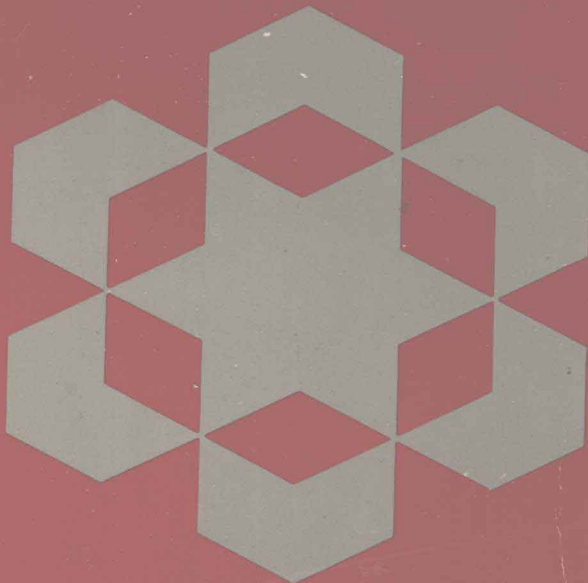


McGRAW-HILL SERIES IN MANAGEMENT

# **EXECUTIVE POLICY AND STRATEGIC PLANNING**

**Thomas J. McNichols**



# **EXECUTIVE POLICY AND STRATEGIC PLANNING**

**SECOND EDITION**

**Thomas J. McNichols**

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Northwestern University

**McGRAW-HILL BOOK COMPANY**

New York St. Louis San Francisco Auckland Bogotá  
Hamburg Johannesburg London Madrid Mexico Montreal New Delhi  
Panama Paris São Paulo Singapore Sydney Tokyo Toronto

This book was set in Times Roman by A Graphic Method Inc.  
The editors were Kathi A. Benson and Scott Amerman;  
the production supervisor was Leroy A. Young.  
New drawings were done by Burmar.  
The cover was designed by Hermann Strohbach.  
Halliday Lithograph Corporation was printer and binder.

## EXECUTIVE POLICY AND STRATEGIC PLANNING

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1 2 3 4 5 6 7 8 9 0 HALHAL 8 9 8 7 6 5 4 3

ISBN 0-07-045675-5

Library of Congress Cataloging in Publication Data

McNichols, Thomas J.

Executive policy and strategic planning.

(McGraw-Hill series in management)

Includes bibliographies.

1. Corporate planning—United States. 2. Industrial management—United States. I. Title. II. Series.

HD30.28.M386 1983 658.4'012 83-7921

ISBN 0-07-045675-5

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# PREFACE

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## PURPOSE AND OBJECTIVES

This second edition of *Executive Policy and Strategic Planning* is designed to develop a conceptual framework which delineates the process of policymaking and strategic planning. The text material represents a blend of concepts, theory, and current practice illustrated by selected examples drawn from dynamic business situations. Much of this book is based on notable foundation works in the literature which stress the general management function and provide significant direction to aid and guide students and practioners of this emerging discipline.

The rapid institutionalization of our society has created a myriad of organizations, both public and private, dedicated to responding to the perceived needs of our complex industrial system. The urge to organize to accomplish the assumed or stated objectives of a multiplicity of groups and causes has intensified the need for general managers and for knowledge of the general management function. The adaptation of the concepts, methods, and techniques developed in the business sector has aided the management of all organizations and supports the hypothesis that management is a universal function with a set of principles and constructs applicable to any purposeful organizational endeavor.

Despite the need for discussing the overall viewpoint so indispensable to the guidance of any organization, much of the literature in the field of management is concerned with specific functions and treats only one aspect of the management task. This book is not concerned with the specific functions of the business enterprise and their analysis in isolation for the purpose of developing distinct areas of management expertise. The major thrust of this work is directed toward integrating these elements of the management task into a comprehensive framework which emphasizes the central role of the policymaking group of general managers who determine the basic objectives of the enterprise and the strategic design which guides and directs the organization.

## FORMAT OF THE BOOK

Chapter 1 provides an introduction to the complexities of the general management function and the demanding role of the chief executive. This chapter emphasizes the necessity and importance of having the general manager develop an overall view of the organization and grasp the totality of the firm as a single unit directed toward the attainment of specific objectives. A basic conceptual model of the strategic planning and policymaking process is developed in this chapter. This conceptual model is stressed throughout the book and is sequentially developed in the succeeding chapters.

The automotive industry with its rich background and extensive historical literature provides the opportunity for Chapter 2 to illustrate situational and institutional differences in strategic behavior. The strategic planning and policy formulation processes of Ford and General Motors over time are analyzed and contrasted as examples of the concept of strategy and of the response of management to environmental changes.

Chapter 3 shows the development of one of the major management tasks, that is, the analysis of competitive threats and opportunities. This chapter assesses and appraises the opportunities available for the business enterprise to affect profitability and growth, and it examines the threats from competition and environmental changes which affect its operations and, in some cases, its survival. The life cycle of the firm is described and analyzed to indicate expected management behavior during the typical pattern of events likely to be associated with each separate stage of the cycle. This chapter also emphasizes the importance of industry structure and the life cycle of industries as major factors which determine a company's competitive posture.

Chapter 4 examines management's response to environmental change. The potential impact of economic, political, and technological change on the firm is evaluated. Environmental forecasting is discussed and analyzed as a strategic aid to evaluate and prepare management's response to environmental change. The international dimensions of environmental scanning are also discussed to indicate the extent and importance of global competition and to delineate the opportunities and challenges it presents to the firm. Industry structure significantly affects a firm's competitive position. The importance of recognizing this vital factor in environmental scanning is also stressed in the chapter.

Chapter 5 outlines a pragmatic and conceptual approach to problem solving and situation analysis. The firm is analyzed as a system which comprises a number of interrelated functions which make up the whole. The need for continued recognition of the stated mission and purpose of the enterprise is emphasized in this chapter as key factors in internal analysis. The principle of functional dynamics—the recognition of the possible effects of decisions to change policies and operations of one functional area on the other functions of the firm—is described and analyzed. The importance of taking into account the interrelatedness of all operations of the enterprise in internal analysis is also stressed. A series of probing questions for management consideration in conducting an audit and appraising the firm's internal problems and competitive position is also provided in the chapter.

Chapter 6 defines the basic objectives which shape the image and character of the enterprise. Specific attention is directed to the overriding economic objectives which provide the initial guidelines for all strategic action and form the basis for control and accountability. Discussion of the first phase of the policymaking process—the formulation of a root strategy, which defines the kind and type of business the enterprise will engage in and the extent of its commitment of skills and resources—forms a large part of the chapter.

Chapters 7, 8, and 9 emphasize the successively more pragmatic phases of policymaking, implementation, organization, and interpretation, in which operating, organizational, and control strategies are developed. These chapters are integral blocks in the development of the conceptual skill of the policymaker.

Operating strategy flows from the root strategy and defines the specific operational plans to accomplish the mission of the firm. Chapter 7 develops the process of implementation, and it analyzes a number of operating strategies which have proved effective or have been the cause of corporate problems. Specific strategic aids for developing operating strategies such as the experience curve, growth/share matrices, planning grids, and the PIMS data are described and analyzed in the chapter.

The organizational strategy of the firm follows the development of the root and operating strategies. Chapter 8 provides a number of examples of unique organization strategies which have been a significant factor in the success of prominent industrial companies. The process of organizational design and its relationship to the company's structure, objectives, and operating plans is emphasized in this chapter.

Chapter 9 treats the importance of the monitoring of the control system to determine when and if reformulation should be effected and to what extent the strategic plan should be revised. This chapter discusses these vital elements of the strategic planning process and illustrates reformulation and the development of recovery strategies with examples drawn from industry.

The importance of expansion, acquisitions, and mergers is stressed in Chapter 10. The concept of growth as a basic economic objective and the pressure for diversification and integration to attain organizational goals are described and analyzed in the chapter.

## **ACKNOWLEDGMENTS**

The concepts developed in this book have their roots in the classic literature of the field of management and in my many years of teaching business policy at Northwestern University. I wish to express my gratitude to the teachers of business and management who have generously shared with me their ideas and concepts about policy formulation and strategic planning. Much of this edition represents a reflection of their knowledge and scholarship.

I am particularly indebted to the professors who reviewed this book during the course of its development: Sheila Adams, Arizona State University; Hale Bartlett, University of Illinois at Chicago; Bruce Coleman, Michigan State University; John Faris, Loyola University, Baltimore; Fred Luthans, University of

Nebraska; Clayton Reeser, University of Hawaii at Manoa; Earl Sage, University of North Carolina at Charlotte; John Stanley, University of Texas, Arlington; and Curt Stiles, University of Southern California.

I am deeply grateful to my wife, Willelene A. McNichols, to whom this book is dedicated, for her patience and counsel and the inordinate amount of time she devoted to the preparation and editing of this manuscript.

The text presented here was developed to accompany the cases in the sixth edition of *Policymaking and Executive Action* (McGraw-Hill Book Company, 1983). The examples and illustrations used in this book were all drawn from published sources; the interpretation and analysis is mine.

*Thomas J. McNichols*

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**PART ONE**

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**POLICY FORMULATION  
AND STRATEGIC  
PLANNING:  
THE GENERAL  
MANAGEMENT  
VIEWPOINT; THE ROLE OF  
THE CHIEF EXECUTIVE**

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# The Concept of Policy Formulation and Strategic Planning

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## RELATING STRATEGIC PLANNING TO POLICY FORMULATION

In this book we are concerned with *strategic planning as a part of the policy-making process*. The chief executive officer and the policymaking group determine the organization's strategic design by distinct or determined action or by *drift strategy* through the day-to-day decisions at the operating levels as managers seek to suboptimize their specific units, divisions, or departments. A company's strategic plan may be explicit or derived implicitly from its pattern of operations. *Strategy is embedded in policy formulation*; it comprises a sequence of decisions reflecting the will and purpose of the organization, its basic economic and business objectives, and its operational plans to utilize its skills and resources. Strategic planning is related to the future, and to the external environment. The strategic planning process involves environmental scanning and reasoned projections to ascertain the most promising opportunities for the business entity to position it for future profitable growth. It is utilized to provide for the identification of the firm's future products and product market scope to meet real, assumed, or potential demand, and to keep pace with competitive threats and pressures.

*Policy results from the institutionalization of strategic decisions.* The choice of the kind and type of business to be engaged in sets the initial stage for the development of policies which may guide and direct a company for a long time period until reformulation changes its strategic thrust. The business firm and the not-for-profit organizations crystallize their purpose by defining the dimensions and scope of their efforts. Their strategy is directed toward accomplishing specific objectives; over time these strategic decisions evolve into policies

which frame the culture of the organization and are reflected in their products and product market scope or in the range of services they perform. Over time the hierarchical policies become symbols and badges of identification which are frequently well recognized in the communities which the firms or organizations serve.

The proliferate use of the term *strategy* in management literature and in corporate annual reports has resulted in confusion and varied interpretations of the word. Strategy is used to identify single actions taken by organizations covering a wide range of decision choices, past and present, which resulted in establishing the image and culture of the firm, its role in the marketplace, and its day-to-day operations. It is infrequent that you find attempts to distinguish these decisions, to classify them, or to evaluate their significance to the organization's strategic design. The strategy of a firm cannot be isolated to a single all-encompassing decision which provides purpose and direction over a long-term horizon. The enterprise develops a strategic design based on a series of significant decisions which relate and delineate the interdependence of the formulation, implementation, organization, and control phases of the policymaking process. Strategic designs form a linking device which connects categories of decisions at the various stages of the policy process. Each class of decisions has separate and distinct characteristics which permit the various classes to be analyzed and studied separately. However, they must be taken as a whole, as a pattern of decisions, to form a strategic design which guides the firm in the marketplace. Each successive set of strategic decisions is derived and flows from the preceding set.

In the formulation phase of the policymaking process, a *root strategy* is developed to give the firm its basic guidelines in terms of the nature and scope of its business commitment and the extent of its skill and resource development and allocation. In the implementation phase an *operating strategy* is developed which flows from the *root strategy* and guides the enterprise in its action commitment in the marketplace. The blueprint for market penetration, coping with environmental changes, and directing day-to-day operations are part of a firm's *operating strategy*.

The organizational phase logically flows from the implementation phase: here management has a decision choice of alternative *organizational strategies* to provide the guidelines, framework, and communication network to complete and put into effect the operating strategy. In the interpretative phase, *control strategies* must be developed to determine the effectiveness of the organization's performance in relation to the predetermined objectives developed in the formulation and implementation phases. The interpretation of control data provides the basis for determining the necessity for reformulation or recycling of the policymaking process and the development of a *recovery strategy* with its consequent effects on *root strategy*, *operating strategy*, *organizational strategy*, and *control strategy*.

The interrelationship of this policymaking process and the concept of a strategic design are illustrated in Exhibit 1-1. This conceptual model stresses the

interdependence of the five basic phases of a continuous flowing process which shapes the image and character of the business enterprise and provides it with basic guidelines for executive action.

The specific elements of the strategic design and the policymaking process are discussed in greater detail in Chapters 2 through 8.

## **THE ROLE OF THE CHIEF EXECUTIVE AS A POLICYMAKER AND STRATEGIC PLANNER**

### **Functional Skills and the General Management Viewpoint**

To understand the importance and significance of functional decisions and the relationship of the functional manager or staff specialist to the basic purpose, objectives, and strategic design of the organization, the student or manager must grasp the totality of the firm and recognize that the whole is greater than the sum of its parts (or specific functions). The all-encompassing role of the top decision makers must be analyzed and studied to be understood. The importance of the linkage of decisions at all levels of the organization to the strategic design and "overall master plan" should be comprehended in order to view the firm as a system and to gain an understanding of the significance and dimensions of the functional areas.

The hierarchy of management is confronted with a complex organization which may include separate divisions and companies as well as specialized functions and departments. The chief executive and the policymakers must possess more than a comprehensive knowledge of the operations of the multiple functions of the business entity; they must make judgments about the organization as a whole, and their strategic decision-making efforts must be directed toward the attainment of objectives designed to maximize the efforts of the enterprise as a single integrated unit. Top management has the advantage of perspective since they look down on the entire business operation; but the view may be distorted by their backgrounds and functional specialties. Most policymakers were at one time specialists in one function or another and most likely received recognition for performance at this level, thus earning the opportunity to direct and coordinate the efforts of the enterprise at the higher echelons of management.

The skills and abilities learned at the functional level may, in many instances, prove to be among the greatest handicaps of executives in their attempts to adapt to the overall viewpoint so necessary to the policymaker. It is not uncommon for top managers, particularly in the initial stages of their role as policymakers, to suffer from functional emotionalism—they may tend to see many corporate problems as stemming from poor financial policy, a failure to apply the "marketing concept," or ignorance of the ramifications of production difficulties. Others, trained and experienced in different specialties, may tend to approach the decision-making process through their own familiar channels. The tendency toward functional emotionalism is not unusual or unexpected in view of the career path of most executives. Their education, job assignments,

# EXHIBIT 1-1

## INTERRELATIONSHIP OF THE POLICYMAKING PROCESS AND THE STRATEGIC DESIGN

