
Strategy Formulation And Implementation

Tasks of the General Manager

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1986
Third edition

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Preface

The preface to the last edition began with the statement, “This book plows a lot of fresh ground.” It merits saying again. This third edition represents a mainstream, state-of-the-art treatment of the analytical methods and managerial tasks associated with formulating and implementing strategy. Those persons familiar with the text portion of our *Strategic Management: Concepts and Cases*, published in 1984, will easily see the addition of many new features and treatments. We have undertaken a thorough section-by-section revision and expanded the discussion from seven chapters to nine, incorporating in the process many of the pioneering analytical approaches, experience-based insights, and field research findings that have surfaced. Our objective has been to mold a concepts-techniques-current practices package that puts readers near the frontiers of contemporary thinking about (1) the general manager’s role as chief strategist and chief administrator, (2) the essential analysis to conduct in formulating strategy, and (3) the administrative components of successful strategy implementation.

The book is intended for two audiences: one, senior-level and MBA students taking a course in business policy and, two, managers and executives interested in staying abreast of the fast-moving practices of strategy management. We envision this book being used in any of several different pedagogical formats. It can be used in conjunction with one of several strategy management casebooks now on the market (such as our own *Cases in Strategic Management*) to form a concepts-and-cases package of instructional materials. It can be paired with a readings book (such as our *Readings in Strategic Management*) to create a concepts-readings package. It can be used as a companion text to support the instructor’s own lectures and cases or to complement a management decision game. It can be used in management development programs to help bring practitioners up-to-date on the rapidly emerging array of analytical techniques and approaches to strategic management. Or it can be used as a thought-provoking, on-the-job guide for managers who are trying to come to grips with strategy formulation and implementation in their companies.

The Emergence of a Strategic Management Discipline

The explosive interest of managers, consultants, and business academics in the whole subject of “strategy” has produced a major reconceptualization of the job of the general manager around the functions of formulating and implementing strategic plans. Over the past decade, a substantial literature has blossomed forth on the concept of strategy, the elements of “strategic thinking,” the methods of strategic analysis, the tasks and processes associated with strategy formation and strategy implementation, and all the ramifications of aligning the operations and culture of an enterprise to match the requirements of strategy. These topics have taken over the heart and soul of the traditional business policy course and refashioned it into a course in strategic management.

The window of strategy has opened such a whole new perspective on the entrepreneurial and administrative functions of managing that *the fundamentals of strategic management have begun to drive the whole approach to managing organizations*. The signs are everywhere. Issues pertaining to new strategic moves and to better internal strategy execution enjoy high priority on managerial action agendas. Formal strategic analysis and annual strategy reviews are standard activities in most professionally managed companies. The whole strategy management cycle—from defining the business to strategy formation to implementation and execution to evaluation of results to reformulation and finetuning of the game plan—is being intensively scrutinized by practitioners, consultants, and academic researchers. Numerous business school textbooks have the words *strategy* or *strategic* in their titles. There is an entire litany of new concepts and tools—driving forces, strategic group mapping, industry and competitive analysis, value chain analysis, strategic fit, industry attractiveness, competitive positioning, key success factors, corporate culture, MBWA, strategic business units, business portfolio analysis, to mention a few—which are being utilized and applied in both companies and business school curricula. Researchers and practitioners have informally joined to make strategic management a full-fledged disciplinary branch with a distinctive knowledge base and literature of its own.

While the approaches to strategy management and the attendant methods of analysis have not yet coalesced into a “theory” of management, they very definitely do represent a “way of thinking” that has been powerful enough to redefine how management is being taught and practiced. The whys and hows of strategy management illuminate whether a firm is doing the right things and doing things right. Looking at the job of managing through strategic eyes and learning how to use the tools and techniques of *strategic analysis as they affect both strategy formulation and strategy implementation* are the intended contributions of this book and of business school courses in strategic management.

What This Edition Offers

The focus continues to be on the strategy-related tasks of general managers and on the methods of strategic analysis. The general manager is cast firmly in the twin roles of chief entrepreneur/strategist *and* chief administrator, charged with presiding over insightful strategic analysis, making and reviewing strategic decisions, and leading the process of strategy implementation and execution. All of the basic strategy management tasks are explored: defining the business, setting strategic objectives, conducting industry and competitive analysis, evaluating diversified business portfolios, checking out the various generic corporate and business strategy options, searching out a defensible competitive position, building a capable organization, shaping the corporate culture, creating strategy-related administrative fits, and exerting strategic leadership. This edition, however, has some added character and some noteworthy enhancements in coverage and organization:

- The seven chapters of text material in the previous edition have been expanded to nine chapters in this edition. No readings have been included, partly to make room for the inclusion of new text coverage and partly because of the very recent publication (1984) of our *Readings in Strategic Management*, which offers excellent coverage of the recent strategy literature (see the description which follows shortly).
- What was three-chapter coverage of strategy alternatives and the tools of strategic analysis in the previous edition has been reorganized and expanded into a five-chapter presentation: a three-chapter, stand-alone sequence on business-level strategy and a two-chapter, stand-alone sequence on corporate-level strategy. Business strategy is treated first, then corporate strategy, because the tools 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 6 and 7) ahead of the business strategy chapter grouping (Chapters 3, 4, and 5).
- The new three-chapter discussion of business-level strategy follows the trail blazed by Professor Michael Porter in his two pioneering books, *Competitive Strategy* (1980) and *Competitive Advantage* (1985). This three-chapter sequence is one of the highlights of this edition. The first chapter in the sequence covers the fundamentals of industry and competitive analysis, the second deals with generic business strategies and industry environments, and the third concerns building and defending competitive advantages at the line-of-business level. There are important sections on

strategic group mapping, driving forces, diagnosing key success factors, Porter's "five forces model" of competition, strategic cost analysis and activity-cost chains, competitor analysis, generic competitive strategies, ways to tailor business strategies to fit a variety of industry environments, methods of creating a competitive advantage using each of Porter's generic strategies, use of various types of offensive and defensive strategies, matrix techniques for competitive advantage analysis, and first-mover advantages and disadvantages.

- One of the two corporate strategy chapters deals exclusively with the various corporate strategy alternatives; the other concentrates on the tools and techniques for analyzing diversified corporate portfolios. Chapter 7 contains important enhancements in the treatment of strategic fit as well as a major new section on creating *corporate-level* competitive advantage.
- Chapter 1 has been extensively rewritten to focus only on the process of strategic management—what it is, why it matters, and who is responsible for it. The reader is thoroughly introduced to the general management point of view and to the strategic functions and responsibilities of the general manager in running the total enterprise.
- Chapter 2 draws out the direction-setting entrepreneurial tasks of the general manager in some detail. There are major sections on defining the business, establishing strategic objectives, and formulating a strategic plan. The levels of strategy are given full exposure, and the discussion of how to manage the strategy formation process has been expanded significantly.
- The chapters on strategy implementation have been embellished with many of the rich examples brought to light in Peters and Waterman's *In Search of Excellence* and Peters and Austin's *A Passion for Excellence*.

All of the chapters have undergone heavy editing, verbal finetuning, and assorted other modifications to improve the exposition and reduce the fog index.

All in all, we think you will find this edition stronger, fresher, livelier, on target, and as close to the leading edge as textbook discussions can be.

Additional Pedagogical Features

As in previous editions, special pains have been taken to illustrate the use of strategic management concepts in actual practice. All nine chapters of text are laced with concrete examples of the triumphs and failures of

companies and their managements—what has worked, what hasn't, and why. The use of in-depth *illustration capsules* to further highlight application and use of core concepts was well received in earlier editions and has been continued. Together, the examples and the capsules keep the bridge between concept and current practice always open, giving the reader a stronger feel for how concepts and techniques are utilized in real-world management circumstances.

Appendix A 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 strategic point of view. The appendix discussion is intended to lessen these uncertainties 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 added a major new table concerning a comprehensive “what to look for” checklist. 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 Appendix A include a discussion of how to learn from cases, 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/learning and, (2) want more guidance in figuring out how to size up a company's strategic situation.

If You Also Want to Use Readings

For those instructors who like to incorporate samples of the strategic management literature into their courses, you may wish to consider our recently published *Readings in Strategic Management*. It contains 51 readings, varying in length from 2 to 20 pages. The readings are authored by business executives, consultants, academicians, and journalists, and come from a variety of sources. All are current (only one was published prior to 1980, in 1979) and, more importantly, all are eminently readable and well matched to the level of the text presentation. The readings themselves are primarily of three types. One type (consisting of 13 standard-length articles reprinted from leading journals) adds in-depth treatment to important topic areas covered in the text, thereby probing further into the details of particular techniques and exposing students to current research “classics.” The second type includes seven shorter articles, drawn from practitioner sources, which emphasize how strategic management concepts and tools relate directly to actual practice. The third type consists of 31 short “strategy in action” and “the general manager at work” kinds of articles appearing in the business press; these were se-

lected to enrich student exposure to the strategy-related experiences of particular individuals and companies. In tandem, the readings provide an effective, efficient vehicle for reinforcing and expanding the text-case approach.

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 comments regarding coverage and content will be most welcome, as will your calling our attention to specific errors. Please write us at P.O. Box J, Department of Management and Marketing, University, AL 35486.

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An Overview of Managing Strategy: Tasks, Concepts, and Process

Chapter 1

Strategy Formulation and Implementation: What It Is, Why It Matters, and Whose Responsibility It Is

“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

To be in hell is to drift, to be in heaven is to steer.

George Bernard Shaw

Since the beginning of business, some companies have been markedly more successful than others. Two factors weigh heaviest in explaining what has separated the highest-performing companies from the others: that elusive quality called “good management” and the ability to earn a favorable competitive position.¹ Although what experience has taught us still falls short of a genuine theory of how to manage, we have nonetheless pinpointed some revealing differences between how well-run organizations are managed and how poorly run organizations are managed:

1. The managers of well-run organizations typically take a *proactive, strongly entrepreneurial* stance in shaping their organization’s long-term direction and future mix of business activities. They have a vision of where the company needs to be headed and why. They are not afraid to blaze new trails and to innovate. More-

¹ For documentary case studies in support of this thesis, see Joel Ross and Michael Kami, *Corporate Management in Crisis: Why the Mighty Fall* (Englewood Cliffs, N.J.: Prentice-Hall, 1973); Alfred D. Chandler, *The Visible Hand* (Cambridge, Mass.: Harvard Univ. Press, 1977); Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence: Lessons from America’s Best-Run Companies* (New York: Harper & Row, 1982); and Michael E. Porter, *Competitive Advantage* (New York: Free Press, 1985).