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.
Dedication

This book is dedicated to my wife, Kim, and our 11 grandchildren: Isaac, Dylanie, Audrey, Chloe, Lucas, Royal, Lincoln, Nolan, Theo, Cade, and Townes. They help me remember that no success can compensate for failure in the home.

—Jay B. Barney

This book is dedicated to my wife Denise and my soon to be 14 grandchildren: Ellie, Owen, Emerson, Cade, Elizabeth, Amelia, Eden, Asher, Lydia, Scarlett, Charlotte, Amos, and Claire.

—William S. Hesterly
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NEW TO THIS EDITION

What Should Be Included in a Strategic Management Text?

A very interesting question. Some books seem to think that the answer to this question is: Everything. And so, they get longer and longer each edition. Nothing dropped, plenty added.

We have taken a very different approach:

• Topics that are now covered more completely in non-strategic management texts are dropped.
• Models or frameworks that have proved to be theoretically unsound or empirically not substantiated are dropped.
• Strategic management models that provide important insights that have emerged over the last few years are added.

The result of all these changes is that the sixth edition of our text is just about the same length as the first edition, although the content of the sixth edition is dramatically different than all prior editions.

What Have We Dropped

Two elements have most obviously been dropped from this edition. In both cases, this decision was made, not because these are unimportant topics, but rather, because they are so important that non-strategic management text books have been written to address them.

• The “Strategy in the Emerging Enterprise” feature in each chapter has been dropped. As entrepreneurship teaching has become more important, these topics have been receiving enhanced coverage in entrepreneurship texts.
• The “International Strategies” chapter has been dropped. Again, this is not because international strategy is unimportant. Rather, it is so important that entire texts are dedicated to this topic.

What Has Been Added

By dropping these two topics, we were able to add two new chapters to this edition, while keeping the length of the book more or less the same.

• Chapter Six: Flexibility and Real Options. This chapter summarizes the latest theoretical and empirical work on the value of strategic flexibility. It describes the settings under which flexibility will create value, and how that value can be estimated.
Chapter Seven: Collusion. This chapter explores the economic—and ethical—implications of explicit and tacit collusion. Even if a particular firm chooses to not engage in collusion, it must still understand this strategy and its economic consequences, because some of its competitors may choose this strategy.

These two chapters have all the teaching elements (Learning Objectives, Opening case, Research made Relevant feature, Strategy in Depth feature, Ethics and Strategy feature, Challenge Questions, and a Problem Set) and are supported by cases, just like the other chapters in the book. However, they explore important strategic options that receive less attention in other texts.

Of course, all the opening cases and examples used throughout the book have been updated or changed, as have the supporting cases and instructor’s manual. New opening cases include:

- “Go, Pokémon, Go” in Chapter One: This case discusses how the Pokémon altered reality game was created, and asks if this product will be a source of sustained competitive advantage.

- “How Attractive is the Music Streaming Industry?” in Chapter Two: Music streaming services are very popular, but very few make money. Why is this the case, and what impact will this have on the strategies of these firms?

- “When a Noun Becomes a Verb” in Chapter Three: Why has Google gained a competitive advantage, and will they be able to sustain it?

- “Is it Soup Yet” in Chapter Ten: Alphabet has organized itself into a multi-divisional corporation, but will this help this company, and its operating divisions—including Google—grow and maintain their competitive advantage.

New supporting cases include: McDonald’s, Collusion in Major League Baseball, Torrey Nano (a fictional case), and Activision’s Crush on Mobile Gaming.
What Remains the Same

All the chapters in the book—beginning with Chapter Three—are still organized around the VRIO framework. Students at all levels continue to find this framework helpful in thinking about and applying what can be a very complex topic—strategic management.

We also continue to integrate the latest theory and empirical research into the text—but in a way that helps students apply these concepts in a real world setting. Consider just two examples:

Research Made Relevant

Rita McGrath and Ian MacMillan argue that under conditions of uncertainty, managers should invest in a diversified range of projects that parallel many of the real options discussed in this chapter. These projects can be arrayed as in Figure 6.1.

In this figure, technical uncertainty refers to the extent to which managers understand the process by which a new product or service will be developed before that process is undertaken. Low technical uncertainty exists when managers know what kinds of skills and other resources they will need to develop a new product or service, the cost of acquiring these skills and resources, how to manage them effectively, and so forth. High technical uncertainty exists when managers do not know these things about a new product or service.

Market uncertainty, in Figure 6.1, refers to the extent to which managers understand how a new product or service will be received in the market. Low market uncertainty exists when managers know the price at which a product or service is likely to sell, the likely size of the market, and so forth. High market uncertainty exists when managers do not know these things about a new product or service.

The Value of Real Options

Thinking

• The “Research Made Relevant” feature in Chapter Six’s discussion of flexibility and real options presents a simple—yet remarkably powerful—way of calculating the value of a firm’s strategic options.

Research Made Relevant

In 1994, Lang and Stulz published a sensational article that suggested that, on average, when a firm began implementing a corporate diversification strategy, it destroyed about 25 percent of its market value. Lang and Stulz came to this conclusion by comparing the market performance of firms pursuing a corporate diversification strategy with portfolios of firms pursuing a limited diversification strategy. Taken together, the market performance of a portfolio of firms that were pursuing a limited diversification strategy was about 25 percent higher than the market performance of a single diversified firm operating in all the businesses included in this portfolio. These results suggested that not only were economies of scope not valuable, but, on average, efforts to realize these economies destroyed economic value. Similar results were published by Comment and Jarrell using different measures of firm performance.

Not surprisingly, these results generated quite a stir. If Lang and Stulz were correct, then diversified firms—no matter what kind of
Solving Teaching and Learning Challenges

Some MBA and undergraduate business programs teach strategic management early in the curriculum, to give students a broad strategic perspective before they begin specializing in particular functional areas. Others teach strategic management later in the curriculum, after students have taken a deep dive into one or more functional areas.

Students in these different programs bring very different skill sets to the strategic management course. This book accommodates faculty and students in both kinds of programs.

Teaching in a “Strategy First” Curriculum

Faculty who teach in “strategy first” programs can emphasize the core text material in each chapter—and the associated cases—and de-emphasize the “Strategy in Depth” and “Research Made Relevant” features. This core material does not require much background in other business functions, and when it does, the required background is explained in detail. However, there is enough substance in this material to enable students to read and analyze the cases, and to apply strategic management ideas throughout their curriculum, and into their career choices.

Teaching in a “Strategy Last” Curriculum

Faculty who teach in “strategy last” programs can broaden their emphasis to include the “Strategy in Depth” and “Research Made Relevant” features. These features include most of the technical, economic, and mathematical discussions in the book—discussions that build directly on knowledge students should have received in their functional classes. These materials make it possible for students and faculty to go into much more analytical detail in discussing the cases, and help demonstrate how the ideas developed in other functional areas are relevant in strategic management.

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Developing Employability Skills
Students who take the strategic management course often ask—how can this course enhance my employability? This question is answered in Chapter One of this book.

The VRIO framework is not just a tool for analyzing sources of competitive advantage for firms, it can also be used by students to assess whether or not they have a competitive advantage in the labor market. Consider the following:

- Is a student’s knowledge of how to discount a firm’s cash flow likely to be a source of competitive advantage in the labor market? This skill is valuable, but—because every business student in the world learns this skill—it is not rare, and thus will only be a source of competitive parity for a student.
- Is a student’s ability to derive projected cash flows and an appropriate discount rate from a deep understanding of a firm’s strategy likely to be a source of competitive advantage in the labor market? This skill is also valuable, but—in my experience—it is more rare, and thus potentially a source of competitive advantage.
- Which is more likely to be a source of competitive advantage for a student in the labor market: The ability to recite the “Five P’s” in marketing or the ability to leverage their unique work experiences—either in a full time job or an internship—with their education to analyze a firm’s marketing strategy? The VRIO framework suggests the latter, not the former, approach will more likely be a source of competitive advantage.

Competing for a great job in the labor market is just another form of competition. Students who want to gain a competitive advantage in that market must build valuable, rare, and costly to imitate capabilities. As described in Chapter Three, these capabilities will typically need to be socially complex, path dependent, or causally ambiguous.

Put differently, this book is not just about corporate competitive advantage in the product market, it is also about a student’s competitive advantage in the labor market.

Instructor Teaching Resources
At the Instructor Resource Center, www.pearsonhighered.com/irc, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to
help with the media supplements that accompany this text. Visit https://support.pearson.com/getsupport for answers to frequently asked questions and toll-free user support phone numbers.

This program comes with the following teaching resources.

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<th>Supplements available to instructors at <a href="http://www.pearsonhighered.com/irc">www.pearsonhighered.com/irc</a></th>
<th>Features of the Supplement</th>
</tr>
</thead>
</table>
| Case Teaching Notes authored by William Hesterly from the University of Utah | • Case-by-case summaries  
• Examples and activities not in the main book  
• Study questions  
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• Case analysis and discussion |
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Acknowledgments

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Professor Barney consults with companies and other organizations to help identify and leverage their sources of sustained competitive advantage. His over 50 clients have included Honeywell, Hewlett Packard, Texas Instruments, Koch Industries, Nationwide Insurance, Cardinal Health, and Columbus Public Schools.

WILLIAM S. HESTERLY

William Hesterly is the Associate Dean for Faculty and Research and the Dumke Family Presidential Chair of Strategic Management in the David Eccles School of Business, University of Utah. After studying at Louisiana State University, he received bachelor’s and master’s degrees from Brigham Young University and a Ph.D. from the University of California, Los Angeles.

Professor Hesterly’s research on organizational economics, vertical integration, organizational forms, and entrepreneurial networks has appeared in top journals including the Academy of Management Review, Organization Science, Strategic Management Journal, Journal of Management, and the Journal of Economic Behavior and Organization. His research has been mentioned on the front page of the Wall Street Journal and was featured prominently in Malcolm Gladwell’s 2010 New Yorker article, “Talent Grab.”

Professor Hesterly’s research was recognized with the Western Academy of Management’s Ascendant Scholar Award in 1999. Dr. Hesterly has also received best paper awards from the Western Academy of Management and the Academy of Management. Professor Hesterly has served on the editorial boards of Strategic Organization, Organization Science and the Journal of Management. He also served as the Senior Editor of Long Range Planning, the leading European journal in strategy.

Professor Hesterly has previously served as Associate Dean for Academic Affairs, Department Chair, and also as
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Professor Hesterly has been recognized multiple times as the outstanding teacher in the MBA Program at the David Eccles School of Business and he has also been the recipient of the Student’s Choice Award. He has also received the outstanding teacher awards in both the EMBA and PhD programs at the David Eccles School of Business.

Professor Hesterly has served as a consultant to Fortune 500 firms in the electronic, office equipment, paper, telecommunications, energy, aerospace, and medical equipment industries. He has also consulted with smaller firms in several other industries. He has taught in a variety of executive programs, both in universities and corporations.