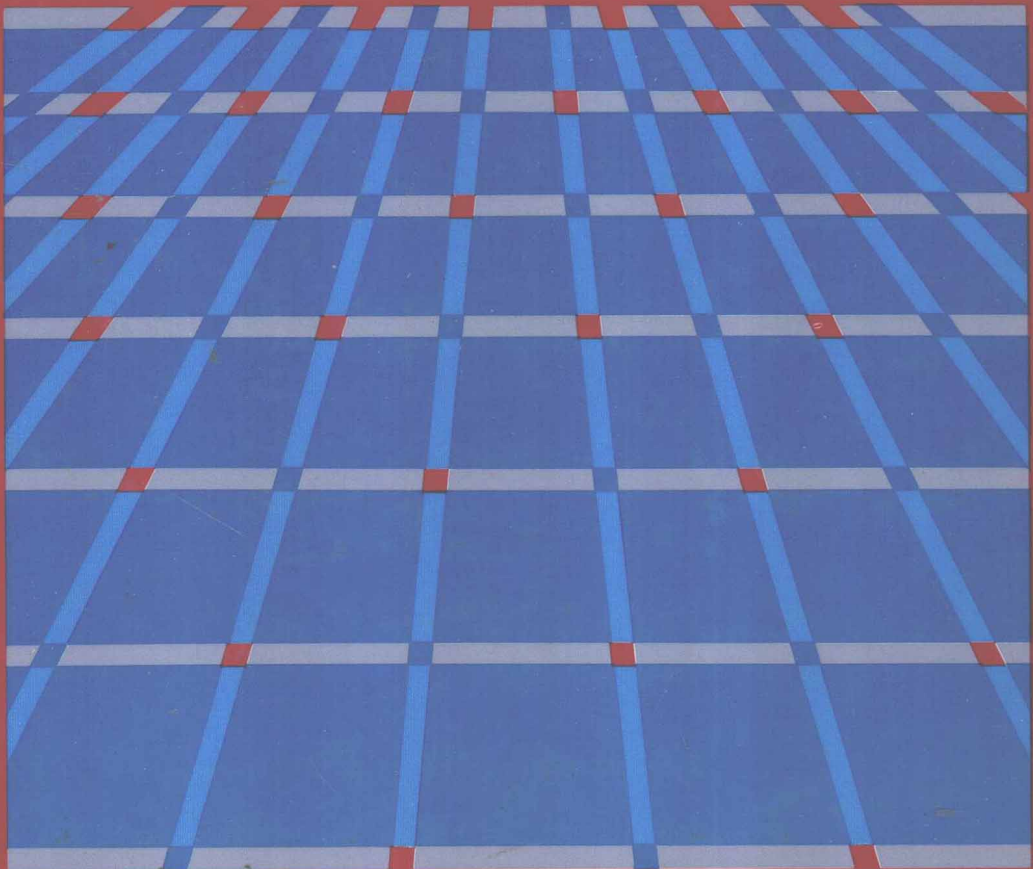


# STRATEGIC MANAGEMENT

Text, Tools, and Cases for Business Policy



Comerford/Callaghan

# ***STRATEGIC MANAGEMENT: Text, Tools, and Cases for Business Policy***

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DENNIS WAYNE CALLAGHAN, PH.D., died of cancer during the fall of 1982 while on sabbatical in New Zealand. At age thirty-five he had just begun an already singularly outstanding career as a teacher, researcher, and author. He was unparalleled as a colleague and friend, whether in the classroom or under sail on Narragansett Bay. Dennis was widely known for his uncanny attention to detail and as a consummate "finisher" of projects.

That this book was completed at all without him is a tribute to the infectiousness of his personality.

## PREFACE

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Our goals for *Strategic Management: Text, Tools, and Cases for Business Policy* are twofold. First we strive to explain the process of strategic management so that students will be able to implement it in case analyses and in real organizations. Second we wish to set forward the best strategic management ideas and issues of the day in a way that students can understand and appreciate.

To help us achieve our goals, we surveyed 250 business policy colleagues around the country about their preferences for various text characteristics and we aimed the text chapters toward implementation—the phase of strategic management often overlooked in the past. As a result, our book incorporates the following features:

1. *Strategic management focus.* The text centers on strategic management as opposed to long-range planning or strategic planning, which are earlier models of strategic thinking. Therefore, it embodies the most recent interpretation of the discipline.
2. *Tools sections.* Although our predisposition had been to include only an environmental analysis tools section, the survey results convinced us to also include sections on financial, internal, industry, and case analysis. In addition, there is an annotated bibliography of sources of business information.
3. *Consistent usage of the word strategy.* The meaning of the word *strategy* is explained early in the text in both idealistic and operational terms. These definitions are maintained throughout the rest of the book.
4. *Expanded implementation section.* In addition to the traditional section on organization structure, a chapter is devoted to functional strategies in marketing, personnel, union-management relations, production, finance, external relations, and research and development.
5. *Global strategy.* The necessity for modern managers to consider international issues in the formulation of strategy is addressed in a section on global strategy.
6. *Mergers and acquisitions.* There is an extensive discussion of merger and acquisition decisions to implement corporate-level strategy.

7. *Strategic control.* A major section is devoted to the issue of control of strategy.
8. *Decision-making models.* A large section presents various alternatives to the rational paradigm underlying decision-making models. Several different decision-making approaches are explained and the influence of power and values on the process of strategy formulation are discussed.
9. *Corporate culture.* The concept of mission is defined as the purveyor of corporate culture. In our view culture is a mission component that is brought into practice through strategy.
10. *Case collection.* The timely cases included in the book all have complete financial data and are comprehensive in scope. There is a balance between well-known cases and new ones written especially for this book. Further, the collection of cases spans domestic and international; small, medium, and large; private and public; and profit and nonprofit organizations. For better comprehension, industry notes accompany some of the cases.

The purpose of Chapter 1 is to introduce the strategic management model that is developed throughout the rest of the text. We have divided the conceptualization of strategic management into three components: the strategic management process, its information inputs, and its resultant outputs. The appendix to Chapter 1 presents a case analysis and writing technique that we developed over ten years of teaching business policy and contains examples from some of our students' case writeups. We have designed this approach primarily as a strategy formulation and implementation exercise for students. That is, in order to write a case synthesis following this process, students are required to formulate a strategy and then describe in detail how it would be implemented by managers of the organization being analyzed. All the stages of analysis advocated for real organizations are simulated by applying the same technique to case studies.

The processes of environmental, industry, and internal analyses are explained in Chapter 2. We take the approach of explaining first how the output of these processes should be arranged in a data set. Then we present the assessment taxonomies that are used to structure the analysis of environment, industry, and internal factors. For the internal diagnosis, a detailed explanation of financial analysis includes descriptions of how to prepare and apply funds flow, retained earnings, and pro-forma statements for strategic management purposes. Finally, a taxonomy for diagnosing each of the other functional areas and also for analyzing present strategies is described. The annotated bibliography found in the appendix to Chapter 2 will help students select sources of information for all phases of case analysis, but especially for environmental and industry analysis.

Chapter 3 focuses on strategy formulation. First it explains key terms used throughout the book, the roles of power and values in the formulation of both goals and the action plans used to reach them, and the formulation process itself. Then, in the second part, a comprehensive set of offensive and defensive strategic orientations is presented. Appendix 3.1 addresses merger strategy. Global strategy and the form that it must take for international competitiveness, is then described in Appendix 3.2. Both appendices contain structures within which students can design merger and global strategies in case analyses and which are intended to serve as foundations for later probing of the intricacies of each strategy area.

After enumerating a set of possible strategy choices, each strategy must be evaluated and one or more ultimately must be selected for implementation. Evaluation of choices and selection of contingency strategies are the topics of Chapter 4. We discuss various systems

that have been proposed in the literature, including some that have fallen into popular and professional disfavor recently. Following this several of the models that have been proposed to explain strategic decision-making are reviewed. We include both the rational model of decision-making, and a number of alternative models that are based on other paradigms and that tend to differ according to the context within which they may be applied. These contextual differences are used as the organizational theme of this section of the chapter. The third part of Chapter 4 presents the characteristics that the selected strategy should have regardless of the evaluation and selection processes that were used. Students may use these strategy selection criteria to evaluate their own case strategies.

Only after the functional underpinnings of business and corporate strategy have been designed can higher-order strategies be put into motion. Thus, a separate chapter, Chapter 5, is devoted to functional areas and functional-level strategies. First a general process for setting functional goals and action plans is described. Then we present the major topics that may have to be addressed for each of the following functional areas: marketing, finance, personnel and industrial relations, research and development, production, and external relations. Students are asked to apply their knowledge of functional areas in order to formulate functional strategies. This exercise allows students to integrate and review the functional aspects of business and also gives them an opportunity to "give life" to the higher-order strategies that they formulate.

Chapter 6 addresses organizational design and strategic control, usually the final phases of strategy implementation. The first part of the chapter discusses both vertical and horizontal structures, and the second describes the major forms of control systems that are appropriate for strategic management efforts.

We have incurred many debts of gratitude over the years it has taken to write this book. Undoubtedly I will forget to thank someone and apologize for doing so now. The many hundreds of students at the University of Rhode Island on whom this material has been tested and retested deserve our special thanks. There are countless places throughout the book where their suggestions have been incorporated. I would like to thank one student in particular, Debra Katz, who read the entire manuscript and provided invaluable ideas about students' reactions to it.

A long list of reviewers have labored over several versions of the manuscript. Their candor, although not always cheerfully received at first, kept the entire project on course. My thanks to them: Bobby Bizzell, Stephen F. Austin University; Louis K. Bragaw, Jr., Hartford Graduate Center; Arnold C. Cooper and Cynthia A. Lengnick-Hall, Purdue University; William J. Ferguson, Central Connecticut State University; David M. Flynn, Baruch College; Phyllis G. Holland, Georgia State University; Timothy S. Mescon, University of Miami at Coral Gables; Kenneth R. Thompson, University of Notre Dame; and Philip Van Auken, Baylor University.

Our colleagues around the country who wrote original cases specifically for this book have endured requests for rewrites, additional information, and teaching notes. Their patience and expertise played a major role in the book's completion.

The people of Kent Publishing Company stayed solidly behind this project in spite of some trying conditions, not the least of which was my phobia of deadlines. Kent's president, Wayne Barcomb; his editors, Dave Anthony and Jack McHugh; and the company's disciplinarians, Debby Vincent, Eve Mendelsohn, and Tina Samaha know just how to push, pull, and cajole a manuscript to completion. I am grateful for their help and friendship.

Cathy McGovern at the University of Rhode Island gave her expertise to this project and was invaluable in its production. She typed the entire manuscript several times while deciphering handwritten material that was virtually illegible to anyone else. For her help I'll be forever grateful.

Strategic management is a challenging and interesting topic that can simultaneously tap students' knowledge and creativity while unifying their conceptual backgrounds. It is my sincere hope that this book facilitates this process.

Robert A. Comerford  
*Kingston, Rhode Island*



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## ***Part One***

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# ***CONCEPTS AND TECHNIQUES***



## **CHAPTER**

# **1**

# **INTRODUCTION TO STRATEGIC MANAGEMENT**

## **INTRODUCTION**

This chapter introduces strategic management and provides an overview of the rest of the book. Following a review of the history of strategic management as it has evolved into the form presented here, the research that has tested the advantages to organizations of strategic management is outlined. The major elements of the current structure of strategic management are modeled in the next part of the chapter. Exhibit 1–1 may be viewed as the skeleton of strategic management and of the book.

That an organization's mission statement is a manifestation of the culture intended for it by top-level management or owners is discussed next. Mission, or purpose, is an explanation of why the organization exists and of the guiding philosophies to be followed in the development of strategy at each major organizational level. Then, these levels of strategy—enterprise, corporate, business, and functional—are explained. When strategic management is practiced effectively, formulation and implementation of strategies at the appropriate levels become the management processes that drive the company forward.

In the final two sections, the nature of strategic decisions is discussed, followed by an explanation of contingency strategies.

## **EVOLUTION OF STRATEGIC MANAGEMENT**

Accept for a moment that strategic management is a way of running an organization that recognizes the complexity of its environment. It is a process by which the manager can transform environmental factors, along with various internal, personal, and political considerations, into decisions that result in strategies (goals and plans of action for reaching them) to help guide the organization into the future.

Over the past few decades, the nature of strategic management as a management technique has changed in two important ways with the changing environment. It has increased both in its level of detail and in its importance as the complexity of the environment has increased. Between World War II and the early 1960s, *business policy*, following the so-called prestrategy paradigm,<sup>1</sup> addressed the problem of coordinating the operations of the various functional departments of the firm. Policies were established by



top management to integrate activities that each department was to carry out. Thus policy served to standardize and specify behavior within functional departments. Strategy was usually viewed as an implicit concept reserved for the topmost managers. In the top manager's mind, this concept, environmental characteristics, certain organizational goals, and political circumstances, along with years of management experience, all came together to produce what was hoped would be the right collection of policies. Strategy was seldom analyzed, once it was decided on by top management, and rarely changed. When operations did not meet expectations, it was policy that typically was analyzed and modified. Most firms were single-line businesses; business policy making was conducted in large part at what is known today as the business level.

The rapid rise during the 1950s and early 1960s in the number of interest groups making demands on organizations of all kinds, along with the proliferation of mergers and acquisitions, began to strain the applicability of the relatively simple business-policy approach to management.<sup>2</sup> Divisionalized firms no longer had a single line of business. Thus a different set of policies was needed for each subsidiary, and managers sought a common thread that might bind them together. The internal complexity of firms had increased in an attempt to deal with the complexity of a pluralistic society. Davis and Blomstrom describe social pluralism as a society "in which diverse groups maintain autonomous participation and influence in the social system."<sup>3</sup> Business is merely one such influence (interest group) and competes with many other such groups for time, money, interest, allegiance, or attention. Increasingly organizations that were operated without an understanding of, or respect for, the various interest-group influences have been subjected to successful attacks by these groups. Electric utilities were forced by many interest groups to cease or radically change the nature of nuclear power plant construction projects. Through the pressure of consumer groups, automobile manufacturers have been made to correct deficiencies in their products. Industrial polluters were required by environmental groups to clean up or stop harmful discharges. Product labeling requirements were tightened, Equal Employment Opportunity assurances became stricter, and product safety standards were improved. These changes, and hundreds of others, were brought about largely by the political actions of interest groups. Their activities often resulted in enactment of legislation that today regulates the conduct of business.

In response to this growth in the dimensions of firms' environments, and also to the growth in the number of divisionalized firms, strategy increasingly became interpreted as the link between an organization and its environment.<sup>4</sup> All of the "policy" problems remained, but they were compounded by a baffling set of external claims, and also by the needs imposed by multiple product lines and business-level activities.

Because of its inability to deal with these factors, the business-policy model underwent several evolutionary changes and emerged as what was later called strategic planning. Dubbed the *initial strategy paradigm*,<sup>5</sup> this view of corporate management focused heavily on the process of strategy formulation with emphasis on environmental pressures, yet it had four major shortcomings.<sup>6</sup> First, it did not clearly differentiate between corporate-level strategy (questions related to the collection of business activities a divisionalized company owned) and business-level strategy (how to compete within a particular business activity).

Second, the initial strategy paradigm was unclear about the nature of relationships between strategy and the operation of the various functional areas of business. How does the task of marketing management, for example, change with different strategic focuses,<sup>7</sup> and how can the functional areas be integrated into an effective whole? Such questions largely went unanswered.