

Alan L. Patz

**STRATEGIC
DECISION
ANALYSIS**

**A GENERAL
MANAGEMENT FRAMEWORK**

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Alan L. Patz

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Strategic Decision Analysis

To Linda and Christopher

Preface

As the title *Strategic Decision Analysis* suggests, the purpose of this book is to present a unified and comprehensive framework for analyzing general management strategic decision problems. The discussion is unified because social and political themes are given equal emphasis and integrated with the more traditional economic and environmental ones. Likewise, the approach is comprehensive in its coverage, ranging from market structure and dynamics to the structure and dynamics of small decision-making groups.

Leadership, program management, management control, accounting, and financial concepts are included when they directly pertain to or can be adapted to the analysis of strategic issues, and end-of-the-chapter problems have been designed to facilitate understanding of all these concepts and their application in case analysis. The cases for each chapter have been selected, as often as possible, for their level of support of the analytical principles established in each chapter.

A possible exception to this case selection criterion is chapter 9, “Managing the Strategic Process,” which is followed by three social responsibility cases. This particular combination of chapter content and cases reflects several of my biases. First, social responsibility issues, by themselves, constitute at least an entire course and should only be introduced in the standard Strategy or Business Policy course. Second, what people think is responsible social action on the part of a business or any other organization is a result of a complex social process. Third, what people think is a reasonable and competitive strategy is also a result of the same complex social process. From an analytical point of view, therefore, strategic management and social responsibility issues begin at the same point — managing what people think — and this is the subject of chapter 9.

Needless to say, other biases have helped to direct the preparation of this book. More important, however, is the fact that the entire book has been tested in the classroom. All or portions of the material presented

here have been used in one semester undergraduate and MBA classes as well as in executive programs of varying length. Selective coverage of chapters 3, 4, 5, 7, and 9 tend to be best for short executive programs; MBA students can usually cover the entire text; and undergraduates do best when covering the first six or seven chapters.

Longer executive programs, such as five- or ten-day sessions on general management, can include portions of each chapter along with some sort of computerized simulation. In addition, most of the readily available business simulations can be used in conjunction with this text at both the MBA and undergraduate levels.

Positive and negative feedback from these classroom tests are incorporated in the various sections of the book, as are the comments and suggestions of several very helpful reviewers. The discussion of discretionary cash flows in chapter 6, for example, has been completely revised in order to present the ideas more clearly. Also, the strategic decision analysis framework diagram developed in chapter 1 is repeated throughout the book in order to remind the reader what the argument has been and where it is going.

At the other end of the review and revision process directed toward a finished manuscript, however, is an encouragement process that has no manuscript at all. There are many who have been instrumental in their suggestions that I proceed with this project.

Taking first things first, and reversing the usual acknowledgment procedure, my wife and son are very real contributors. This book is dedicated to Linda and Christopher. Their understanding, patience, and willingness to listen to one more paragraph go beyond reasonable human limits.

Zeroing in on others, C. Roland Christensen has encouraged me for several years to continue writing in this field, to develop my own approach to strategy, and to persist in my emphasis on social and political ideas as they pertain to strategy formulation and implementation. In a similar vein, Edward H. Bowman first suggested that Business Policy was something that matched my interests, and Charles E. Summer indicated that Little, Brown might pursue the project then described by only the outline of this book.

Transforming an outline into a complete book, of course, requires a very cooperative publisher, represented by Milton H. Johnson, Jr., and Cynthia Chapin for Little, Brown; much classroom testing, significantly aided by Richard B. Mann at the University of Southern California; and insightful reviews by policy colleagues. William R. Boulton, David B. Jemison, James P. Logan, and Walter J. Primeaux, Jr., were especially patient with this oftentimes thankless reviewing task. All these people and all the case contributors have been catalysts to the thinking recorded in this text.

Any errors of omission and commission that remain, however, are my own. There may be several of these. Nevertheless, I have not committed an error in emphasizing that people are more than capable of planning their way into a much more satisfying existence.

Lastly, the cases that appear in this book represent reports of concrete events and behavior prepared for class discussion. They are not intended as examples of effective or ineffective administration or technical practices.

A. L. P.

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Introduction

A large portion of formal education is repetitive, which is necessary, for otherwise, a student would not have opportunities to practice using difficult concepts in different circumstances and gain an easy familiarity with them. Repetition is as essential in a business education as it is in the humanities, physical sciences, and engineering. Although accounting is usually the first or second course encountered in a university business curriculum, basic accounting concepts are also repeated throughout management, finance, and marketing courses. Even economists are quick to point out that there are differences between accounting and economics when cost and value issues are under consideration.

Basic behavioral and quantitative concepts are similarly practiced repeatedly in several decision-making contexts. Motivation and risk, for example, permeate every choice framework from selection among alternative capital budgets to the design of a decision support system. Each discipline within the general field of business, in other words, emphasizes a different selection or mix of concepts although there is enough overlap among the disciplines to guarantee at least some of the needed repetition.

Another practical problem occurs, however, in a formal, *professional* education. It is the problem of employing useful concepts in real circumstances as they occur in the everyday world of business, law, medicine, and engineering, for example. Business school faculties, in general, have attempted to solve this problem by requiring a final or capstone, course in the senior year or at the end of the M.B.A. curriculum. The course has several titles, with “Business Policy” probably the most popular, and it can be taught in several ways — including the use of general management cases, computerized business games, field research of actual industries and firms, and straight lectures.

There is, nevertheless, noticeable variance among opinions about the purposes of this course. Some believe it should integrate the concepts learned in all the other required courses and bring this integration to bear