

The Blackwell Encyclopedic Dictionary of Strategic Management

Edited by Derek F. Channon

Imperial College



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**The Blackwell Encyclopedic
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Foreword

It is a privilege to introduce this book and its contributors to a great new readership – the people of China.

In a transforming economy the challenge is to find new ways of managing and organising that harmonise with national culture. In meeting this challenge the most important tools are ideas and knowledge. This book is a toolbox containing a wealth of powerful and influential ideas. This is knowledge that has been influential in shaping how we think about what goes on in organisations, and which has stood the test of time. You will also find here ideas that are emerging as signposts for the future development of organisations and management. One major barrier to adopting this knowledge has been its restriction to the readers of specialist journals and books. This has led, over the years, to a great proliferation of specialist concepts and terminology – impenetrable jargon to the nonspecialist, making it unnecessarily difficult for lay readers to understand and get full value from the insights of scholars. The present volume solves this problem by providing a systematic inventory of key concepts, with clear explanations of them by a collection of the world's experts.

In a transforming economy like China, it is my hope that a book like this will be immensely valuable to

- a) scholars and students who want a source book for key concepts, references to further reading, and linkages with other topics [cross references are indicated by words in SMALL CAPITALS]
- b) business leaders and professionals who want clear explanations of management and organisational terms, and ideas about how to apply them in business settings
- c) broad-minded and intelligent general readers who want quick digests of the essential academic knowledge on a given topic.

There are many ways of using a book like this. The cross-indexing system allows you to explore at will. If you pick a theme, you can follow a path of interconnected ideas through the main areas of business and management. For readers in China, as a region in the

midst of radical economic and social change, so of these might be as follows:

1. **Management style.** What kinds of leadership seem to work best and why? What are the preconditions for effective authority?

[see, for example, entries on: CEOS; DELEGATION; ENTREPRENEURSHIP; LEADERSHIP, MANAGERIAL BEHAVIOR; MANAGEMENT STYLE; POWER; RISK-TAKING; STRATEGIC MANAGEMENT; SUCCESSION PLANNING; SUPERVISION; TEAMBUILDING; TOP MANAGEMENT TEAMS; TURNAROUND MANAGEMENT; WOMAN MANAGERS]

2. **Organisational design.** How do you get the best out of people through how you organise tasks, communication networks and decision-making systems?

[see, for example, entries on: BUREAUCRACY; COMMUNICATION; DECENTRALIZATION; FAMILY FIRMS; INFORMATION TECHNOLOGY; JOB DESIGN; MATRIX ORGANIZATION; MULTINATIONAL CORPORATIONS; ORGANIZATION DEVELOPMENT; ORGANIZATIONAL DESIGN; ORGANIZATIONAL EFFECTIVENESS; RESTRUCTURING; SOCIOTECHNICAL THEORY; TECHNOLOGY]

3. **Human Resource systems.** What is current accepted wisdom about the effectiveness of key practices and processes? How do you make them work best?

[see, for example, entries on: ASSESSMENT CENTRES; DISABILITY; HOURS OF WORK; HUMAN RESOURCE STRATEGY; JOB ANALYSIS; MANAGEMENT DEVELOPMENT; NEGOTIATION; PARTICIPATION; PAYMENT SYSTEMS; PERFORMANCE APPRAISAL; PSYCHOLOGICAL CONTRACT; RACE; RECRUITMENT; SAFETY; SELECTION METHODS; TRAINING]

4. **Individual performance and adaptation.** Under conditions of change, which methods work best and how do people's motives translate into productive action?

[see, for example, entries on: ABSENTEEISM; CHANGE METHODS; COMPETENCIES; CREATIVITY; ERRORS; GOAL SETTING; INTERPERSONAL SKILLS; MENTAL HEALTH; MOTIVATION; PERFORMANCE, INDIVIDUAL; PERSONALITY; PRODUCTIVITY; QUALITY CIRCLES; STRESS]

5. **The cultural context for management.** How can we best understand and analyse how values and practices adapt to different national and industrial contexts?

[see, for example, entries on: CRISES; CULTURE; DOWNSIZING; EXPATRIATES; GOVERNMENT AND BUSINESS; INTERNATIONAL MANAGEMENT; MANAGEMENT OF DIVERSI-

TY; ORGANIZATIONAL CULTURE; POPULATION ECOLOGY; PRIVATIZATION; TECHNOLOGY TRANSFER]

6. **Strategic decision making.** What are the hazards and opportunities for how business plans are formulated? How can groups and teams be used to best effect? what biases distort judgement?

[see, for example, entries on; BEHAVIORAL DECISION THEORY; CONSULTANCY INTERVENTION METHODS; DECISION MAKING; DIVERSIFICATION; GROUP DECISION MAKING; INNOVATION; MERGERS & ACQUISITIONS; NETWORKING TOTAL QUALITY MANAGEMENT]

7. **Ethics.** What do we know about how principled business can be achieved in demanding market environments? How can employees be encouraged to act as good corporate “citizens” and businesses as socially responsible forces?

[see, for example, entries on; BUSINESS ETHICS; CONFLICT, CORPORATE SOCIAL PERFORMANCE; DISCRIMINATION; JUSTICE; LEARNING ORGANISATION; MORAL DEVELOPMENT; ORGANIZATIONAL CITIZENSHIP; POLITICS; VALUES]

This list is not exhaustive. There are almost as many ways of using this book as there are entries. For this reason it is my hope and belief that Chinese readers will find their own special interests served by its rich contents.

Nigel Nicholson

London Business School

September 1999

To Charlotte and Toffee – the Golden Wonders

— Preface —

This book is the volume in the Blackwell Encyclopedia of Management devoted to the subject of strategic management. This relatively recent area of study in management stems from the 1970s, but its origins go much deeper. The literature of the subject builds upon the early pioneers of management thought, such as Urwick, Fayol, Taylor, Simon, Barnard, Chandler, and the like. Notice that nearly all of these names are from the USA. The list could be broadened to include others from Europe, such as Crozier, Woodward, Edwards, and Townsend. The field has also drawn somewhat on writers on military strategy, such as Clausewitz, Liddell Hart, Sun Tzu, Machiavelli, and Mao Tse Tung. Not all of these conceptual thinkers are represented in this book; nor are the writers in decision theory, game theory, and such like. Regrettably, there is a finite length to any volume.

The concept of strategic management in its present form developed in the 1960s with the emergence of two very different approaches – which ultimately became complementary – at the Harvard Business School and at Carnegie Mellon. At Harvard, by recognizing that something “different” occurred at the top management level of the large corporation, and based on many of the behavioral studies by practitioners and academics such as Barnard, Drucker, Selznick, Fayol, and Urwick, case-based material was developed which attempted to explain this behavior. Eventually, in 1965, Ken Andrews articulated the concept of corporate strategy as developed at Harvard. He combined the views of Drucker and the seminal work of Alfred Chandler to define strategy as:

The pattern of objectives, purposes or goals and major policies and plans for achieving these goals; stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.

In contrast, Igor Ansoff, coming from the Carnegie school and influenced by rational decision-making concepts, developed the view of strategy as the “common thread” among an organization’s activities and product/markets that defined the essential nature of the business that the organization was in and planned to be in the future.

At the same time as these two schools were developing within the academic world, in consultancy a number of important concepts were developing. Bruce Henderson and the Boston Consulting Group had developed the experience curve concept which, coupled with the observable diversification trend in large US corporations, led to the introduction of the growth share matrix, a recipe for balancing the cash flow profiles of different businesses based on expected cost advantages secured from the experience effect, the surrogate for which was subsumed to be relative market share. Similarly, Chandler’s structure findings were being widely disseminated by McKinsey and Company, both amongst diversified US corporations and around the world, to introduce the profit centered (and later strategic business unit centered) form of organizational structure.

During the next decade the field developed with some dichotomy between behavioral models of strategy and analytic methods. At Harvard, interestingly, the behavioral school tended to dominate in the area now known as Business Policy, while analytic techniques, such as those of the Boston Consulting Group, found root in the marketing faculty. Ansoff visited Europe where he was instrumental in establishing a European network of scholars and helping to establish the discipline of

viii PREFACE

corporate strategy there, in an environment exhibiting substantial skepticism that the area existed as a business discipline at all.

In the late 1970s, the strategic management movement in its present form was born. At perhaps the first international conference on the theme of corporate strategy, hosted by the University of Pittsburgh, it was decided by an international group of scholars that the term "Strategic Management" might be used to help coalesce the diversity between the concepts developed at Carnegie and at Harvard. Further, it was proposed that the new movement should endeavor to be truly international and embrace not only academics, but also business consultants and practitioners. This was cemented at a conference in Aix en Provence, hosted by Henry Mintzberg and attended by Dan Schendel and Derek Channon, who together with Igor Ansoff set out to create the Strategic Management Society and *Journal* in the next few years. The first international meeting of the Strategic Management Society was held in London in 1979, hosted by Hugh Parker of McKinsey and Company and Derek Channon, and attended by Dan Schendel and visitors from Harvard and around the world from business, academia, and consultancy.

The second meeting, hosted in Montreal by Henry Mintzberg, led to the creation of the Strategic Management Society. Meanwhile, Igor Ansoff, Derek Channon, and especially Dan Schendel had launched the *Strategic Management Journal*, which became and remains the leading professional journal in the area.

Since the beginning of the 1980s the area has expanded dramatically. Today it has become a leading area of management consultancy. It is a required area in the curriculum of virtually all graduate business administration and executive programs. In business, the concept of strategy is taken as an accepted norm and the search for strategic advantage has become a key element in corporate success. Notably, the work of Michael Porter in the early 1980s has built heavily upon the concepts of industrial economics, and the work of Mintzberg has challenged the analytic themes of rational economic strategy. The work of C. K. Prahalad and Gary Hamel has introduced new or modified concepts of core competence and globalization; and the consultancy industry has built upon finance theory to develop value based planning, re-engineering, benchmarking, and the like.

Seriously neglected in the literature of strategic management have been concepts from the East, and especially from Japan. This volume has, however, attempted to redress the almost total omission of the strategies, structures, and management techniques developed by Asian corporations. On average, the present major texts in the area devote less than one per cent of their content to this region, and yet in economic terms over the past several decades these countries have been the winners. Moreover, many of their management practices tend to be in almost direct contradiction of the best practices espoused in the West. We have therefore devoted a number of entries to attempting to describe and understand their management methods. While much of this discussion has been devoted to descriptions of actual practices, some attempt has also been made to show how, structurally, many of the strategies actually work. We hope this feature will add to the strategic management literature and help redress the imbalance.

The volume has also been designed to try to reflect the ideals established with the formation of the Strategic Management Society, namely to add value to the three constituencies of Academic, Business executives and Consultants, the ABCs that were the foundation of the Society. Thus, while the entries develop the theoretic concepts of the field, there is also an emphasis on the practical use of these.

Derek F. Channon

— Acknowledgments —

In producing this volume I have been supported by many others, without whom the task would have been impossible. In particular, I would like to single out Stephanos Avgeropoulos, who has worked with me both in producing many of the entries and in constructively criticizing what is in and what is out. I would also like to thank Peter Dempsey, formerly of Andersen Consulting, for his contribution in arranging and writing many of the entries on manufacturing. I am also heavily indebted to the leading consultancy companies which have provided contributions to this volume and to my strategic management specialization offered at Imperial College. These include McKinsey and Company, Cap Gemini, Marakon Associates, Barclays de Zoete Wedd, Charterhouse Bank, Price Waterhouse Consultants, Coopers and Lybrand, Arthur D. Little, Braxton Associates, and PIMS Europe. Thanks go to Kevin Jagiello and Gordon Mandry for the section on PIMS, which they were instrumental in establishing in Europe, and to my former colleagues at Manchester Business School. Other colleagues at The Management School, Imperial College have also contributed to and encouraged this effort; especially the director, David Norburn, and Richard Schoenberg, Dot Griffiths, Joe Tidd, Mike Brocklehurst, Benita Cox, and Kaye Loveridge. I would also like to thank Mrs Yvonne Doyle who has tolerated and worked assiduously on the numerous drafts of the book, and Paul and Christine Halliday of Quay Office Services who prepared much of the artwork. I would also thank all those academicians, business executives, and consultants, the ABCs of what Igor Ansoff, Dan Schendel, Henry Mintzberg, and I saw as the foundation for the subject in the very early years when it was very much just a dream in our eyes, and which have very much influenced my thoughts over the years.

While I thank all of the above, any mistakes, omissions, and errors are entirely mine.

Derek F. Channon

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—— Contents ——

Preface	vii-viii
Acknowledgments	ix
Figure and Table Acknowledgments	x-xiii
List of Contributors	xiv
Dictionary Entries A-Z	1-308
Index	309