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.
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 People Management 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 Resource-Based View
  Where Does the Responsibility for Competitive Advantage in a Firm Reside?
  Competitive Parity and Competitive Advantage
  Difficult to Implement 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 Business Level 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 Share Really?
    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 SelfDiscipline
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
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: RiskReducing 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: Activisions Crush on Mobile Gaming

Appendix: Analyzing Cases and Preparing for Class Discussions
Glossary
Company Index
Name Index
Subject Index