

# Readings in Strategic Management

**Fourth Edition** 

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## Preface

During the past decade or so, business policy has expanded its status from being just an integrative course in the business curriculum to being a full-fledged discipline with a distinctive literature of its own. A large knowledge base is rapidly building on the concept of strategy, the tasks and process of strategy formulation and implementation, and all the ramifications of aligning the operations and culture of the enterprise to fit the requirements of strategy.

Important, insightful techniques for examining a company's competitive position, business strengths, industry attractiveness, and the makeup of multibusiness corporate portfolios have come to the fore. Formal strategy evaluations and annual strategy reviews are growing in use, having already risen to become a standard management practice in most large companies. There is heightened managerial application of such strategic concepts as driving forces, strategic groups, competitor analysis, key success factors, distinctive competence, strategic fit, switching costs, first-mover advantages, and strategic business units. Issues pertaining to strategy formulation and strategy implementation enjoy high priority on managerial action agendas. The whole strategic management cycle-from defining the business to strategy formulation to implementation and execution to evaluation of results to reformulation and fine-tuning of the game plan—is being intensively scrutinized by practitioners, consultants, and business school academics.

Although many instructors rely on text treatments and case analysis to teach their courses in strategic management, there is reason to supplement the "standard approach" with articles in the field of strategic management. For those instructors who see the value of incorporating samples of the strategic management literature into their course, Readings in Strategic Management attempts to provide a variety of current articles that reflect the thinking and research of academics and the state of the art as it is being practiced by consultants and managers.

This book contains 43 articles from a variety of up-to-date sources. Sixty percent of the articles did not appear in the third edition. Only three of the 43 articles were published prior to 1987. In addition, a substantial number of the articles are by authors outside the United States. More important, all are eminently readable and well matched to the level of most business policy/strategy texts.

The readings themselves are primarily of two types. One type, consisting of standard-length articles reprinted from first-tier journals, adds in-depth treatment to important topic areas covered in most business policy/strategy texts, thereby probing further into the details of particular techniques and exposing students to leading-edge research findings and conclusions. The second type includes shorter articles, drawn from practitioners' sources, that emphasize how strategic management concepts and tools relate directly to actual practice. In tandem, the two types of readings provide an effective and efficient vehicle for reinforcing and expanding text-case treatments and for giving students a flavor of both current literature and state-of-the-art strategic management applications.

#### ORGANIZATION OF THE READINGS

This book is divided into five parts. Each of the first four parts is organized around one of the major building blocks of strategy management. The fifth part reflects current thoughts about the important subject of business ethics. At the beginning of each part is a brief overview of the topics covered and of how each article fits into the scheme and structure of strategy management as well as an introductory statement about the content of each article. Each of the two types of articles mentioned earlier is included in each part of the book.

Part I addresses the role of the general manager as architect and chief implementer of strategy. The lead article, by Henry Mintzberg, explores how strategies get made, as opposed to how they are supposed to get made. James Brian Quinn then reports on his research findings on what the strategy formulation process is like in large corporations and how executives manage the process. Another Mintzberg article reexamines the question of why organizations really need strategies. Denton and Wisdom describe how the CEO of a very successful small company was able to turn an extremely difficult situation into a success through his ability to focus everyone in the same direction. The Fulmers' article describes a planning process used by a large company to focus and involve the management team in the planning process. B. Charles Ames, CEO of Uniroyal Goodrich Tire Company, describes how a business plan can be used as a tool to shape the strategy of a successful unit. The next two articles reflect insights on management by two of America's bestknown CEOs—Lee Iacocca of Chrysler and Jack Welch of General Electric. The final article consists of excerpts from the popular book, *Leader-ship Secrets of Attila the Hun* by Wess Roberts.

The focus of Part II is the formulation and analysis of business level strategy. David Aaker looks at managing a firm's assets and skills as a way of developing a sustainable competitive advantage. Steven Schnaars discusses the technique of scenario analysis as a way of understanding an organization's future environment. The Harvard Business Review McKinsey Award article for 1989, "Strategic Intent" by Hamel and Prahalad, challenges the conventional approach to strategy. Henry Beam examines the performance of two traditional leaders in their respective industries who failed to alter their traditional strategies in time to avoid serious problems. The remaining six articles in this part take a global view of the world. For example, two articles (taken from The Silent War: Inside the Global Business Battles Shaping America's Future) describe two global success stories—Samsung in microwave ovens and GE in refrigerators. Maurice Hardy's article examines the transformation of a small firm into a thriving company through global development. The retired chairperson of Honda Motor Company describes how his company "localizes" its global strategy. Next, John McMillan looks at how some Japanese companies work with their suppliers to gain a competitive advantage. Finally, Michael Porter discusses, in an interview, the lag in competitive thinking that affects some U.S. managers as they try to compete globally.

Part III presents eight articles that address some of the issues facing strategic managers in diversified companies. Setting the stage for this section is Michael Porter's discussion of the "dismal" track record of corporate strategies. Roland Calori draws on his study of 27 diversfied companies to offer insights about how companies manage diversity successfully. William Bain of Bain & Company discusses 10 working principles that can help a firm that is seeking to diversify through acquisition. The next two articles examine the subject of corporate restructuring. Waddock looks at the concept of "core strategy" as one key to the success of some restructured businesses. Enderwick explores the implications for competitive position that result from corporate restructuring. Michael Goold's article offers some advice on how to create a formal process for monitoring strategic performance in a multibusiness company. The last two articles in this part return to the international or global arena. Weihrich discusses some of the implications for the integration of the European Community in 1992. George Yip provides a framework for evaluating whether—and how—to globalize an individual firm's corporate strategy.

Part IV takes an in-depth look at the problems and tasks of strategy implementation. L. J. Bourgeois and David Brodwin discuss the different roles and methods used by chief executive officers in developing and implementing strategies. Bob Irvin and Ed Michaels of McKinsey & Company summarize the forces that have led to the emergence of core

skills as a focal point for management. The next four articles explore different human resource contributions to the successful implementation of strategy. First, William Fulmer explores the various roles that the human resource function can play in strategy implementation. Charles O'Reilly examines the role that culture plays in the success of an organization. Two authors, Tomasz Mroczkowski and Masao Hanaoka, discuss changes in the employment and promotion systems of Japanese companies as they position themselves to compete in the 1990s. Finally, Edward J. Ost describes how some corporations are trying to tie teambased incentive systems to corporate strategy. The next two articles, one by Kirkpatrick and Locke and the other Nadler and Tushman, deal with leadership. The last two articles, written by practitioners, concern aspects of implementing an innovation strategy.

The final section, Part V, takes an in-depth look at business ethics. The first of six articles explores the issue of codes of ethics and ethical behavior. The next two articles, one by a CEO and one by an academic, provide an interesting perspective on the current debate about business ethics. Frederick Bird and James Waters explore why some managers seem reluctant to describe their actions in moral terms. Wallace and White then discuss an integrity audit and lessons learned from such an audit. Finally, the Boeing Company's approach to ethics and values is explored.

#### **ACKNOWLEDGMENTS**

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# Readings in Strategic Management

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# The General Manager and Strategy

This part addresses the role of the general manager as architect and chief implementer of strategy. The lead article, by Henry Mintzberg, explores how strategies get made, as opposed to how they are supposed to get made. James Brian Quinn then reports on his research findings on what the strategy formulation process is like in large corporations and how executives manage the process. Another Mintzberg article reexamines the question of why organizations really need strategies. Denton and Wisdom describe how the CEO of a very successful small company was able to turn an extremely difficult situation into a success through his ability to focus everyone in the same direction. The Fulmers' article describes a planning process used by a large company to focus and involve the management team in the planning process. B. Charles Ames, CEO of Uniroyal Goodrich Tire Company, describes how a business plan can be used as a tool to shape the strategy of a successful unit. The next two articles reflect insights on management by two of America's bestknown CEOs—Lee Iacocca of Chrysler and Jack Welch of General Electric. The final article consists of excerpts from the popular book, Leadership Secrets of Attila the Hun by Wess Roberts.

What this article is about: In theory, corporate strategy is all reason, analysis, and planning. In practice, it is as much an art as a science. Some of the best strategies emerge over time, guided by executives whose feel for the business is like a potter's feel for clay.

### 1-1 Crafting Strategy

#### Henry Mintzberg

Henry Mintzberg is professor of management at McGill University.

Imagine someone planning strategy. What likely springs to mind is an image of orderly thinking: a senior manager, or a group of managers, sitting in an office formulating courses of action that everyone else will implement on schedule. The keynote is reason—rational control, the systematic analysis of competitors and markets, of company strengths and weaknesses, the combination of these analyses producing clear, explicit, full-blown strategies.

Now imagine someone *crafting* strategy. A wholly different image likely results, as different from planning as craft is from mechanization. Craft evokes traditional skill, dedication, perfection through the mastery of detail. What springs to mind is not so much thinking and reason as involvement, a feeling of intimacy and harmony with the materials at hand, developed through long experience and commitment. Formulation and implementation merge into a fluid process of learning through which creative strategies evolve.

My thesis is simple: The crafting image better captures the process by which effective strategies come to be. The planning image, long popular in the literature, distorts these processes and thereby misguides organizations that embrace it unreservedly.

In developing this thesis, I shall draw on the experiences of a single craftsperson, a potter, and compare them with the results of a research project that tracked the strategies of a number of corporations across several decades. Because the two contexts are so obviously different, my

Source: Harvard Business Review, July-August 1987, pp. 66-75.

metaphor, like my assertion, may seem farfetched at first. Yet if we think of a craftperson as an organization of one, we can see that he or she must also resolve one of the great challenges the corporate strategist faces: knowing the organization's capabilities well enough to think deeply enough about its strategic direction. By considering strategy making from the perspective of one person, free of all the paraphernalia of what has been called the stragegy industry, we can learn something about the formation of strategy in the corporation. For much as our potter has to manage her craft, so too, managers have to craft their strategy.

At work, the potter sits before a lump of clay on the wheel. Her mind is on the clay, but she is also aware of sitting between her past experiences and her future prospects. She knows exactly what has and has not worked for her in the past. She has an intimate knowledge of her work, her capabilities, and her markets. As a craftsperson, she senses rather than analyzes these things; her knowledge is "tacit." All these things are working in her mind as her hands are working the clay. The product that emerges on the wheel is likely to be in the tradition of her past work, but she may break away and embark on a new direction. Even so, the past is no less present, projecting itself into the future.

In my metaphor, managers are craftspersons and strategy is their clay. Like the potter, they sit between a past of corporate capabilities and a future of market opportunities. And if they are truly craftspersons, they bring to their work an equally intimate knowledge of the materials at hand. That is the essence of crafting strategy.

In the pages that follow, we will explore this metaphor by looking at how strategies get made as opposed to how they are supposed to get made. Throughout, I will be drawing on the two sets of experiences I've mentioned. One, described in the insert, is a research project on patterns in strategy formation that has been going on at McGill University under my direction since 1971. The second is the stream of work of a successful potter, my wife, who began her craft in 1967.

Ask almost anyone what strategy is, and he will define it as a plan of some sort, an explicit guide to future behavior. Then ask what strategy a competitor or a government or even he himself has actually pursued. Chances are he will describe consistency in *past* behavior—a pattern in action over time. Strategy, it turns out, is one of those words that people define in one way, and often use in another, without realizing the difference.

The reason for this is simple. Strategy's formal definition and its Greek military origins notwithstanding, we need the word as much to explain past actions as to describe intended behavior. After all, if strategies can be planned and intended, they can also be pursued and realized (or not realized, as the case may be). And pattern in action, or what we call realized strategy, explains that pursuit. Moreover, just as a plan need not produce a pattern (some strategies that are intended are simply not

#### **Tracking Strategy**

In 1971, I became intrigued by an unusual definition of strategy as a pattern in a stream of *decisions* (later changed to *actions*). I initiated a research project at McGill University, and over the next 13 years a team of us tracked the strategies of 11 organizations over several decades of their history. (Students at various levels also carried out about 20 other less comprehensive studies.) The organizations we studied were: Air Canada (1937–76), Arcop, an architectural firm (1953–78), Asbestos Corporation (1912–75), Canadelle, a manufacturer of women's undergarments (1939–76), McGill University (1829–1980), the National Film Board of Canada (1939–76), Saturday Night Magazine (1928–71), The Sherbrooke Record, a small daily newspaper (1946–76), Steinberg Inc., a large supermarket chain (1917–74), the U.S. military's strategy in Vietnam (1949–73), and Volkswagenwerk (1934–74).

As a first step, we developed chronological lists and graphs of the most important actions taken by each organization—such as store openings and closings, new flight destinations, and new-product introductions. Second, we inferred patterns in these actions and labeled them as strategies.

Third, we represented graphically all the strategies we inferred in an organization so that we could line them up to see whether there were distinct periods in their development—for example, periods of stability, flux, or global change. Fourth, we used interviews and in-depth reports to study what appeared to be the key points of change in each organization's strategic history.

Finally, armed with all this strategic history, the research team studied each set of findings to develop conclusions about the process of strategy formation. Three themes guided us: the interplay of environment, leadership, and organization; the pattern of strategic change; and the processes by which strategies form. This article presents those conclusions.

realized), so too, a pattern need not result from a plan. An organization can have a pattern (or realized strategy) without knowing it, let alone making it explicit.

Patterns, like beauty, are in the mind of the beholder, of course. But anyone reviewing a chronological lineup of our craftsperson's work would have little trouble discerning clear patterns, at least in certain periods. Until 1974, for example, she made small, decorative ceramic animals and objects of various kinds. Then this "knickknack strategy" stopped abruptly, and eventually new patterns formed around waferlike sculptures and ceramic bowls, highly textured and unglazed.

Finding equivalent patterns in action for organizations isn't that much more difficult. Indeed, for such large companies as Volkswagenwerk and Air Canada, in our research, it proved simpler! (As well it should. A craftsperson, after all, can change what she does in a studio a lot more easily than a Volkswagenwerk can retool its assembly lines.) Mapping the product models at Volkswagenwerk from the late 1940s to the late 1970s, for example, uncovers a clear pattern of concentration on the Beetle, followed in the late 1960s by a frantic search for replacements through acquisitions and internally developed new models, to a strategic reorientation around more stylish, water-cooled, front-wheel-drive vehicles in the mid-1970s.

But what about intended strategies, those formal plans and pronouncements we think of when we use the term *strategy*? Ironically, here we run into all kinds of problems. Even with a single craftsperson, how can we know what her intended strategies really were? If we could go back, would we find expressions of intention? And if we could, would we be able to trust them? We often fool ourselves, as well as others, by denying our subconscious motives. And remember that intentions are cheap, at least when compared with realizations.

#### Reading the Organization's Mind

If you believe all this has more to do with the Freudian recesses of a craftsperson's mind than with the practical realities of producing automobiles, then think again. For who knows what the intended strategies of a Volkswagenwerk really mean, let alone what they are? Can we simply assume in this collective context that the company's intended strategies are represented by its formal plans or by other statements emanating from the executive suite? Might these be just vain hopes or rationalizations or ploys to fool the competition? And even if expressed intentions exist, to what extent do others in the organization share them? How do we read the collective mind? Who is the strategist anyway?

The traditional view of strategic management resolves these problems quite simply, by what organizational theorists call attribution. You see it all the time in the business press. When General Motors acts, it's because Roger Smith has made a strategy. Given realization, there must have been intention, and that is automatically attributed to the chief.

In a short magazine article, this assumption is understandable. Journalists don't have a lot of time to uncover the origins of strategy, and GM is a large, complicated organization. But just consider all the complexity and confusion that gets tucked under this assumption—all the meetings and debates, the many people, the dead ends, the folding and unfolding of ideas. Now imagine trying to build a formal strategy-making system around that assumption. Is it any wonder that formal strategic planning is often such a resounding failure?

To unravel some of the confusion—and move away from the artificial complexity we have piled around the strategy-making process—we need