Yet?

Organizational Structure and Implementing Corporate Diversification

The Board of Directors

Strategy in Depth: Agency Conflicts Between Managers and Equity Holders

Research Made Relevant: The Effectiveness of Boards of Directors

Institutional Owners

The Senior Executive

Corporate Staff

Division General Manager

Shared Activity Managers

Management Controls and Implementing Corporate Diversification

Evaluating Divisional Performance

Allocating Corporate Capital

Transferring Intermediate Products

Table of Contents

Compensation Policies and Implementing Corporate Diversification

Ethics and Strategy: Do CEOs Get Paid Too Much?

Summary

Challenge Questions

Problem Set

End Notes

CHAPTER 11 Strategic Alliances

Alliances Between Chinese and U.S. Firms

What is a Strategic Alliance?

How do Strategic Alliances Create Value?

Strategic Alliance Opportunities

Strategy in Depth: Winning Learning Races

Research Made Relevant: Do Strategic Alliances Facilitate Tacit Collusion?

Alliance Threats: Incentives to Cheat on Strategic Alliances

Adverse Selection

Moral Hazard

Holdup

Ethics and Strategy: When It Comes to Alliances, Do Cheaters Never Prosper?

Strategic Alliances and Sustained Competitive Advantage

The Rarity of Strategic Alliances

The Imitability of Strategic Alliances

Organizing to Implement Strategic Alliances

Explicit Contracts and Legal Sanctions

Equity Investments

Firm Reputations

Joint Ventures

Trust

Summary

Challenge Questions

Problem Set

End Notes

CHAPTER 12 Mergers and Acquisitions

The Travails of Technology Acquisitions

Ethics and Strategy: Is Greed Good?

What Are Mergers and Acquisitions?

Table of Contents

The Value of Mergers and Acquisitions

- Mergers and Acquisitions: No Economies of Scope
- Mergers and Acquisitions: When Economies of Scope Exist
- Returns to Mergers and Acquisitions: Research Results
- Strategy in Depth: Evaluating the Performance Effects of Acquisitions
- Why Are There So Many Mergers and Acquisitions?

Mergers and Acquisitions and Sustained Competitive Advantage

- Valuable, Rare, and Private Economies of Scope
- Valuable, Rare, and Costly to Imitate Economies of Scope
- Unexpected Valuable Economies of Scope Between Bidding and Target Firms
- Implications for Bidding Firm Managers
- Implications for Target Firm Managers
- Research Made Relevant: The Wealth Effects of Management Responses to Takeover Attempts

Organizing to Implement a Merger or Acquisition

- Post-Merger Integration and Implementing a Diversification Strategy
- Special Challenges in Post-Merger Integration

Summary

Challenge Questions

Problem Set

End Notes

End of Part 3 Cases

- Case 31: National Hockey League Enterprises Canada: A Retail Proposal
- Case 32: Starbucks: An Alex Poole Strategy Case
- Case 33: Rayovac Corporation: International Growth and Diversification Through Acquisitions
- Case 34: Aegis Analytical Corporations Strategic Alliances
- Case 35: Activision's Crush on Mobile Gaming

Appendix: Analyzing Cases and Preparing for Class Discussions

Glossary

Company Index

Name Index

Subject Index