



Cases in Strategic Management

AN INDUSTRY APPROACH

***Timothy S. Mescon
George S. Vozikis***



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TIMOTHY S. MESCON

Dean, The Franklin P. Perdue School of Business
Salisbury State College

GEORGE S. VOZIKIS

Professor of Management
Memphis State University



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Preface

Cases in Strategic Management: An Industry Approach is designed so that business students can examine the administrative practices and behaviors of a variety of organizations of different sizes in a diverse array of industries. The thrust of the cases and industry notes allows students to immerse themselves in real organizations as they confront actual problems and opportunities in an increasingly complex and competitive global business environment.

This book provides current, in-depth case studies of firms operating within seven different industries. The intention is to allow the student to gain a comprehensive understanding of the dynamics of competing organizations within a given industrial classification. Rather than simply selecting one company within an industry to study, the students become immersed within a given industry during a prescribed time period. This provides them with a much broader and in-depth overview of the state of the industry and gives them the insight necessary to analyze a specific company in light of its competitors' activities. Industries vary through different time periods and undergo either static or dynamic states depending on a number of external environmental factors. Manufacturing, service, domestic, and international activities are chronicled to provide students with a complete overview of business in a changing world.

Detailed analyses of the selected cases require a thorough working knowledge of management, marketing, finance, operations, and accounting. These cases provide students with the unique opportunity to strategically analyze companies and industries from the perspective of top management. From this vantage point, students are challenged to offer insight and critical reviews of the real threats and opportunities confronting actual, undisguised organizations today.

The introduction sets the tone for the text by simply clarifying for the student the common terminology used in the strategic planning process and providing a summary review of critical references invaluable to the strategic planning process. Additionally, the review of financial analysis concepts and techniques summarizes some of the primary financial tools used in case analysis. A most important section of the introduction emphasizes strategy deployment. This activity is the heart and soul of strategic analysis. There is a wonderful story about a large U.S. industrial firm contracting with a multinational consulting organization for some strategic planning assistance.

viii The story offers an analogy between the consulting firm and a seagull. Like a seagull, the consultant flies over the firm, drops its strategic recommendations, and proceeds to fly off into the sunset. The point is that the easiest part of the strategic planning process is the development of the plan. The most difficult part, the one that consultants prefer to avoid, is strategy deployment/implementation. This, however, is the guts of the strategic management process.

The note on the pharmaceutical industry and related cases (Cases 1–4) provide an interesting overview of a highly regulated, fiercely competitive global industry. Successful firms like Squibb have consistently given their shareholders dividend increases. Chesebrough-Ponds, the diversified giant, is constantly busy buying and selling business units, and produces some of the most recognized products in the world. Eli Lilly has a wonderful philanthropic history, but one might question whether this philanthropy is an intelligent allocation of resources. And, of course, federal intervention in the drug development process has given many European drug producers the jump on their U.S. competitors.

The section about the toy and game industry (Cases 5–7) highlights a dynamic environment that has had ups and downs related to a host of changing demographic factors. The increasing number of women in the work force, men and women delaying marriage, declining birthrates, and changing quality-of-life expectations have affected this industry in an interesting way. The recent resurgence in the birthrate has helped toy retailing giants like Toys “R” Us explode in sales in the last three years. The current controversy and resulting congressional inquiry into the sponsoring of Saturday morning cartoons by toy industry manufacturers injects the possibility of direct government involvement in the merchandising of toys in the United States.

The section about the airline industry (Cases 8–11) features an interesting mix of companies involved in a rapidly changing, deregulated environment operating under close public scrutiny. People Express, once the darling of the investment community and a provider of air service to the masses, experienced the kind of highs and lows that give strategic planners fits. Likewise, will Pan Am—one of the first commercial air carriers in the world—suffer the same fate as People? Can Southwest, an offbeat Texas carrier, compete in a national market? Students are confronted by these and other questions about an industry that touches all of us in one way or another.

Cases 12–16 provide a detailed review of the railroad industry, one of the oldest and least understood industries in North America. The privatization of Conrail was controversial and the bidding for it was fierce. Descriptions of outstanding, competitive carriers like CSX, Norfolk Southern, and Santa Fe provide a detailed perspective on the industry that moves America and also controls some of the largest amounts of real estate in the Western Hemisphere. The fight between USAir and Norfolk Southern over Piedmont Airlines offers further insight into this fascinating old-line industry.

Cases 17–20 review the media and broadcasting industry, an industry in stress. Newspaper publishers, for decades accustomed to managing “cash cows,” find themselves facing real problems. The networks have been beset by cable and, as a result, traditional viewer allegiances have vanished. Buyouts of ABC and many local affiliates are changing the face and character of the once staid industry. A raid on Storer Communications, ending in an embittered leveraged buyout, reveals the changing nature of the business.

Health care, covered in Cases 21–25, is an incredibly interesting and diverse

industry undergoing a great deal of change in an increasingly regulated environment. Humana, Inc., one of the most aggressive providers of health care in the world, has injected a professionalism into hospital management that has proven profitable on the bottom line. Innovations like its well-publicized transplant center in Louisville keep Humana in the public eye. American Medical International, another aggressive, diversified health-care firm, has had both successful and disastrous results in this evolving industry. The American Hospital Supply case provides students with the unusual opportunity to view the link between strategic planning and organizational structure in a firm that is evolving in a changing environment. The Cordis case reviews the successes achieved and obstacles confronted by this advanced technology manufacturer of pacemakers and other angiographic products. The classic transition in management from the entrepreneur founder to the organization manager is assessed, as are the governmental obstacles to new product development and the creation of diagnostic-related groups and their impact on pricing and profits.

Finally, the section on the soft-drink industry (Cases 26–28) reviews an industry seemingly committed to diversification and acquisition. Two risk-oriented champions of the industry, Coca-Cola and Dr Pepper, are presented. Coca-Cola, a company in flux, has elected to shed its one-hundred-year-old image and pursue New Coke, clothing, and movies, while Dr Pepper confronts takeover. The greying of America and an increasingly health-conscious society have had an interesting impact on this industry as well.

This book provides the challenge only found in a capstone course devoted to integrating the strategic management process with administrative decision making. Remember, where there is no risk, there is no reward . . . and in the material world, unlike the spiritual, the meek shall inherit nothing.

We would like to thank the following professors, who provided us with many helpful suggestions during the development of the manuscript: Joseph A. Schenk, University of Dayton; Kenneth W. Olm, University of Texas at Austin; R. Duane Ireland, Baylor University; Gary G. Whitney, University of San Diego; Howard D. Feldman, University of Colorado, Boulder; Eliezer Geisler, Northeastern Illinois University.

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TIMOTHY S. MESCON
GEORGE S. VOZIKIS



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Introduction

CASE ANALYSIS: A DYNAMIC PROCESS

Gentle persuasion, heated debate, prolonged pauses, rapid-fire retorts, and thoughtful discourses individually and collectively emerge during the process of case analysis and discussion. This dynamic process is fueled by knowledge, passion, and reasoned strategy. There is a method to the madness instigated by the Socratic process. There is a rational approach to case analysis that may enhance the probability of examining most plausible alternatives. A case analysis must be exhaustive and insightful. A great deal of the material in this chapter simply reaffirms the areas of analysis that management would traditionally examine and occasionally ignore. A comprehensive analysis will almost always begin with general responses to the following four questions:

1. What in your opinion are the most critical or pressing problems, issues, or concerns confronting management?
2. Now that you have identified and justified these issues, what do you suggest doing?
3. How would you go about implementing your suggestions?
4. How do you convince top management of the urgency of action?

These questions serve as the parameters for an analysis.

We must offer one caveat to the case method: The best-written analysis will not ascend to its preeminent position unless it is accompanied by an erudite, well-conceived,



and well-presented oral argument. Many a battle is won in the corporate boardroom and in the classroom by individuals who devote time and energy to the spoken component of analysis. Case discussions are good. Case discussions punctuated by dynamic, thoughtful, and tactfully aggressive arguments are great.

The challenges confronted in a case analysis and discussion require a commitment to performance and preparation. The dynamic nature of case analysis generally means that there are at times winners and losers in the Socratic process. However, President Theodore Roosevelt appropriately described the thrill of the competitive challenge in a 1910 address at the Sorbonne in Paris. He said,

It is not the critic who counts, not the man who points out how the strong man stumbled, or where the doer of deeds could have done them better.

The credit belongs to the man who is actually in the arena; whose face is marred by dust and sweat and blood; who strives valiantly; who errs and comes short again and again; who knows the great enthusiasms, the great devotions, and spends himself in a worthy cause; who, at best, knows in the end the triumph of achievement; and who, at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who know neither victory or defeat.

STRATEGY

Strategy is a unified, integrated, comprehensive plan designed to assure that the basic objectives of the enterprise are achieved. Strategy, in general,

1. Is developed and outlined by top management
2. Should be of the highest priority to the organization
3. Must be designed from an organizational perspective
4. Is intended to last for a reasonable period of time, given the dynamic nature of the industry
5. Requires tremendous amounts of information
6. Must be flexible

CLARIFICATION OF TERMINOLOGY

Before we examine the various analytical processes requisite for a sophisticated case analysis, we need to clarify some frequently used (and misused) terms. These definitions are by no means binding; they are provided to you in order to clear any lingering confusion you may have regarding the appropriate terms and the appropriate times to use them.

STRATEGIC OBJECTIVE

A strategic objective is a simple sentence establishing a single, clear, unambiguous, quantified, and time-phased future goal for the company. A strategic objective normally

establishes *one* of the following alternative objectives in terms of growth, stability, and retrenchment:

- Profit
- Sales
- Return on investment (or equity)
- Share of market

The selection of just one of these alternatives is not intended to suggest that the others are unimportant: The purpose of selecting one strategic objective is to identify the alternative that is most important.

The time period selected in stating the strategy must be not less than two years in the future, nor more than five years. (A strategy of a year or less suggests short-range planning; over two years, long-range planning.)

The strategy selected must be quantified.

EXAMPLES (GOOD)

Increase share of market to 5 percent within three years.

Increase sales to \$100,000 in five years.

Achieve a net profit of 10 percent within two years.

Achieve a 10 percent return on investment within four years.

EXAMPLES (POOR)

Increase sales to \$100,000 and profits to 10 percent within four years. (Overly complex: includes two objectives.)

Increase profits by 2 percent in three years. (Ambiguous: requires reader to compute present profit in order to determine final profit.)

Increase share of market in four years. (Vague: doesn't quantify the goal.)

Diversify product line

Reorganize

Reduce costs

(Not acceptable strategic objectives: Goals are better stated in such terms as profit, sales, return on investment, or share of market.)

POLICY

Policy is *guidance* to an organization's decision makers. Furthermore, it is *standing* guidance, because it is in effect for the duration of the strategic period (or longer).

Policy provides constraints on decisions that will be made to achieve corporate objectives. Policy guidance, therefore, is a form of organizational control, to ensure that the decisions made within the organization are consistent with the organization's overall objective.

Policy does not prescribe a specific one-time action. A statement that directs that a specific one-time action be taken is, by definition, an operating decision and not a policy. Policy statements normally do not include action verbs, such as *initiate*, *develop*,

or *implement*. Policy statements provide continuing guidance and represent a condition to be reached and maintained.

Policy is intended to permit functional and organizational specialists to make decisions in their areas of responsibility and expertise—consistent with overall corporate strategy—without the need for prior approval by their superiors.

Good policy is clear and unambiguous. It avoids such phrases as “when deemed appropriate” or “when necessary”; or other such phrases that can be misinterpreted.

EXAMPLES

Good: Market to wholesalers within a 60-mile radius.

Poor: Expand marketing area.

Good: Limit marketing costs to 5 percent of gross sales.

Poor: Initiate a cost reduction program in the marketing department.

Good: Maintain a 1 to 4 inventory to sales ratio.

Poor: Reduce inventory to *X* units.

Good: Require that all new employees receive a three-hour safety training program before operating machinery.

Poor: Develop a safety program for new employees.

Good: Finance plant acquisitions through the sale of common stock.

Poor: Finance plant acquisition through long-term borrowing, common stock, or working capital, as deemed appropriate.

ACTIONS

Actions are deeds that are enacted, executed, and carried out. Actions may be repetitive, but each repetitive action is of a one-time nature. An action does not represent continuing guidance, as is the case with a statement of policy.

EXAMPLES

Hire five sales representatives.

Reduce working capital.

Develop a new product.

Increase production.

Sell obsolete equipment.

The test for the distinction between a statement of action and a statement of policy is this: Does the statement represent a *specific deed* to be enacted or does it provide *continuing guidance* to those who will be responsible for the enactment of specific deeds throughout the time covered by the strategy?

INDUSTRY ANALYSIS

No organization exists in a vacuum. An integral component of any effective analysis is the development of a thorough profile of the pertinent industry. Even a seemingly

brilliant organization might pale in comparison to industry averages. Generally, one can categorize critical variables pertaining to an industry analysis into three discrete categories: (1) economic forecast and review, (2) competitive structure, and (3) industry audit, a review of the key problems, issues, threats, and opportunities facing the industry.

ECONOMIC FORECAST

Your assessment of critical economic issues facing the industry should include a projection of the volume of sales for the industry for the ensuing three- to five-year period. In addition, you should find out what the major economic concerns confronting the industry are. For example, is the industry capital- or labor-intensive? Is the industry dependent on limited sources of supply for its raw materials? What is and will be the impact of global political actions on this industry? Is the short- and long-term prognosis for this industry good, bad, or too difficult to determine? Does success in this industry parallel general economic prosperity or does it run inversely? A thorough understanding of the economics of the industry is an important foundation for more company-specific information.

COMPETITIVE STRUCTURE

To analyze competitive structure, you should establish an overall perspective of the players in the game. Specifically, it is essential to identify the number and types of companies competing in the industry. Also of concern are the productive capacity of the industry and the influences of competing companies on pricing practices in the industry. Many industries today are experiencing rapid consolidation; is this the case in this industry? The dynamic versus status nature of the competitive environment is important. So too, is the presence of international competitors that may benefit from host-country economic subsidies. Are there consistent winners and losers in the industry? What about market share? Is a greater share of the market attainable, and if so, what will it take?

INDUSTRY AUDIT

Finally, it is paramount that you identify all the major threats and opportunities confronting the industry. Areas of analysis should include science and technology, government and the law, consumerism, financial markets, raw-material supply, distribution, and market demographics. Any other ancillary issues should be examined here. Executive decision making is enhanced by a complete understanding of the host environment. No industry audit would be complete without a working knowledge of the key financial data on firm performance in the industry. One organization's debt-to-equity ratio is meaningless without a comparative basis for analysis.

Some useful reference sources readily available for conducting an industry analysis include the following:

LIBRARY OF CONGRESS
CLASSIFICATION

INDUSTRY REFERENCE SOURCES

| | |
|------------------|---|
| | <i>Economic Censuses</i> Excellent sources of statistical information from surveys conducted by U.S. government. |
| HF 5001 .F6 | <i>Forbes</i> "Annual Report on American Industry" appears each January. |
| HF 5343 .G68 | <i>The Structure of U.S. Business</i> Good overview of American industry, broken down by SIC, providing employment and economic and geographic concentration figures. |
| HG 4907 .M65x | <i>Moody's Investor Fact Sheets, Industry Review</i> Provides comparative company statistics and rankings by various functions for major industries. |
| HF 5353 .E4x | <i>Encyclopedia of Business Information Sources</i> Detailed listing of sources of information for individual industries. Includes association listings. |
| HC 106.6 .S74 | <i>Standard & Poor's Industry Surveys</i> Analyzes 69 major industries, highlighting trends and problems. Includes considerable company information and some ratios. |
| HC 106.5 .A17 | <i>U.S. Industrial Outlook</i> Profiles many major industries but coverage varies from year to year. Projects future developments. Released by Department of Commerce. |
| HC 10 .P74 | <i>Predicasts Forecasts</i> Detailed statistical data on U.S. economy and for individual industries by SIC. Also provides forecasts and serves as a statistics index. |

ORGANIZATION ANALYSIS

After a thorough investigation and analysis of the critical industry factors, you must now conduct an exhaustive organizational audit. The real intent here is to profile the organization's current state of affairs as it relates to the strategic management process. This section will outline the five primary steps associated with organization analysis, but you must keep in mind that each case is quite unique. Indeed, in certain cases financial issues may be of little or no concern, whereas in others the entire future of the organization may depend on accessibility to financial resources. Likewise, in some cases your organization analysis may focus on product development and subsequent marketing activities, whereas in others you may give marketing little consideration and concentrate on production and operations. The five steps in the organization analysis/audit process include:

1. Strategy disposition
2. Strategic analysis

3. Strategic choice
4. Strategy implementation and organization design
5. Strategy deployment

A brief review of each of these stages will accentuate the need for a complete organization analysis.

STRATEGY DISPOSITION

At this initial stage of your analysis you must focus on understanding the overall culture of the organization. Specifically, it is most helpful to gain insight into the values, politics, and climate of the organization. You need to know who the protagonists are. You must identify the mission of the enterprise and its performance, behavioral, and environmental objectives. Also, you must identify the strategic target(s) of the firm and understand the master tactics employed. For example, has management identified specific target opportunities and markets? Can you assess whether, as a master tactic, management is predisposed to act, react, proact, or ignore? This initial stage of your review places you symbolically in the role of management and allows you to immerse yourself in the prevailing organizational culture.

STRATEGIC ANALYSIS

Strategic analysis involves a more traditional functional audit of the organization. Once again, certain functions that are germane in some cases may be superfluous in others. Do not attempt to analyze more than is necessary. Too many cases are overevaluated for the sake of breadth rather than targeting the critical areas of concern.

Your functional analysis will focus on management, production and operations, marketing, finance and accounting, and the human resource areas. In the management area, questions of top-management performance, effectiveness, and success must be addressed. Additionally, it is useful to determine whether management is generally respected in the industry.

Your functional assessment of production and operations may focus on a variety of issues, including accessibility to raw materials, production facilities, quality control, purchasing patterns, maintenance procedures, labor costs, and productivity. In the marketing area, an analysis will focus on customer relations, product mix, market demographics, personal selling, packaging and promotion, profitability, consumerism and public service, and market research.

In the finance and accounting audit (a detailed look at financial analysis is included later in this introduction), you can effectively identify how well the organization is performing financially, what and where the major financial problems are, where the financial strengths and weaknesses are, what the status of the organization's capital structure is, and what financial threats and opportunities exist.

The human resource function is, at times, a difficult one to assess. However, certain general areas must be explored. For example, has the firm dealt with management succession? Is there an adequate supply (flow) of competent employees? Are there

8 effective management training and development programs? Is turnover a factor? What is management's relationship with labor? Finally, you might be able to glean some overall insight into the operating human resource culture in the organization.

The next stage of your strategic analysis will focus on a more comprehensive environmental assessment. Here the focus is not on competition, but on governmental, economic, social, legal, and political factors that represent either threats or opportunities to the organization. This is a critical component of your analysis.

The life-cycle audit examines the actual position along the various life cycles of the products, firm, industry, economy, management, and technology. Timing becomes a critical portion of a successful analysis. To understand the notion of timing of strategic decisions, you must identify and evaluate various life-cycle issues.

Finally, you need to know the overall strategic profile of the enterprise. If you were asked to summarize the general strategic disposition of management, could you? This is a simple question with a complex response requiring a great deal of insight and effort.

STRATEGIC CHOICE

Strategic choice is the stage at which you commit yourself to a strategic option. Generally, following an agonizing evaluation of alternatives you will commit the organization to a strategy of limited growth, growth, retrenchment, or some combination thereof. Naturally, you must thoroughly justify your decision with the appropriate supporting materials.

STRATEGY IMPLEMENTATION AND ORGANIZATION DESIGN

In many minds, strategy implementation and organization design comprise the most difficult stage of the organization analysis process. Indeed, the strategic development process has been likened to a "seagull" approach to management: A wonderful, glorified strategy is developed, the appropriate support materials are meticulously designed, and management, like a seagull, flies over the organization, drops the strategic plan, and flies away. This approach is often taken, because although the development of a strategic plan is a demanding and painstaking process, the development and implementation of a structure designed to facilitate the plan takes a great deal more effort and fortitude. The implementation and design stage is all too often brushed over in the strategic management process. Quite frequently, so much effort is expended on strategy that any concerns regarding design are quickly discarded. The fact remains, however, that structure follows strategy. If you develop a sophisticated strategy, chances are that the existing organizational structure needs to be modified. Management generally prefers action to thought. But strategic action that ignores the need to alter structure will almost always turn out to be counterproductive.

Your focus must be on the appropriate allocation of human resources, machines, materials, and methods. Additionally, management must have an insightful under-

standing of compensation and reward systems as an integral component of the organization's structure. You must make the appropriate link between strategy and structure. The symbiotic relationship between these two stages in the strategic management process cannot be ignored.

STRATEGY DEPLOYMENT

Strategy deployment—the transforming of thought into action, beliefs into commitment—is the stage at which you put your decisions on the line. The strategy is implemented and the structure is in place. Issues such as risk and timing have been resolved. Naturally, there are times during the deployment stage when either strategy or structure needs to be modified, and this process provides management with some insight into the quality of its internal communications and management information systems. These strategic readjustments will probably involve conflict resolution, alteration of planning cycles, and some general organizational adaptation. However, these are some of the contingencies that must be recognized before the strategic plan is implemented.

Some useful reference sources readily available for conducting an organizational analysis include the following:

LIBRARY OF CONGRESS CLASSIFICATION

BUSINESS REFERENCE SOURCES

HG 4057
.A4

Standard & Poor's Register of Corporations, Directors & Executives

Three-volume set, covering 36,000 companies. Company information in Volume I, biographical information in Volume II, indexes in Volume III.

HG 4961
.M-

Moody's Manuals

Set of six manuals: *Industrial, OTC Industrial, Bank & Finance, Transportation, Public Utility, and Municipal & Government.*

HG 4501
.S7663

Standard & Poor's Corporation Records

Provides same basic types of information as Moody's but not arranged by industry. Consult index in front of each volume.

HG 4905
.S44-

Standard & Poor's Stock Reports

Divided by NYSE, ASE, and OTC. Provides excellent, quick overview of a company. Revised quarterly.

HG 4907
.M63x

Moody's Investor Fact Sheets

Well-formatted information, revised quarterly, on companies traded on NYSE, ASE, and OTC.

HG 4915
.V32

Value Line

Analyzes stocks of approximately 1500 companies. Revised quarterly.

HD 9680
.U5x

U.S. Industrial Corporation Organization Chart Service
Organization charts for many companies and nonprofit organizations involved with the "advanced technology industrial complex."