

THE STRATEGIC MANAGEMENT HANDBOOK

KENNETH J. ALBERT
Editor in Chief

Author of Handbook of Business Problem Solving

The Strategic Management Handbook

KENNETH J. ALBERT Editor in Chief
Strategy Consultant and Author

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

Library of Congress Cataloging in Publication Data

Main entry under title:

The Strategic management handbook.

Includes index.

1. Corporate planning. 2. Management.

I. Albert, Kenneth J., date.

HD30.28.S732 1983 658.4'01 82-17110

ISBN 0-07-000954-6

Copyright © 1983 by Kenneth J. Albert. All rights reserved. Printed in the United States of America. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a data base or retrieval system, without the prior written permission of the publisher.

345678910 VBVB 8987654

ISBN 0-07-000954-6

The editors for this book were William R. Newton and Olive H. Collen, the designer was Naomi Auerbach, and the production supervisor was Thomas G. Kowalczyk. It was set in Baskerville by Waldman Graphics.

**To the contributing authors.
You made this book possible,
and you made this book good.**

About the Editor in Chief

KENNETH J. ALBERT is a veteran industrial marketing and business strategy consultant who maintains an independent consulting practice in the San Francisco Bay area. He is the author or editor of several McGraw-Hill business books, including *The Handbook of Business Problem Solving*. Mr. Albert holds an M.B.A. degree from the University of Chicago, an M.S. degree from Rensselaer Polytechnic Institute, and a B.S. degree in engineering from the University of Illinois.

Contributors

MICHAEL G. ALLEN *President, Michael G. Allen Company, New York, New York. (CHAPTERS 7 AND 18)*

J. SCOTT ARMSTRONG *Associate Professor of Marketing, The Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania. (CHAPTER 2)*

WALTER P. BLASS *Director of Corporate Planning, New York Telephone, American Telephone & Telegraph. (CHAPTER 6)*

GEORGE CALHOUN *Managing Director, The Philadelphia Consulting Group, Wynnewood, Pennsylvania. (CHAPTER 25)*

MARV EISTHEN *President and Chief Executive Officer, OPI, Limited, Dallas, Texas. (CHAPTER 16)*

LIAM FAHEY *Assistant Professor of Policy and Environment, J. L. Kellogg Graduate School of Management, Northwestern University, Evanston, Illinois. (CHAPTER 21)*

LYNN H. GLENNEY *Director of Corporate Planning, Lear Siegler, Inc., Santa Monica, California. (CHAPTER 5)*

JOHN M. HARRIS *Senior Vice President, Booz·Allen & Hamilton, Inc., New York, New York. (CHAPTER 20)*

BRUCE D. HENDERSON *Chairman of the Board, The Boston Consulting Group, Inc., Boston, Massachusetts. (CHAPTER 1 AND APPENDIX)*

WALTER J. KRUEL *Vice President, Corporate Planning and Development, Lear Siegler, Inc., Santa Monica, California. (CHAPTER 5)*

ROBERT E. LIENHARD *Vice President, The Boston Consulting Group, Inc., Boston, Massachusetts. (CHAPTER 12)*

W. WALKER LEWIS *President, Strategic Planning Associates, Inc., Washington, DC. (CHAPTER 24)*

JAMES F. LYONS *Vice President, Strategic Planning, United Technologies Corporation, Hartford, Connecticut. (CHAPTER 3)*

THOMAS F. MANDEL *Senior Strategic Analyst, Business Intelligence Program, SRI International, Menlo Park, California. (CHAPTER 10)*

CHESTER D. MARKS *Manager, Strategic Planning, Dow Chemical USA, Midland, Michigan. (CHAPTER 4)*

KENNETH G. MARTIN *Director, Hay Associates, Philadelphia, Pennsylvania. (CHAPTER 17)*

- J. ERNEST MITCHELL** *Director, Corporate Planning, The Dow Chemical Company, Midland, Michigan.* (CHAPTER 4)
- EDWARD W. MORSE** *Director, Hay Associates, Philadelphia, Pennsylvania.* (CHAPTER 17)
- V. K. NARAYANAN** *Assistant Professor of Organization and Management, School of Business, University of Kansas, Lawrence, Kansas.* (CHAPTER 21)
- MICHAEL E. NAYLOR** *Strategic Planning Department, General Motors Corporation, Warren, Michigan.* (CHAPTER 22)
- ALEXANDER R. OLIVER** *Vice President, Booz·Allen & Hamilton, Inc., San Francisco, California.* (CHAPTER 18)
- THEODORE E. POLLOCK** *Manager, A. T. Kearney, Inc., Chicago, Illinois.* (CHAPTER 14)
- ALLAN J. PRAGER** *Vice President and Director, Cresap, McCormick and Paget Inc., San Francisco, California.* (CHAPTER 8)
- JOHN D. C. ROACH** *Vice President and Managing Officer, Strategic Management Group, Booz·Allen & Hamilton, Inc. Houston, Texas.* (CHAPTER 7)
- RUSSELL G. ROBERTS** *Director, Hay Associates, Chicago, Illinois.* (CHAPTER 15)
- THOMAS S. ROBERTSON** *Professor and Chairperson, Department of Marketing, The Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania.* (CHAPTER 11)
- JOHN E. ROBSON** *Executive Vice President, G. D. Searle & Co., Skokie, Illinois.* (CHAPTER 19)
- ROBERT H. ROCK** *Partner, Hay Associates, Strategic Management Group, Hay Associates, Philadelphia, Pennsylvania.* (CHAPTER 16)
- JOSEPH D. ROMANO** *Vice President, A. T. Kearney, Inc., Chicago, Illinois.* (CHAPTER 13)
- WLADIMIR M. SACHS** *Managing Director, The Philadelphia Consulting Group, Wynnewood, Pennsylvania.* (CHAPTER 25)
- SIDNEY SCHOEFFLER** *Managing Director, The Strategic Planning Institute, Cambridge, Massachusetts.* (CHAPTER 23)
- EDWARD H. SCHWALLIE** *Senior Vice President, Booz·Allen & Hamilton, Inc., San Francisco, California.* (CHAPTER 18)
- MARY BETH SHEA** *Managing Consultant, Cresap, McCormick and Paget Inc., San Francisco, California.* (CHAPTER 8)
- IAN WILSON** *Senior Management Consultant, International Development Center, SRI International, Menlo Park, California.* (CHAPTER 9)
- YORAM WIND** *Professor of Marketing and Director, Center for International Studies, The Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania.* (CHAPTER 11)
- MARTIN G. WOLF** *Senior Principal, Hay Associates, Philadelphia, Pennsylvania.* (CHAPTER 15)
- ALAN J. ZAKON** *Chief Executive Officer, The Boston Consulting Group, Inc., Boston, Massachusetts.* (APPENDIX)

Preface

The past decade has not been an easy one for business decision makers. We've been through a period of unprecedented change, increased competition, and growing uncertainty.

Unfortunately, the years ahead, very likely, will bring even more change, more competition, and more uncertainty. Technological and social change will no doubt accelerate. Competition will become even more global, moving us toward a worldwide economy, and this trend will have an impact on all types and sizes of businesses. As for uncertainty, well, the only certainty is that uncertainty is likely to become epidemic. All too often, an unanticipated change in the competitive environment of a company will turn an apparently masterful business strategy into fodder for a "what went wrong" cover story in *Business Week*.

Strategic Management

Some companies will prosper in the years ahead, and others will fall back. Luck (that is, being in the right market, with the right product, at the right time, and at the right price) will surely shine on some businesses. But most successes will result from a sound strategy and the ability of the leaders and managers of an organization to think and perform in concert with that strategy. This is the essence of strategic management. And that is what this book is all about. It thoroughly treats each of the important aspects of strategic management:

- Strategy formulation
- Strategy for major business functions
- Anticipating and responding to change in the competitive environment
- Leading and motivating the organization
- Structural and human considerations
- Effective implementation
- Measuring results and making adjustments
- Useful techniques and resources

This Book

This book brings together the best in contemporary thought, principle, and practice in all aspects of strategic management.

The list of individual contributors and the organizations they represent constitute a veritable “Who’s Who” of leading strategic advisers and practitioners. Almost all the world’s leading management consulting firms are represented. The industrial organizations represented are, in most people’s judgment, among the best-managed companies in the world. And some top business schools round out this impressive group.

All the chapters in *The Strategic Management Handbook* emphasize pragmatic, usable, how-to material. Most are illustrated with actual case histories.

This book is, of course, a reference book; thus each chapter is a complete treatment of a particular topic. But since many topics are interrelated, it is advisable to consult the index for material throughout the book that may be helpful. Also, a comprehensive bibliography of business strategy references is included at the end of Chapter 2.

People filling many different roles in the business community will benefit from this book:

- Corporate executives
- Planners and strategists
- Divisional managers
- Functional managers
- Entrepreneurs
- Consultants
- Professors
- Students, especially in graduate business schools

Acknowledgments

One group of people was most instrumental in making this book possible. They, of course, are the authors of the individual chapters. All are very busy senior people with untold demands on their time. I sincerely appreciate the special effort each has made to contribute to this book.

Aptos, California

KEN ALBERT

Contents

Contributors ix
Preface xi
Acknowledgments xii

Section 1 Strategic Thoughts and Actions 1-1

1. THE CONCEPT OF STRATEGY
Bruce D. Henderson, The Boston Consulting Group, Inc. 1-3

2. STRATEGIC PLANNING AND FORECASTING
FUNDAMENTALS
*J. Scott Armstrong, The Wharton
School, University of Pennsylvania 2-1*

3. STRATEGIC MANAGEMENT AND STRATEGIC
PLANNING IN THE 1980s
James F. Lyons, United Technologies Corporation 3-1

4. STRATEGY FORMULATION—A COMPREHENSIVE
ILLUSTRATION
*J. Ernest Mitchell and Chester D. Marks,
The Dow Chemical Company 4-1*

5. BUSINESS UNIT STRATEGY
Walter J. Kruel and Lynn H. Glenney, Lear Siegler, Inc. 5-1

Section 2 Strategy Management 6-1

6. OPTIMIZING THE CORPORATE PLANNING
FUNCTION
*Walter P. Blass, New York Telephone,
American Telephone & Telegraph 6-3*

7. STRENGTHENING THE STRATEGIC PLANNING PROCESS	
<i>John D. C. Roach, Booz·Allen & Hamilton, Inc.,</i> <i>and Michael G. Allen, Michael G. Allen Company</i>	7-1
8. THE STRATEGY AUDIT	
<i>Allan J. Prager and Mary Beth Shea,</i> <i>Cresap, McCormick and Paget Inc.</i>	8-1
9. THE BENEFITS OF ENVIRONMENTAL ANALYSIS	
<i>Ian Wilson, SRI International</i>	9-1
10. FUTURES SCENARIOS AND THEIR USES IN CORPORATE STRATEGY	
<i>Thomas F. Mandel, SRI International</i>	10-1
Section 3 Strategic Planning for Major Business Functions	11-1
11. MARKETING STRATEGY	
<i>Thomas S. Robertson and Yoram Wind,</i> <i>The Wharton School, University of Pennsylvania</i>	11-3
12. PRICING POLICY AND STRATEGY	
<i>Robert E. Lienhard, The Boston Consulting Group, Inc.</i>	12-1
13. OPERATIONS STRATEGY	
<i>Joseph D. Romano, A. T. Kearney, Inc.</i>	13-1
14. DISTRIBUTION STRATEGY	
<i>Theodore E. Pollock, A. T. Kearney, Inc.</i>	14-1
15. HUMAN RESOURCES STRATEGY	
<i>Russell G. Roberts and Martin G. Wolf, Hay Associates</i>	15-1
Section 4 Strategy Implementation	16-1
16. IMPLEMENTING STRATEGIC CHANGE	
<i>Robert H. Rock, Hay Associates,</i> <i>and Marv Eisthen, OPI, Limited</i>	16-3
17. MOTIVATING THE ORGANIZATION TO IMPLEMENT STRATEGY	
<i>Edward W. Morse and Kenneth G. Martin, Hay Associates</i>	17-1

18. ACQUISITION STRATEGY	
<i>Edward H. Schwallie and Alexander R. Oliver,</i>	
<i>Booz·Allen & Hamilton, Inc., and</i>	
<i>Michael G. Allen, Michael G. Allen Company</i>	18-1
19. DIVESTITURE STRATEGY	
<i>John E. Robson, G. D. Searle & Co.</i>	19-1
20. CORPORATE TURNAROUND STRATEGY	
<i>John M. Harris, Booz·Allen & Hamilton, Inc.</i>	20-1
Section 5 Key Issues and Resources	21-1
21. THE POLITICS OF STRATEGIC DECISION MAKING	
<i>Liam Fahey, Northwestern University,</i>	
<i>and V. K. Narayanan, University of Kansas</i>	21-3
22. PLANNING FOR UNCERTAINTY—THE SCENARIO- STRATEGY MATRIX	
<i>Michael E. Naylor, General Motors Corporation</i>	22-1
23. THE PIMS PROGRAM	
<i>Sidney Schoeffler, The Strategic Planning Institute</i>	23-1
24. AVOIDING PLANNING BACKLASH	
<i>W. Walker Lewis, Strategic Planning Associates, Inc.</i>	24-1
25. THE ROLE OF OUTSIDE CONSULTANTS	
<i>Wladimir M. Sachs and George Calhoun,</i>	25-1
<i>The Philadelphia Consulting Group</i>	
APPENDIX: THE GROWTH-SHARE MATRIX IN CORPORATE GROWTH STRATEGY	
<i>Bruce D. Henderson and Alan J. Zakon,</i>	
<i>The Boston Consulting Group, Inc.</i>	Appendix 1
Index follows the appendix	

Section One

Strategic Thoughts and Actions

Chapter 1

THE CONCEPT OF STRATEGY

BRUCE D. HENDERSON

Chairman of the Board, The Boston Consulting Group, Inc.

THE BEGINNING OF NATURAL COMPETITION

Competition existed long before strategy. Competition began with life itself. The first one-cell organisms required certain resources for maintenance of life. When those resources were adequate, then each generation became greater in number than the preceding one. If there had been no limitation on required resources, then exponential growth would have led to infinite numbers.

But as life evolved, the single-cell life form became a food resource for more complex life. With increasing complexity, each level became the resource for the next higher level. When two competitors were in perpetual competition, one inevitably displaced the other, unless something prevented it. In the absence of some counterbalancing force to maintain a stable equilibrium between the two competitors by giving each an advantage in its own territory, only one competitor survived.

In this way a very complex web of competitive interaction developed. It required millions of years. Now there are more than a million distinct species which have been catalogued, and there are believed to be millions more such variations of species as yet unclassified. Each has a unique advantage in competition for its required resources within its particular niche of the environment.

Since each of these competitors must be unique, the abundance of variations must match an equal variation in potential factors which de-

fine an environmental niche, and the varied characteristics in the environment which make each combination effective. The richer the environment, the more severe the competition is and the greater the number of competitors. Likewise, the richer the environment, the smaller the differences between competitors.

This is quite consistent with recent biological research. Experimental laboratory ecologists discovered in the 1930s and 1940s that if one puts two similar species of small organisms together in a bottle with food and uniform substrate, only one species can persist.¹

The observation that coexisting species in nature do differ ecologically and that species must differ ecologically to coexist in bottles led to Gause's Competitive Exclusion Principle: "No two species can coexist who make their living in the same way."

For millions of years natural competition involved no strategy. It was natural selection, adaptation, and survival of the fittest. Random chance determined the mutations and variations which survived and succeeded to compound their numbers. Those who left relatively fewer offspring became displaced. Those who adapted best displaced the rest. Physical and structural characteristics adapted, but behavior adapted also and became embedded in their instinctual reactions.

The awareness of natural competition as a systematic effect is centuries old. Thomas Malthus quoted Benjamin Franklin's observation about the crowding out of natural competition. Charles Darwin himself credited Malthus with the insight. Alfred Wallace and Darwin, separated by thousands of miles, simultaneously developed the concept of natural selection by competition. Darwin emphasized repeatedly the overriding importance of competition. It is awesome in its potential for evolution.

As far as we know, only primates possess imagination and the ability to reason logically. But without these qualities, behavior and tactics are either intuitive or the result of conditioned reflexes. Without these capabilities, strategy is impossible. Strategy depends upon the ability to foresee the future consequences of present initiatives.

THE BEGINNING OF STRATEGIC COMPETITION

Strategy in its most elementary form most likely developed when the hunting party was formed by early humans to capture large game which could not have been handled by a single individual. But this was hardly true strategy. The quarry itself could have no counterstrategy, only its instinctive behavior. True strategy was probably first practiced by one tribe attempting to take over the hunting grounds of another tribe.

For strategy to be possible, it is necessary to be able to imagine and evaluate the possible consequences of alternate courses of action. But

imagination and reasoning power are not sufficient. There also must be knowledge of competition and the higher-order effects that are characteristic of alternative actions. That knowledge must reach a critical mass before it becomes really significant. Until enough knowledge has been integrated to see the whole pattern, knowledge is no more than the individual pieces of a jigsaw puzzle. The basic requirements for strategy development are:

- A critical mass of knowledge
- Ability to integrate all of this knowledge and examine it as an interactive dynamic system
- Skill at system analysis sufficient to understand sensitivity, time lags, and immediate and future possibilities and consequences
- Imagination and logic to choose between specific alternatives
- Resource control beyond immediate needs
- The will to forgo current benefits in order to invest in the future potential

Simple as these requirements may seem, they are absent in natural competition. Strategic competition requires an ability to understand the dynamics of the complex web of natural competition. The value of strategy in competition comes from developing the potential to intervene in a complex system with only a limited input and thereby produce a predictable and desired change in the system's equilibrium.

Strategy, as a concept, probably emerged in connection with military operations. All the elements that make strategy valuable are present in military encounters:

- Finite resources
- Uncertainty about an adversary's capability and intentions
- Irreversible commitment of resources
- Necessity of coordinating action over time and distance
- Uncertainty about control of the initiative
- The critical nature of the adversaries' mutual perceptions of each other

History books tend to tell us the sequence of events and who won a war. They tell us less about why the initiator thought it was worth taking the risk and even less about the strategy of each adversary. Strategy is often not clear or obvious even with the benefit of hindsight. Sun Tsu, a general in 500 B.C., said it well: "All men can see the tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved." The history of strategy is rarely more than rationalization.

There are many analogies between business and military strategy. One in particular is quite important: visible conflict is only a periodic symp-