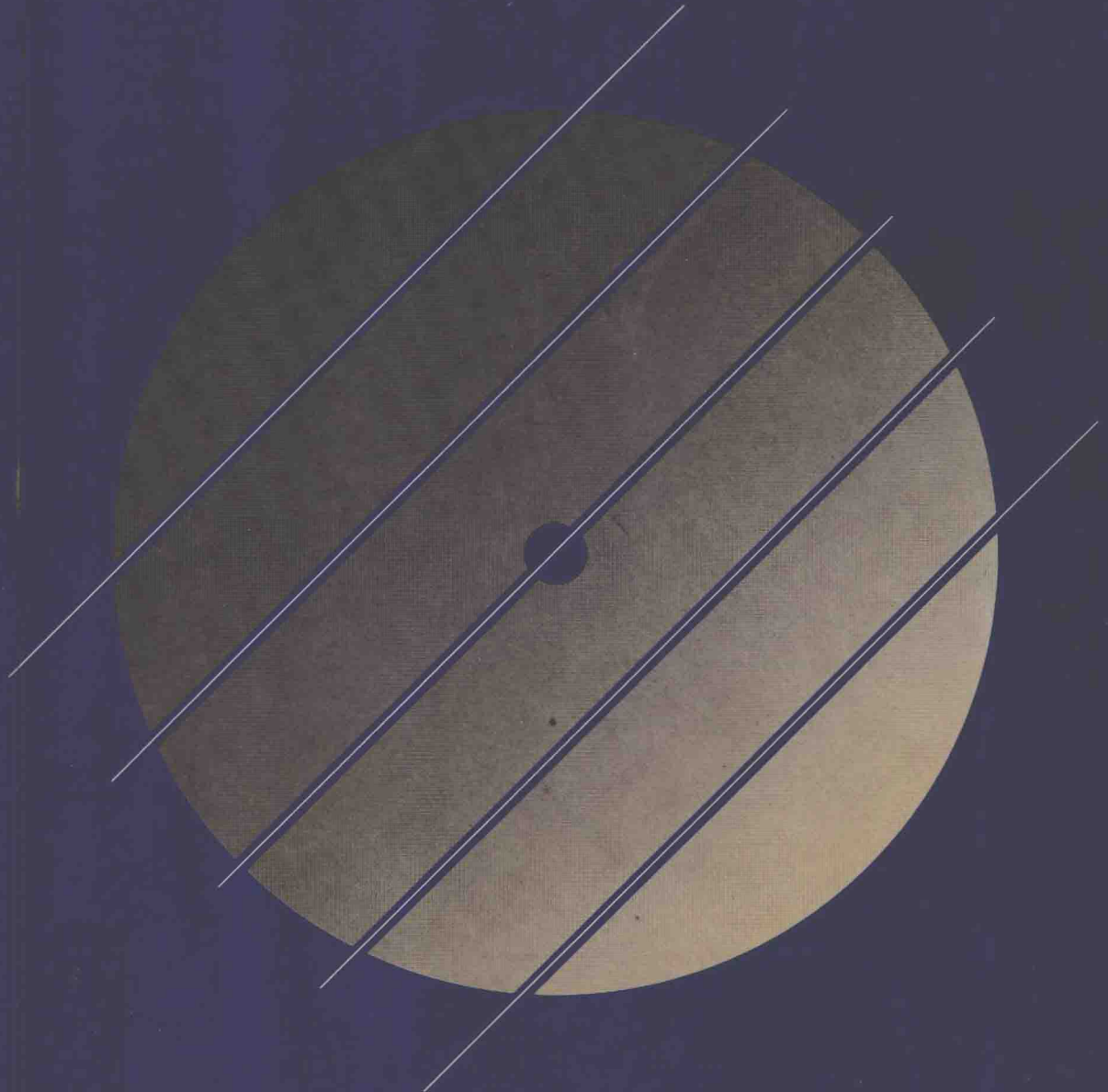


Arthur A. Thompson, Jr.

A.J. Strickland III

Strategy Formulation and Implementation

Tasks of the General Manager



Fourth Edition

Strategy Formulation And Implementation

Tasks of the General Manager

***Arthur A. Thompson, Jr.
A. J. Strickland III***

both of
The University of Alabama

Fourth Edition

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Preface

This fourth edition of *Strategy Formulation and Implementation* represents a major revision and incorporates significant new features. We have reorganized the presentation into 10 chapters, improved the graphics, streamlined the presentations, broadened the coverage in several areas, created a four-chapter module on business-level situation analysis and a two-chapter section on strategic analysis in diversified companies, developed Analytical Checklists at the end of most chapters to highlight the key components of strategic thinking and strategic analysis, inserted nine new Illustration Capsules, and included six recent journal articles to form a text-readings package. Throughout, the content reflects new contributions to the strategic-management literature, a more straightforward conceptual framework, and a sharper focus on concepts, analytical techniques, and practitioner experiences.

WHAT'S NEW IN THE TEXT CHAPTERS

The rapid-fire development of the strategic-management literature dictates that major edition-to-edition refinements be made in the treatment given to concepts and analytical techniques. In our updating and adjusting, however, we have kept the focus of this edition strongly centered on the strategy-related tasks of managers and on the methods of strategic analysis. Senior managers (major department heads and on up) are cast firmly in the twin roles of chief strategy-maker and chief strategy-implementer, charged with presiding over insightful strategic analysis, formulating and reviewing strategic-action plans, and leading the process of strategy implementation and execution in their respective areas of responsibility. Every key aspect of strategic management is examined—defining the business, setting strategic objectives, conducting industry and competitive analysis, doing company situation analysis, evaluating diversified business portfolios, checking the various generic corporate and business-strategy options, probing for sustainable competitive advantage, building a capable organization, shaping the corporate culture, creating strategy-related administrative fits, and exerting strategic leadership.

We've made several changes worth calling to your attention:

- Chapter 1 has been thoroughly overhauled to lay out more sharply and more concisely just what strategy-making, strategy-implementing, and the strategic-planning process are all about. The separate roles of line managers, strategic planners, and boards of directors are spelled out.
- Chapter 2 zeros in on the direction-setting entrepreneurial tasks—defining

the business, establishing strategic objectives, and crafting a strategy. The layers of strategy and the strategy-making issues at each level of the managerial hierarchy are given special prominence.

- The treatment of business-level situation analysis has been divided into two chapters: one on the techniques of industry and competitive analysis (Chapter 3) and one on company situation analysis (Chapter 4).
- The chapter on industry and competitive analysis incorporates a conceptual approach applicable to any market situation. It draws together all the necessary tools—how to profile industry structure, identifying the drivers of industry change, Porter's model of competitive forces, the technique of strategic group mapping, the identification of key success factors, and the assessment of long-term industry attractiveness. The overall analytical model is appealingly simple and guides its users to thinking strategically about the answers to a few select questions.
- The role of experience curve economics in strategic analysis is given increased attention.
- The chapter on company situation analysis features diagnosing how well the present strategy is working, SWOT analysis, competitive strength assessments, strategic cost or value chain analysis, and identification of strategic issues confronting the company.
- A much revised chapter on competitive strategy and competitive advantage incorporates the trailblazing approach of Michael Porter in his two books, *Competitive Strategy* (1980) and *Competitive Advantage* (1985).
- Chapter 6, "Matching Strategy to the Situation," covers the major strategy alternatives in generic types of industry environments and company situations. Coverage of strategic issues and alternatives in globally competitive markets has been strengthened.
- We've continued our practice of covering strategic analysis for single-business situations ahead of corporate strategy and diversification issues, because the concepts and techniques of corporate strategy rely so heavily on a good grasp of business-strategy concepts. However, because of their stand-alone nature, instructors who prefer to do so can cover the material on corporate strategy (Chapters 7 and 8) ahead of the business-strategy chapter grouping (Chapters 3, 4, 5, and 6).
- One of the two chapters on strategic analysis in diversified companies explains the various corporate strategy alternatives with emphasis on building a diversified business portfolio and post-diversification portfolio management. The other chapter concentrates on the analytical tools for appraising diversified corporate portfolios; it features treatment of how to use diversification to create competitive advantage.
- The job of implementing strategy is seen as consisting of five key managerial tasks: building a capable organization, linking the budgeting process to the strategic plan, generating commitment to the chosen strategy up and down the organization, putting strategy-supportive policies and administrative practices into place, and exercising strategic leadership. Chapter 9 deals with the first two tasks and Chapter 10 with the last three.

- The importance of building a strategy-supportive corporate culture continues to get center-stage treatment as a key to successful strategy execution.
- Analytical checklist sections at the end of most chapters draw attention to key concepts, techniques, and questions to ask, in an effort to build the skill of thinking about “the big picture” in strategic terms.
- Shorter, crisper Illustration Capsules have been written to demonstrate real-world application of core concepts. Nine of the 20 capsules are new to this edition.

All in all, we are confident you will find the text portion of this edition better organized, more tightly written, comfortably mainstream, and as close to the cutting edge of both theory and practice as basic textbook discussions can be.

THE READINGS SELECTIONS

In the first two editions, we included readings to complement the text discussion; in the preceding third edition, we dropped readings. This fourth edition reverts to the inclusion of readings for three reasons: (1) to provide detailed treatment of several important, newly published topics; (2) to provide readers with modest exposure to the strategic management literature; (3) to respond to the requests of users who, as a regular practice, assign articles out of the current journals to their classes. However, in deference to length, we have chosen just six readings for this edition; all six are current and serve particular roles.

The first reading, by Henry Mintzberg on “Crafting Strategy,” won a best article award in the *Harvard Business Review*; it stresses the very important point that strategy is more often crafted as events unfold than formulated by strict, preconceived design. It provides a marvelous insight into where strategy comes from and how it takes shape. The next reading explores the ever-relevant question of “What business are we in?”; William G. McGowan, the genius behind MCI, explains how MCI defines its business. These first two readings are grouped behind Chapters 1 and 2 and add both conceptually and pragmatically to the text discussion.

Reading 3, by Kevin Coyne, on sustainable competitive advantage (reprinted from a 1986 issue of *Business Horizons*) serves as a fitting conclusion to the four-chapter sequence on strategic analysis at the line-of-business level. Sustainable competitive advantage is the goal in crafting a successful business strategy; Coyne provides a clear view of what it takes to achieve this goal.

Michael Porter’s article on “From Competitive Advantage to Corporate Strategy” accompanies the two-chapter module on strategic analysis in diversified companies. This article won the McKinsey award as the best *HBR* article during 1987. It presents significant research findings about the success and failure of corporate diversification strategies and provides some important prescriptions for making diversification work to greater advantage.

The last two readings deal with implementation of strategy and follow Chapters 9 and 10. One is by Jay Lorsch on the problems of managing culture to support shifts in strategic direction, and the other, by Randall Schuler and Susan Jackson, addresses the need to tightly link human resource practices and competitive strategy.

We think you will find these six readings well worth covering. Given the limited number we have included, they should not burden readers or cause them to get bogged down in excessive detail. All six articles are eminently readable and are well matched to the chapter discussions. We think you will find them a welcome feature of this fourth edition.

ADDITIONAL PEDAGOGICAL FEATURES

As in previous editions, all the chapters incorporate liberal use of examples and references to the strategic successes and failures of companies—what has worked, what hasn't, and why. The use of boxed Illustration Capsules to further highlight “strategy in action” was well received in earlier editions and has been continued. Together, the examples and the capsules keep the bridge between concept and actual practice always open, giving the reader a stronger feel for how strategic-analysis concepts and techniques are utilized in real-world management circumstances.

The Appendix gives students positive direction in case method pedagogy and offers suggestions for approaching case analysis. In our experience, many students are unsure about what they are to do in preparing a case, and they are certainly inexperienced in analyzing a company from a “big picture” or strategic point of view. The appendix discussion is intended to provide explicit guidance and to focus student attention on the traditional analytical sequence of (1) identify, (2) evaluate, and (3) recommend. To address the question of how to conduct a strategic analysis, we have included a comprehensive “what to look for” checklist to further supplement the chapter-end analytical checklists. This table, along with one on how to calculate and interpret key financial ratios, should satisfy the needs of students for pointers. Other features of the Appendix include a discussion of how to prepare a case for oral class discussion and guidelines for doing a written case analysis. All told, this material should be useful for students who (1) need assistance in making the transition from the lecture method to the case method of teaching or learning or both, and (2) want more guidance in figuring how to size up a company's strategic situation.

ACKNOWLEDGMENTS

We have benefited from the help of many people in the evolution of this book. Our intellectual debt to those academics, writers, and practicing managers upon whose works and experiences we have drawn will be obvious to any reader familiar with the literature of strategic management; we have endeavored to acknowledge their specific contributions in our many footnote references and in the list of suggested readings at the end of each chapter. Students, adopters of previous editions, and reviewers have kindly offered an untold number of insightful comments and helpful suggestions for improving the manuscript.

Naturally, as custom properly dictates, we are responsible for whatever errors of fact, deficiencies in coverage or in exposition, and oversights that remain. As always, we value your recommendations and thoughts about the book. Your com-

ments regarding coverage and content will be most welcome, as will your calling our attention to specific errors. Please write us at P.O. Box 870223, Department of Management and Marketing, Tuscaloosa, Alabama 35487-0223.

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A. J. Strickland III

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1

The Manager as Strategy-Maker and Strategy-Implementer

"Cheshire Puss," she [Alice] began . . . "would you please tell me which way I ought to go from here?"

"That depends on where you want to get to," said the cat.

Lewis Carroll

My job is to make sure the company has a strategy and that everybody follows it.

Kenneth H. Olsen
CEO, Digital Equipment Corporation

If you want things to be better, you probably will have to change something.

George S. Odiorne

This book is about the managerial tasks of crafting and implementing organization strategy. As the term has come to be used in management circles, *an organization's strategy consists of the pattern of moves and approaches devised by management to produce successful organization performance*. In even simpler terms, strategy is the managerial game plan.

Strategy formulation and implementation are core management functions. Among all the varied things that managers have to deal with and act upon, few affect an organization's performance more lastingly than do the tasks of charting an organization's future course, figuring out what strategic moves and approaches to undertake, and then orchestrating execution of the chosen strategy as close to perfection as is managerially possible. How well an organization's management team performs the strategy-making and strategy-implementing functions is always a very big factor in determining whether the organization performs up to potential. Indeed, *good strategy and good implementation are the most trustworthy proof of good management*.

The reason why organizational performance is linked so tightly to the managerial