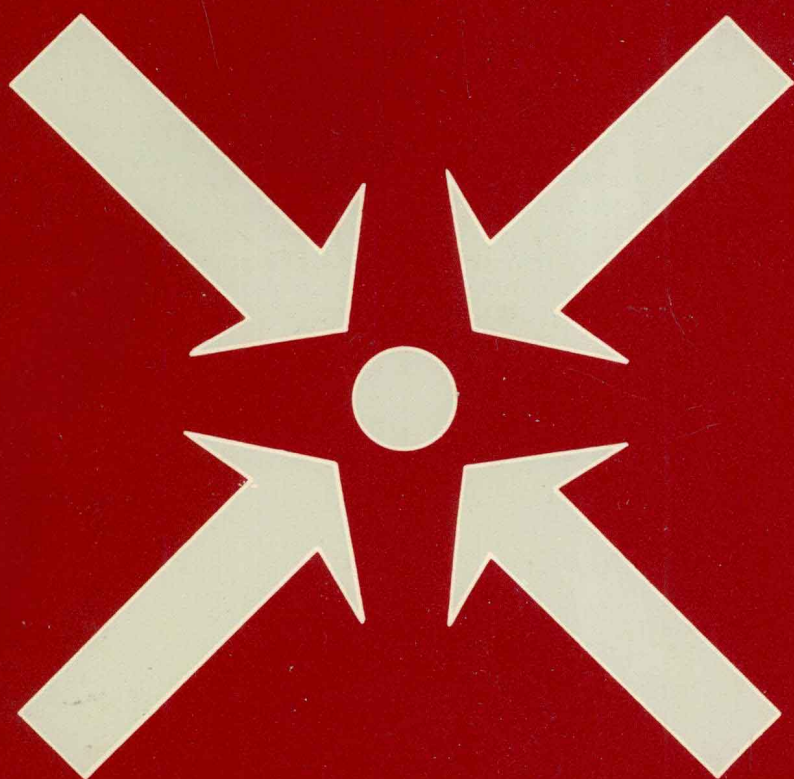


Revised Edition

Strategy Formulation and Implementation

Tasks of the General Manager



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

STRATEGY FORMULATION AND IMPLEMENTATION

Tasks of the General Manager

Arthur A. Thompson, Jr.
and
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both of
The University of Alabama

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PREFACE

This book plows a lot of fresh ground. It features an expansive, up-to-date survey of strategic management concepts and analytical approaches, plus a collection of readings which probe leading-edge techniques and applications. Those persons familiar with the text portion of our *Strategy and Policy: Concepts and Cases*, published in 1981, will quickly note the addition of many new features and treatments. We have undertaken a truly thorough revision—one that incorporates many of the pioneering ideas, analytical approaches, experiences, and empirical studies now surfacing. Our objective in preparing this edition has been to assemble a text-readings package that puts readers on the frontiers of current knowledge and thinking about strategic management—what it is, what it involves, and how to do a better job of it.

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 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-readings-cases package of instructional materials. 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 Growing Relevance of the Strategy Management Literature

During the last decade there has been an explosion of interest in the broad concept of strategy. A whole literature has emerged on the meaning of strategy, on how to formulate a strategic plan, and on all the ramifications of aligning the internal organization to fit the needs of strategy. Techniques for evaluating corporate business portfolios and for matching business strategy closely to the firm's situation and capabilities have grown in use and are having a significant impact on the strategy-related decisions of managers. Managers are paying conscious attention to strategy formulation and strategy implementation. There is heightened managerial application of such strategic concepts as driving forces, competitive position, business strength, key success factors, strategic fit, and distinctive competences. The whole strategy management cycle—from defining the business to strategy formation to implementation and

execution *to* evaluation of results *to* reformulation and fine tuning of the game plan—has come under scrutiny by practitioners, consultants, and business school academics. While the approaches to strategy management and the attendant methods of analysis have not yet coalesced into a theory of how to manage an enterprise, they very definitely do represent a powerful way of thinking about managing. The whys and hows of strategic management illuminate the basic economics of a business, the requirements of success, and whether a firm is both doing the right things and doing things right. The window of strategy opens a whole new perspective of the entrepreneurial and administrative spectrum of managing.

It is not stretching things too far, therefore, to suggest that *the fundamentals of strategic management are a fundamental part of management and managing*. This is true, we think, at all levels of the management process and for all types of managers. All managers (and perhaps all employees!) are in a better position to contribute to organizational activities and performance when they have an accurate sense of organizational direction, their role in accomplishing the overall strategic plan, and how the plan is to be executed in their area of responsibility—in other words, when they are alert to all that is meant by strategy management and why it is important to performance and results. How to acquire the perspective of a strategic thinker and how to weigh things from an organizationwide point of view are the intended contributions of this book and of business school courses in strategic management.

The Textual Material

As with the first edition, the text portion of the book continues to stress the basic aspects of strategy management—the tasks of defining business purpose and setting strategic objectives, the strategic options for building a corporate portfolio of businesses, the specifics of formulating and implementing business strategy, evaluating business portfolios and line of business strategy, creating alignment between strategy requirements and the variables of corporate culture, and reevaluating organization direction and strategy. This edition features some significant improvements in coverage:

- The six text chapters of the first edition have been expanded to seven in this edition. Every chapter has been extensively up-dated, and new treatments have been incorporated—in line with the fast-moving pace reflected in literature.
- Core concepts and methods of strategy analysis are developed in more detail and then put into a framework for applying them in practice. The strategy-related tasks of general managers are brought into sharper focus and examined at length.
- New sections have been added on the general manager as chief entrepreneur and chief administrator, the basic strategic questions,

situation analysis, generic strategies, diagnosing the underlying economics of a business, driving forces, SWOT analysis, and techniques for competitive advantage identification.

- Both the situation-specific aspects and the evolutionary aspects of strategic management are repeatedly stressed throughout. The analytical/rational-choice approaches to strategy are used to illustrate the potential for solid strategy analysis and situation diagnosis. The process/behavioral features of strategy management account for why and how strategy evolves and why and how implementation is gradual and incremental.
- Much more attention is given to the “politics of strategy” and how managers go about building a consensus for what strategy to follow and how to make it work.
- Corporate portfolio analysis is accorded chapter-length treatment. Featured are expanded discussions of portfolio matrices, methods of evaluating the make-up of a firm’s business portfolio, performance-gap analysis, and the tactical approaches to corporate strategy formation.
- The approach to business-level strategy evaluation has been greatly expanded and is grounded in industry analysis, competition analysis, diagnosis of the firm’s own situation, and the Boston Consulting Group’s latest approach to competitive advantage analysis. This chapter is one of the highlights of this edition and contains, we think, an unusually thorough rundown of how to conduct an in-depth business strategy evaluation.
- Even though strategy implementation still remains the foggiest and least-explored aspect of strategy management, we have tried to zero in on the central tasks of the general manager in implementing and executing strategy and to discuss the key issues that arise in performing these tasks. One chapter concerns the tasks of building a strategically capable organization and focusing resources and energies on strategic objectives. A second chapter deals with galvanizing organizationwide commitment to the strategic plan, aligning corporate culture with strategy, and exerting strategic leadership.
- In discussing strategy implementation, new sections have been included on matching structure to strategy, the role of budgets and programs, the importance of defining jobs in terms of achieving strategic objectives, the McKinsey & Company 7-S framework, aligning corporate culture and strategy, the political importance of building support for strategy execution, and creating a climate for strategy accomplishment.
- There are more examples of what managers and companies actually do in formulating and implementing strategy.

- The use of in-depth illustration capsules to highlight the experiences of companies and to show the application of important topics has been expanded; the number of capsules has been increased from 16 to 25—13 are brand new.

All in all, we think you will find the text material stronger, fresher, better presented, and as close to the “state of the art” as textbook discussions can be.

The Readings

The book contains 11 readings, written by business executives, consultants, and academicians. Every reading is new to this edition and all are current—only one was published prior to 1980, and it appeared in 1979. The readings themselves are primarily of two types. One type adds in-depth treatment to important topic areas covered in the text, thereby probing further into the details of particular approaches and analytical techniques. The second type emphasizes applications and illustrations of how particular companies have used strategy management concepts and tools to good advantage. In tandem, they create a powerful pedagogy for both reinforcing and expanding the text treatment.

Other Pedagogical Features

Two additional features are continued in this revision. Appendix A is devoted to a chapter-length discussion of case method pedagogy and suggestions for approaching case analysis. In our experience, many students are unsure about what they are to do in analyzing a case and how they learn from the case method. Appendix A is intended to lessen these uncertainties by focusing the students’ attention on the traditional analytical sequence of (1) identify, (2) evaluate, and (3) recommend. We have specifically included a brief review of how to calculate and interpret key financial ratios, a discussion of the nature of cases and the case method, pointers on how to learn from cases, how to prepare a case for oral class discussions, and guidelines for written case analyses. These discussions should be particularly useful for students who want assistance in crossing to the case method of teaching/learning. Moreover, this chapter in conjunction with the conceptual framework, the examples, and the illustration capsules should give readers a solid foundation for doing a good job of case analysis.

Appendix B contains a listing and brief description of some recently written cases on strategic management. They have been grouped under three headings: (1) the general manager—tasks, responsibilities, style of managing, (2) strategy formation and evaluation, and (3) strategy imple-

mentation and execution. Inspection copies of the listed cases can be ordered directly from Harvard Case Services, Soldiers Field Post Office, Boston, MA 02163.

Acknowledgments

We have benefited from the help of many people in the evolution of this book. Our intellectual debt to the writers and strategic thinkers upon whose works and experiences we have drawn is plain to anyone familiar with the literature on strategic management. We are likewise indebted to the publishers and authors of the readings for permission to reprint their articles. Students, adopters of the first edition, and reviewers have kindly offered an untold number of insightful comments and helpful suggestions for improving the manuscript.

In preparing this edition, we are particularly grateful for the patient, painstaking work of Marsha Baines, Martha Shirley, and Pat Murphy—all of whom exerted praiseworthy efforts and were instrumental in pioneering the production of the book from start to finish on word processing equipment. It truly was a learning (and fun?!) experience.

As always, we value your thoughts and recommendations about the book. Your comments regarding content and emphasis will be welcomed, 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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STRATEGY FORMULATION AND IMPLEMENTATION: THE FRAMEWORK OF GENERAL MANAGEMENT

1

“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

Why are some enterprises outstanding successes, while others are only modest successes and still others are dismal failures? How is it that some organizations move forward with purpose and direction while others drift? Why is it that some organizations are adept at seizing upon new opportunities while others watch passively or let them slip through the cracks? What makes an organization a winner or a loser? What distinguishes a well-managed business from a not so well-managed business? Are there any approaches to managing an organization that seem to work better than others? Although what we have learned so far in trying to gain answers to these questions falls short of a genuine theory of man-

agement, the evidence does indicate that managers have a heavy hand in whether organizations perform well or not.¹

Some extremely important managerial insights derive from contrasting the managements of successful organizations with the managements of unsuccessful organizations:

1. The managers of successful organizations tend to establish a clear-cut direction for their organization and take a proactive stance in shaping the organization's present and future mix of activities. The managers of unsuccessful organizations are often so caught up in "putting out brush fires" and tending to paperwork and administrative detail that they neglect the tasks of assessing where the organization is now, where it ought to be headed, and what it ought to be doing and not doing.
2. In successful organizations managers take the time to formulate an astute, opportune *strategic game plan* for achieving target objectives and then they zero in on how to implement the chosen strategy and make it work as planned. The managers of unsuccessful organizations seldom have a comprehensive game plan which is being deliberately and systematically pursued.
3. The managers of successful organizations strive to gain an insightful understanding of what business they are in, who their customers are, and why buyers want or need the organization's product/service; they are "tuned-in" to market trends, customer needs, and new opportunities. In unsuccessful organizations managers are typically less perceptive about the hows and whys of "the market" for their product/service; they follow market trends rather than initiate them.
4. The managers of successful organizations are performance-conscious and results-oriented; they measure success in terms of how well their organization is performing and its ability to compete in the marketplace. In less successful organizations, management preoccupation with bottlenecks, operating problems, policies, procedures, and rou-

¹Joel Ross and Michael Kami, *Corporate Management in Crisis: Why the Mighty Fall* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1973); Seymour Tilles, "How to Evaluate Corporate Strategy," *Harvard Business Review*, vol. 41, no. 4 (July-August 1963), pp. 111-21; Dan Schendel, G. R. Patton, and James Riggs, "Corporate Turnaround Strategies," *Journal of General Management*, vol. 3, no. 3 (Spring 1976), pp. 3-11; H. Igor Ansoff et al, "Does Planning Pay? The Effect of Planning on Success of Acquisitions in American Firms," *Long Range Planning* (December 1970), pp. 2-7; D. M. Herold, "Long Range Planning and Organizational Performance: A Cross Validation Study," *Academy of Management Journal*, vol. 14, no. 1 (March 1971), pp. 91-102; L. W. Rue and R. M. Fulmer, "Is Long Range Planning Profitable?" *Proceedings: Academy of Management Meetings*, 1973, pp. 66-73; S. Schoeffler, R. D. Buzzell, and D. F. Heany, "Impact of Strategic Planning on Profit Performance," *Harvard Business Review*, vol. 52, no. 2 (March-April 1974), pp. 137-45; S. S. Thune and R. T. House, "Where Long Range Planning Pays Off," *Business Horizons*, vol. 13, no. 3 (August 1970), pp. 81-87; and Alfred D. Chandler, *The Visible Hand* (Cambridge, Mass.: Harvard University Press, 1977).

tine chores leads to “doing a good job” being defined in terms of problem-solving administrative skills and not causing waves that disrupt “the system.”

These contrasts in mindsets and approaches are striking and revealing. The managers of successful organizations seem to be “strategic thinkers” with an appreciation for focusing externally on customers, markets, and competitive positioning as well as internally on operations. They have a talent for entrepreneurship to go along with a talent for administration. The managers of unsuccessful organizations seem to lack both strategic awareness and an eye for long-term competitive positioning; their downfall seems to be getting caught up in the exercise of administration and in the never-ending task of solving internal “problems”—at the expense of entrepreneurial effectiveness.

The success-causing power of clear direction, astute business strategy, and effective implementation of the game plan is rooted in the familiar expression “if you don’t know where you are going, any road will take you there.” Somebody must think about the big picture, consciously shape what an organization does, and direct where it is headed. That somebody obviously must be an organization’s managers—but most especially its *general managers*.

THE GENERAL MANAGER: RESPONSIBILITIES AND FUNCTIONS

The term *general manager* refers to a manager who is accountable for the *overall* activities and performance of an organization (or line of business subunit) as opposed to a manager who is in charge of a specialized part of a business. A general manager is thus the “executive-in-charge,” with authority extending over all operating phases and functions of the unit. A *general manager is both chief administrator and chief entrepreneur*. As chief administrator, a general manager has authority over organizing, staffing, supervising, and controlling daily activities. As chief entrepreneur, a general manager has responsibility for giving direction to the organization, making sure it is doing the right things at the right times, and formulating a workable strategic game plan that is capable of producing good organizational results. Because of both the administrative and entrepreneurial leadership which a general manager is called upon to exercise, it is uniquely the general manager’s function to reflect upon and evaluate things in terms of their impact upon the *whole* organization and to discern what decisions and actions are best from the standpoint of the *total* enterprise.

This feature of formal authority over multiple functions and operating activities is what distinguishes a general manager from other types of managers. Other kinds of managerial jobs are usually limited to a single

area of specialized activity within an enterprise—as in the case of the managers in charge of manufacturing quality or personnel training or sales or design engineering or R&D or public relations or internal auditing or shipping or purchasing. The latter are *functional* area managers with in-depth, specialized technical and managerial expertise in a narrowly defined function. Their job focus, being limited to a particular functional specialty, extends only over a *part* of what the enterprise does, whereas the scope of a general manager's job extends over many functional areas to cover either the whole enterprise or one of its line of business units.

Obviously, the term general manager includes both the chief executive officer and the chief operating officer of an organization. But general manager type jobs are by no means restricted to a few senior executives. Most large organizations place a general manager in charge of each business unit and major operating division; if the business division includes several different product lines, it is common for the division-level general manager to create subordinate positions with general management authority over each separate product line. Diversified enterprises typically have a general manager with profit center responsibility in charge of each line of business. Where corporate diversification extends over so many different businesses that it is impractical for all the business-level general managers to report to a single executive, a new level of general management may be created between the chief executive and the line-of-business level; these positions usually carry the title group vice-president and entail the group VP having general management authority over a group of three to six businesses. In the business world there are, therefore, many rather than few general management positions. General managers are found at the corporate level, the group level, the line-of-business level, the division level, and the product line level—a direct outgrowth of the trend to decentralized approaches to large-scale corporate enterprise.

The same is true in not-for-profit organizations. For example, a multi-campus state university has four identifiable levels of general management: (1) the president of the whole university system is a general manager with broad budgetary, programmatic, and coordinative authority over all the campuses; (2) the chancellor for each campus is a general manager with campuswide authority over all academic, student, athletic, and alumni matters; (3) the deans of the various colleges are general managers with authority extending over the academic programs, budgets, faculty, and students in the college; (4) the heads of the various academic departments are general managers with first-line supervisory responsibility for the departmental budget, the department's undergraduate and graduate program offerings, the faculty, and students majoring in the department. In federal and state government the heads of local, district, and regional offices function as general managers because they exercise line authority over all aspects of the activities conducted in the geographical area their

units serve. In municipal government, the heads of the police department, the fire department, the water and sewer department, the parks and recreation department, the health department, and so on are general managers in the sense that they are in charge of the entire operations (budgets, personnel, facilities, services offered) under their supervision.

The key point to be grasped here is that general management jobs exist up and down the management hierarchy in almost every organization of any real size and diversity. What distinguishes a general manager from other managers is that a general manager has authority over all of the activities and operations of the “total enterprise” rather than over just a single, specialized functional activity that makes up part of the enterprise. Given the different levels of general management jobs within the management hierarchy, the nature of the “total enterprise” under a general manager’s direction can be an entire corporation, a decentralized business subsidiary, a government agency, a geographic unit, a major division or department, and so on. It will simplify our exposition if such terms as “the total enterprise” or “the whole organization” or just “the organization,” are understood to refer specifically to the whole of the organization unit under the general manager’s direction—whether this be an entire company, a government agency, a single business division, or an entire operating facility (such as a manufacturing plant or a regional office of a federal agency). Henceforth such usage will be adopted, thereby avoiding the awkward phrase “the organization or organizational subunit” (or its equivalent) to indicate the several organizational levels of general management responsibility.

The Special Importance of the General Manager’s Role

A general manager is more than just a manager. The job of a general manager is special. It is unique. Why? Because a general manager, more than any other kind of manager, is in position to influence and shape what the organization is now and what it will become, what it does now and what it will do later, and how well it performs now and will be in position to perform later. As both chief entrepreneur and chief administrator, the general manager is positioned to act as the driving force of the organization, with a capability of creating change, making things happen, and otherwise causing the organization to be better positioned in its environment. How well a general manager performs the roles of chief entrepreneur and chief administrator is thus of central importance to an organization’s present and future well-being—the *quality* of management at the top does indeed make a substantial difference.

The perspective and viewpoint of the general manager is likewise special. The role of the general manager is to manage the *total* enterprise. The problems and issues that crop up cover the whole spectrum of manage-