

Management Policy and Strategy



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*To
scholars who have
been engaged in research in
organizational strategy*

Preface

A sufficient body of knowledge has now been developed directly in the field of organizational policy and strategy to justify its compilation and its use by students as background for their study of actual business situations. In years past the tendency in business policy courses has been to review either the management process literature or the functional areas of business, such as marketing and finance, as a preliminary to the analysis of cases, business games, experiences in real organizations, and the like. We believe it is much more important to focus directly on policy and strategy formation and implementation. Furthermore, we believe enough is now known from theory, research, and practical experience to justify such a focus. This is not to say that a knowledge of management process and business functions is unimportant; however, these topics are covered elsewhere in the business curriculum. The subject matter of this book typically is not covered; in any case it is never covered in the depth provided here.

Discussions with many instructors of policy courses, together with an examination of the books used, reveals the development of some significant new trends and needs in policy courses: a focus on top management and the total organization rather than on functional areas; stress on strategic management in contrast with operational management; the use of top management strategy as a new integrating concept of analysis; the introduction into classroom discussion of basic research on the identification, evaluation, and implementation of strategy; expansion of analysis beyond the business sector to include the not-for-profit sector; the addition of materials concerning business ethics and morality; and the use of descriptive materials to complement cases. This book supports these basic trends and needs that we detect in the teaching of policy courses.

There are, of course, two types of management in organizations (except in the very smallest)—strategic management, which is conducted at the top of the pyramid, and operational management, which is performed in other areas of the organization. These two types differ significantly. Most books that deal with the management process focus almost entirely on operational management. Our hope is that our book will be useful in general management courses where students wish more exposure to strategic management.

In Chapter 1 we set forth in more detail the ways in which we hope this book will support the trends and fill the needs mentioned above. The remainder of the book is divided into five parts.

Part I briefly defines what is meant by policy and strategy and describes the critical roles they play in organizations.

Part II is concerned with overall forces that have important effects on the formulation and implementation of strategy. Here, for instance, we discuss the impact of changing environment on policy and strategy, the changing social role of business in society, and the impact of various managerial styles and organizational life cycles on policy and strategy. Our intent is to provide an overview of important considerations needed as a background for understanding material in later chapters.

In Part III we examine in depth the approaches to formulating business policy and strategy and the research that is of most significance in this process. Heavy stress is placed on systematic strategic planning and the roles of people in this process.

Part IV deals with the implementation of policy and strategy. Here the preferred methods for implementation are examined. Blended into the discussion are the results of research on operational systems and behavioral research concerned with people as they influence and are affected by implementation programs.

Part V deals with policy and strategy in different contexts. One chapter is concerned with entrepreneurship. Another deals with the special aspects of formulating and implementing policy and strategy in nonprofit organizations. Finally, we discuss contingency theories of policy and strategy formulation and implementation generally.

Although this comparatively short book, short at least for the policy field, is designed primarily to support trends in teaching in the policy area, as noted above, we do not recommend that it be used alone. We believe that learning about policy and strategy in operational settings must also include real or vicarious experience in actual situations. This can often be accomplished by the use of cases. Conversely, it is our view that cases alone are not enough. If cases alone are used, there is a real danger that each will be considered separately, and students will fail to comprehend those generalizations that will enrich their understanding of the policy/strategy formulation and implementation process. Furthermore, case evaluations and student understanding of managerial policy/strategy problems and processes should be enriched by an examination of the research in the field, which has now grown to sizable proportions. Students can, of course, dig out the research literature for themselves. Realistically, however, they are better served if the available relevant research and/or references can be organized for them in one place. Thus, we believe that the best approach is to combine research findings and references with cases. Although the book is for both graduate and undergraduate courses in business policy and general management, there are, of course, many different ways in which it can be mixed with cases and other readings.

While coming to operationally successful policy and strategy conclusions is more a matter of art and wisdom than of skill in using tools and specific pieces

of knowledge, we believe that research findings in this field have powerful pragmatic applications. It is our hope, therefore, that line managers and staff specialists in all organizations will find valuable uses for the volume.

The authors' collaboration on this volume has been a rewarding and enriching experience. The first author has spent much of his life working in the fields of top management planning and business and society; his early preparation was in economics. The second author has been involved in personnel management and organizational behavior and was originally trained in psychology. We have divided our task so that each of us might focus on those aspects of the total policy/strategy formation and implementation process he knows best. At an early point in our writing we made a strategic decision of our own—not to sacrifice to the demands of fully unified presentation and integrated style the unique contributions that each might make to the coverage of particular topics. We believe that the book is in fact richer and broader in its treatment because of this decision to utilize fully our diverse backgrounds.

We are deeply indebted to the many scholars and practitioners who have written about policy and strategy. Many of them and their written works are recognized in this book.

We wish also to thank Betty Delbridge, secretary to George Steiner, and Barbara Williams, administrative assistant to John Miner, who were most helpful in preparing the manuscript.

G. A. S.
J. B. M.

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P A R T

I

The Nature and Importance of Business Policy / Strategy

Introduction

Most schools of business in the United States, as well as those in other countries of the world, have a capstone course in their curriculum that is concerned with "business policy." This book is designed for such a course. The nature of the business policy course, the changes taking place in the concept of such courses, and the objectives of the policy course, as well as the structure of the book are discussed in this introductory chapter.

THE BUSINESS POLICY COURSE

The impetus to the widespread introduction of business policy courses into school of business curriculums came in 1959 with reports sponsored by the Ford Foundation and the Carnegie Corporation of New York. Both reports were evaluations of course content in schools of business and both made recommendations about curriculum revisions which were designed to strengthen programs of study. The Gordon and Howell report [1959:206–207] * sponsored by the Ford Foundation, made the following recommendation:

The capstone of the core curriculum should be a course in "business policy" which will give students an opportunity to pull together what they have learned in the separate business fields and utilize this knowledge in the analysis of complex business problems. The business policy course can offer the student something he (or she †) will find nowhere else in the curriculum: consideration of business problems which are not prejudged as being marketing problems, finance problems, etc.; emphasis on the development of skill in identifying, analyzing, and solving problems in a situation which is as close as the classroom can ever be to the real business world; opportunity to consider problems which draw on a wide range of substantive areas in business; opportunity to consider the external, nonmarket implications of problems at the same time that internal decisions must be made; situations which

* References, shown in square brackets, will be found on pages 323–354.

† Whenever *he* or *she* is used to refer to a person we mean either *he* or *she*. This is done without prejudice and only to avoid the awkwardness of saying each time he or she, his or her, or he/she.

enable the student to exercise qualities of judgment and of mind which were not explicitly called for in any prior course. Questions of social responsibility and of personal attitudes can be brought in as a regular aspect of this kind of problem-solving practice. Without the responsibility of having to transmit some specific body of knowledge, the business policy course can concentrate on integrating what already has been acquired and on developing further the student's skill in using that knowledge. The course can range over the entire curriculum and beyond [1959, pp. 206–207].

This point of view was also taken by the Pierson report [1959] sponsored by the Carnegie Corporation of New York. In 1969 the American Assembly of Collegiate Schools of Business included in its revised statement of curriculum standards for accreditation the provision that “study of administrative processes under conditions of uncertainty including integrating analyses and policy determination at the overall management level,” be required of all students in business and administration programs.

Business policy courses have evolved in different directions but, generally, they can be characterized as capstone integrative courses much as Gordon and Howell recommended in their report [Mintzberg, 1971; Guth, 1971]. When details of course content and teaching methods are examined, however, there is a great diversity. So different are policy courses that Starbuck, with tongue in cheek, observed that: “Business policy is a course which appears near the end of a student's curriculum bearing the title ‘Business Policy’ ” [1966, p. 357].

One common characteristic of many policy courses is a heavy reliance on business cases as subjects of study. Through the use of cases covering all aspects of management, students apply the skills they have learned, come to understand better the attitudes of managers, and pick up knowledge about management which derives from the case. The use of this method has a long tradition extending back to 1908 when the Harvard Business School first announced its intention of using cases in its classroom discussions [Copeland, in McNair, 1954].

NEW TRENDS IN POLICY COURSES

In recent years several trends in business policy courses are noticeable. First, the focus is on top management and the total organization, rather than on functional areas. Second, the core synthesizing concept of study is strategic management. Third, research findings about these two aspects of the area are introduced into policy course work. Fourth, policy issues and cases have been added for organizations in the nonbusiness sector. Fifth, while separate case books have long been available concerning business social responsibilities and business ethics the traditional policy course did not cover such subjects. The

trend now is to introduce such cases in the policy course. Each of these trends will be examined now in more detail.

The View from the Top

The central view of this book is the role of the chief executive officer (CEO) of an organization as he looks at his total organization. The CEO is not necessarily singular but can be plural in the case of joint top executive authority in "offices of the president." The CEO can be plural, also, in the sense that different top executives may have types of plenary power over an organization under certain circumstances. So, in the present frame of reference, a CEO can be a top manager of an organization and not necessarily the *one* person who has that title. However, for ease of presentation the discussion here does adopt the singular mode.

The view of the top manager is unique. No one else in an organization has the same perspective. He alone is responsible for relating his organization to a changing environment. He alone is responsible for assuring the proper balance among various competing subsystems in his organization. He alone is responsible for determining the total thrust of the organization and for assuring that performance matches his design. Additional unique responsibilities of the CEO will be set forth in later chapters.

It is significant to note here that just as the role of the CEO is unique, so is his way of thinking. Not all CEO's, of course, think alike, but there is a special way of thinking associated with the functioning of the top executive. It concentrates on the total enterprise rather than parts of it. Forrester [1964: 60] has correctly pointed out that an understanding of the functioning of a total business system does not merely extend the phenomena of simpler situations. "Entirely new phenomena take place." CEO's think in these terms. There are two types of management in an organization—strategic management that exists at the very top and all other management which might be called operational management. The thought processes, the attitudes, the perspective, the frames of reference, the methods of analysis, and the skills differ between the two.

To illustrate differences in perspective, consider the specialist versus the general top level manager. The specialist is an expert on a particular subject because his life has been devoted to mastering that subject. On other subjects he generally is no more informed than the average person. Specialists' thought patterns differ depending upon their specialties, but each specialist establishes standards for rationality drawn from his discipline and each seeks to decide matters in those terms. The standards may be equity, justice, and legal precedence (*stare decisis*) for the lawyer; cost reduction with acceptable quality for the engineer; quantitative solutions that optimize output for the operations research specialist; or profit maximization for the economist. The general top manager thinks in different terms. He must consider all relevant specialist criteria and then decide based on what is in the best interests of his

organization as he sees those interests. What that means depends upon the organization, the problem, the philosophies of the manager, and pressures placed upon him.

In looking at the entirety of an organization, the top manager also approaches decision making differently than major division line managers. A major division line manager considers himself to be a part of a larger organization. But within the larger organization he thinks differently than the CEO at central headquarters. Indeed, the two may be and often are in conflict. For example, the divisional manager may wish a capital allocation to meet his needs which the CEO may not grant because of other higher level priorities of his total organization. Such conflicts are natural and understandable.

CEO's also think differently than functional departmental managers. Again, managers of such departments certainly consider themselves "team members" of a larger organization. But, again, their thought patterns are much different than those of top executives responsible for a total enterprise. For instance, sales managers tend to place greatest emphasis on increasing sales, market share, and reputation with customers. This emphasis, if unchecked, may be at the expense of profits. Financial executives, on the other hand tend to think in terms of profit, liquidity, low risk, and high return on investment. This viewpoint, if not balanced, may stifle growth and reduce risk taking and initiative. Research and development scientists may concentrate on new technical breakthroughs, top quality products, and research that interests them. This attitude, too, may result in costly research with limited applicability to the organization. Other functional departments have different driving motivations. All must be related to and integrated in the larger organization of which they are a part, and that is done by the CEO and his closely associated line managers and staff.

The student might ask at this point: "Why should I study the work and thinking of the top level managers of organizations? I will never get there." There are a number of answers to this legitimate question. To begin with, most business students will find their careers in organizations, especially large business organizations. Whether they become staff experts or general functional managers, the more they know about the top management of organizations the better they will be able to contribute. Also, the more they know about the top, the less frustrated they are likely to be in dealing with it. Although the focus is on top management, the analysis of cases, which will be discussed later, requires a perspective and methodological approach which students will find helpful in entering the world of organizations no matter at what level and job. For the student as well as the layman interested in policy, the study of top management can be stimulating in itself. We are dealing here with an extremely important talent in organizations which in one way or another has a very significant impact on our lives, individually and as a society. Finally, who knows which student will eventually wind up at the top

of an organization? The policy course may help many to get there and to do a better job when they arrive.

Strategic Management, Strategy and Strategic Planning

Strategic management is a new name given to top management to distinguish it from operational management. Although the distinction between top management activities and operational management is not new [Goetz, 1963; Anthony, 1965] the name strategic management is new and certainly the recognition of its growing significance is of recent origin [Frankenhoff and Granger, 1971; Ansoff, 1972; Schendel and Hatten, 1972; and Irwin, 1974]. This concept is considered in detail in Chapter 3, but at this point a few aspects of it must be mentioned.

Schendel and Hatten [1972:5] define strategic management “as the process of determining and (maintaining) the relationship of the organization to its environment expressed through the use of selected objectives, and of attempting to achieve the desired states of relationship through resource allocations which allow efficient and effective action programs by the organization and its subparts.” This definition is accepted here, with the observation that it describes a responsibility which top management has always had. Why then the new concept?

The emphasis on strategic management as distinct from operational management reflects the growing significance of environmental impacts on organizations and the need for top managers to react appropriately to them. As Organ [1971:74] has observed, “. . . there is a growing suspicion that the more relevant criterion of organizational effectiveness is not, as it used to be, that of efficiency, but rather that of adaptability to changes in the environment.” Although strategic management, in Schendel and Hatten’s terms, emphasizes adaptation to the environment, it does not neglect management of internal affairs. But the emphasis has shifted significantly from older concepts of the managerial job.

Strategy is the central and unique core of strategic management. Strategy refers to the formulation of basic organizational missions, purposes, and objectives; policies and program strategies to achieve them; and the methods needed to assure that strategies are implemented to achieve organizational ends. A more detailed examination of the meaning of strategy and policy will be given in Chapter 2, but the reader is asked to accept this definition in this introductory chapter. Again, because of its importance, the emphasis is on strategy (and policy) rather than on tactics. “Leaders will be judged,” says Boettinger [1973:3] “. . . not by tactical nimbleness but by the robustness of their strategic decisions for the organizations they head.”

In a growing number of corporations, particularly the larger companies, the framework by means of which strategy is devised is the formal long range planning process. This is a process that varies from firm to firm but, increas-