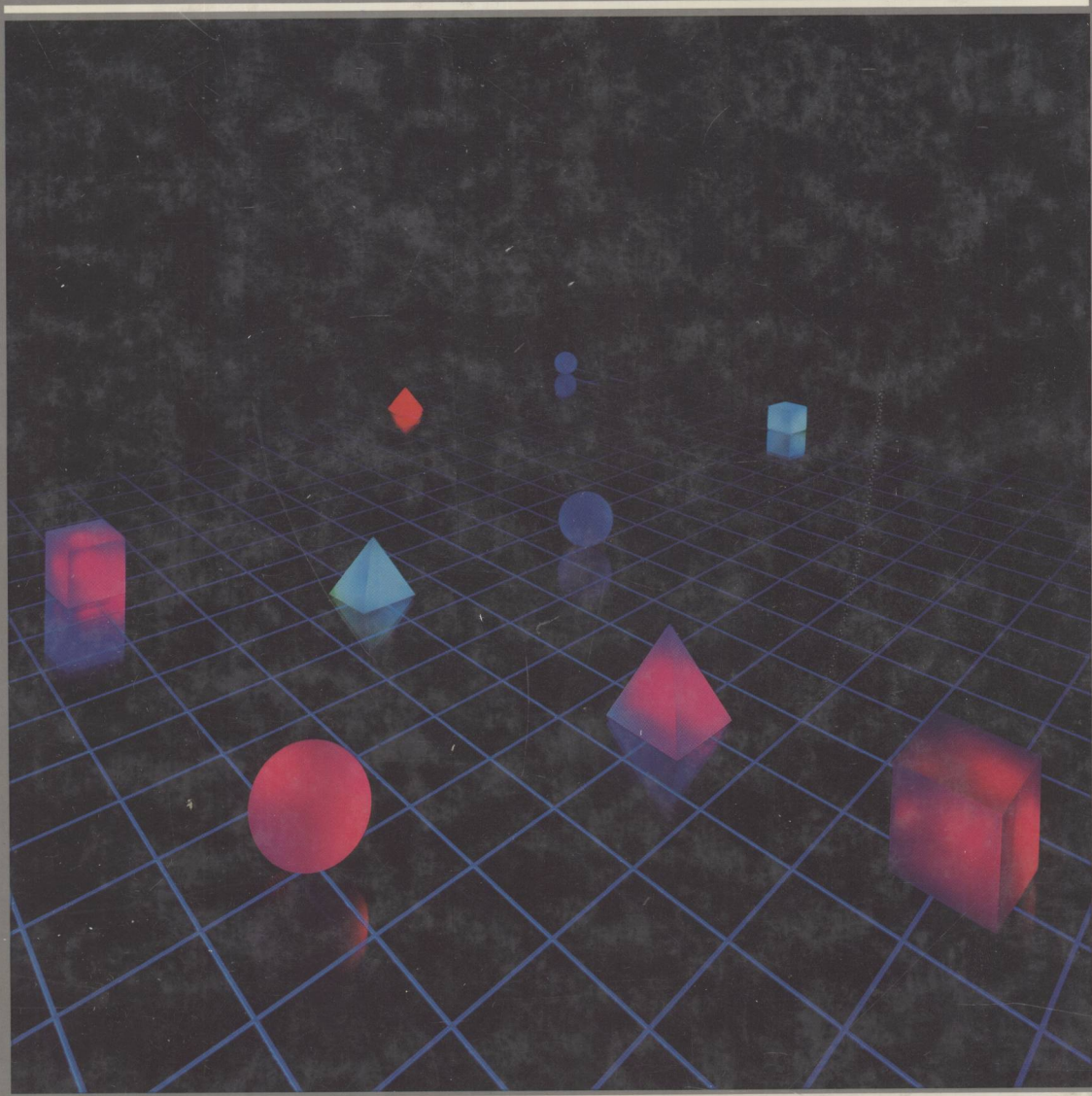


STRATEGIC MANAGEMENT

Analysis and Action



Kenneth J. Hatten/Mary Louise Hatten

C93
H366

8862702

STRATEGIC MANAGEMENT

Analysis and Action

Kenneth J. Hatten
Boston University



E8862702

Mary Louise Hatten
Graduate School of Management
Simmons College



007S989

Library of Congress Cataloging-in-Publication Data

Hatten, Kenneth J.
Strategic management.

Includes index.

1. Strategic planning. 2. Strategic planning—
Case studies. I. Hatten, Mary Louise. II. Title.

HD30.28.H384 1987 658.4'012 86-30453

ISBN 0-13-850694-9

To Meredith, Sydney, and Toby

Editorial/production supervision and
interior design: *Pamela Wilder*
Cover design: *Bruce Kenselaar*
Cover photo: *Ralph King*
Manufacturing buyer: *Ed O'Dougherty*

© 1987 by Prentice-Hall, Inc.
A Division of Simon & Schuster
Englewood Cliffs, New Jersey 07632

All rights reserved. No part of this book may be
reproduced, in any form or by any means,
without permission in writing from the publisher.

Printed in the United States of America
10 9 8 7 6 5 4 3 2 1

ISBN 0-13-850694-9 01

Prentice-Hall International (UK) Limited, *London*
Prentice-Hall of Australia Pty. Limited, *Sydney*
Prentice-Hall Canada Inc., *Toronto*
Prentice-Hall Hispanoamericana, S.A., *Mexico*
Prentice-Hall of India Private Limited, *New Delhi*
Prentice-Hall of Japan, Inc., *Tokyo*
Prentice-Hall of Southeast Asia Pte. Ltd., *Singapore*
Editora Prentice-Hall do Brasil, Ltda., *Rio de Janeiro*

Preface

A Preface normally tells readers how to use the book and what they will learn from reading it. We will depart from this tradition and begin by telling you what we have learned while writing the book.

Of course, we've learned that writing a strategy text is a formidable undertaking—the valuable research of this field has rarely been cataloged and then mostly on a piece-meal basis. We've learned that linking the traditions of the field with its modern literature is complex and difficult, because the modern research tradition is science-based whereas the field itself is anchored strongly in general management practice. We've learned that there are substantial gaps in the current research thrusts of the field: Certain topics are amenable to statistical research, while others are by their nature more qualitative. It is the former that are receiving attention in the literature, while the others may indeed be more valuable to management practice.

We have attempted to communicate what the field knows about strategy formulation and implementation. Of necessity, the book separates the two activities, although we know that managers have to engage in both virtually simultaneously.

One objective of this book is to present an integrated perspective of the field, drawing upon our personal experiences of policy research, the different research traditions at Purdue and Harvard as well as the social-issue thrusts of research at Boston University and Boston College and the administrative perspective of Simmons College. Unifying these different perspectives is a common administrative point of view that is critical to effective management. It is the administrative point of view that makes the combination of text and cases so powerful in the classroom.

Strategic management is a pragmatic field, influenced by practice and the administrative point of view as well as science. Ultimately founded in judgment, it is enriched by many academic contributions and conceptual frameworks.

Strategic management has more to do with structuring problems as opportunities to create value than with problem-solving *per se*. It is about what is feasible more than it is about what is right, because it is a field where results matter more than initial decisions—where making things work is more important than knowing you are right.

Strategic management is about analysis and action, and in practice the two are inseparable. Of course, you cannot learn analysis and action by reading about it—you must practice. To help you, we have selected cases that illustrate a broad range of strategic management issues in a wide variety of settings, such as small businesses, large corpora-

tions, manufacturing and service firms, and not-for-profit organizations. In all these situations, strategic management can be used to improve organizational performance.

As you will see, strategic management encompasses many concepts. Each case is an opportunity to develop your experience in the use of these concepts. Learning which ones are most productive for you in a particular situation requires familiarity with a wide range of approaches. Each person may find different concepts more helpful. Each concept is like the side of a many-faceted prism—a tool that lets each of us see something new about a particular situation. But remember, ours is only one view of reality; we must learn to use the analytical tools to sharpen our initial view of a situation and learn to use discussion to benefit from the views of others.

We hope that this book will enrich readers whose experience is at various stages of development. For those new to strategic thinking, it offers structures, including functional analysis, industry analysis, and competitive analysis to facilitate strategy identification, evaluation, and improvement. For academics and executives familiar with strategic management, it offers our interpretation of the strategic management literature. Rather than being encyclopedic, we have been selective and stressed contributions to the field that are fundamental and most relevant in the classroom and current management practice. We believe that the analytical structures provide a powerful framework for corporate and industry analysis and, therefore, a foundation for successful strategy formulation and implementation in the organization. We believe that strategic management literacy is an important aid to successful professional education and self-development.

Ultimately, our most important objective for this book is to help you help yourself develop the skills to select from the various concepts and experiences of this book, your education, and life, those that will work best for you in particular situations. As you accumulate experience in using these resources, you will probably, increasingly and selectively, abbreviate analytical processes in the interests of efficiency. Moreover, we will be surprised if you don't quickly synthesize a strategy on some occasions as you size up a situation and then selectively use analysis to test your strategy before advocating its merits. However, on some occasions, relatively exhaustive fundamental analysis may be needed before you begin to see what to do.

We recommend viewing the book as a "resource in the whole." You may consider skimming the whole text so that you know what is in it and where particular ideas are discussed. Focus on particular ideas that interest you and appear useful in a specific context—perhaps a particular case—while being careful to remember the administrative point of view. In doing so, you will be acting more like senior executives and administrators who generally have to deal with all aspects of their organizations and their environments concurrently, rather than approaching issues in a piecemeal fashion.

The book is built upon our professional and personal backgrounds, and we want to acknowledge the many colleagues who have played critical roles in our professional development. Dan Schendel and Arnold Cooper of the Krannert Graduate School of Management at Purdue University introduced us to strategic management. At Harvard, the former Dean, Lawrence Fouraker, and the current Dean, John McArthur, as well as Frank Aguilar, Norman Berg, Joe Bower, Neil Churchill, John Matthews, Bill Poorvu, Malcolm Salter, Howard Stevenson, Tom Raymond, Hugo Uyterhoeven, and also Mark Teagan and the late Jack Glover have influenced our lives in important and subtle ways. Dan Thomas, Ken Hatten's colleague at Harvard, who later taught at Stanford before

founding his own consulting firm, was particularly helpful in the development of initial teaching plans for some of our cases, both at Harvard and Stanford. The late Bill Glueck of the University of Georgia was influential in attracting our attention to the pedagogical value of some of the cases we've included here.

At Boston University, Deans Henry Morgan and John Russell as well as Ken Hatten's department chairmen, Fred Foulkes and later Ted Murray, provided him with welcome professional assignments that gave us the opportunity to develop the text and the teaching plans that accompany the book. Boston University colleagues Bob Dickie, Liam Fahey, John Mahon, Jim Post, and Jules Schwartz have each contributed insights to the refinement of the text and teaching material. Special thanks are due to Tim Edlund for his careful and constructive comments on the text as well as to the people who reviewed the manuscript for Prentice-Hall. At Boston College, Dean John Neuhauser was remarkably supportive of Mary Louise Hatten's concurrent efforts as department chairwoman and author, and Walter Klein reacted to the social issues discussed in the text. Deans Margaret Hennig and Anne Jardim at Simmons College provided Mary Louise with an hospitable and encouraging environment in which to complete the manuscript. By influencing our thinking and writing, all these people, as well as our students in graduate, undergraduate, and executive classes at Boston University, Simmons, and Boston College, as well as Vanderbilt, Harvard, and Purdue have played a critical role in the development of this material.

Special thanks are due to Audrey Barrett of Harvard's Division of Research for her gracious help in clearing the cases for publication. The word processing staff at Boston College, particularly Joanne Brennan and Tricia Thomas, provided cheerful help with the manuscript.

To conclude, our families deserve our personal thanks for the values they instilled and for the "don't quit" attitude: Books can't be finished if you stop too soon. To our children Meredith, Sydney, and Toby, thanks for being so terrific through the stresses and tribulations that make textbook writing such a memorable experience for all of us. To Pam Wilder, thanks for sounding as if you believed us when we began every conversation with, "We've got to get this thing out of here." It's out!

*Kenneth J. Hatten
Mary Louise Piccoli Hatten*

Contents

Preface xii

TEXT

PART ONE

STRATEGY AND STRATEGIC MANAGEMENT

1. What Is Strategy? 1

- Definitions and an Example 1
- Key Strategic Concepts 2
- Good Managers Create Value 3
- Analysis and Action Are Integral to Strategic Management 4
- Strategies and Objectives at All Management Levels 5
- Why Learn about Strategic Management? 6
- Preview 6



2. The Strategic Management Process 8

- Introduction to the Model 8
- Step 1: Identify the Current Strategy and Objectives 9
- Step 2: Evaluate the Strategy: Resources, Environment, and Values 10
- Step 3: Generate Alternatives 12
- Step 4: Evaluate Alternatives and Choose the Future Strategy 13
- Step 5: Implement 13
- Step 6: Review Results 13
- Summary 14

PART TWO

FUNDAMENTALS OF STRATEGIC ANALYSIS

3. Identifying the Strategy and Objectives of a Business 15

- Introduction: The Short Cut to Strategy 15
- Objectives and Strategy 16

Identifying Business Strategy: Functional Analysis	16
<i>Marketing Strategy • Financial Strategy • Operations Strategy •</i>	
<i>Administrative Strategy</i>	
Interrelationships among Functions: Keys to Identifying Business Strategy	20
Strategy and Its Components: An Illustration	20
Strategic Evaluation: The Need for Consistency	24
Preview	24

4. The Strategy Evaluation Process 26

Evaluation: An Overview	26
Resources	28
Environment	28
Stakeholder Objectives	29
Evaluation Within the Strategic Management Process	30

5. Resource Assessment 31

Overview	31
What Are Strategic Resources?	31
Marketing Resources	32
Financial Resources	37
Production Resources	38
Administrative and Human Resources	41
Resources: An Illustration	42
Resources and the Future	44
Preview	45

6. Experience, Price, and Value: Summarizing Resources 46

Introduction	46
Learning and Experience: A Brief History and Definition	46
The Evolution of the Experience Concept	48
What Makes Costs Go Down?	51
Price and Experience	52
Learning versus Experience	53
Experience and Competitive Stability	54
Market Share, Market Power, and Security	54
A Lesson from Welfare Economics	55
The Abuse of the Experience Concept	57
Some Important Considerations in Managing Experience	57
Shared Experience	61
Experience, Price, and Value	61
Cutting Costs Is Management's Responsibility	62

7. The Industry Environment 64

Introduction	64
Fundamentals of Environmental Analysis	65

A Stakeholder Approach to Effective Environmental Analysis	66
The Industrial Environment	68
Stakeholders in the Industry Chain	68
Framework for Industry Analysis	69
<i>The Players • Historically Exploited Competitive Weapons • Economic Characteristics • The Product Life Cycle • Value Added Analysis • Macroeconomic Sensitivity • Returns and Profitability Analysis • Risk/Reward</i>	
Synthesis: Power, Opportunity, and Threat Within the Industry Chain	87
Preview	89

8. Competitive Analysis and Competing 90

Overview	90
Definitions of the Industry: The Competitive Arena	91
<i>Substitutes • Entry</i>	
The Forces of Competition: The Elements of Market Structure	93
The Structure of US Industry	94
Contestability, Growth, and Market Niches	97
Competitive Maps	99
Using Structural Analysis	101
A Company Perspective on Structural Analysis	103
Strategic Groups and Strategic Information	103
Competitors and Comparables as Sources of Information	105
Competing: The Mind	106
Competitive Signalling	107
The Role of Error	108
Evaluation of the Firm in Its Competitive Environment	109
Summary: The Silver Lining of the Bleakest Environments	110
Preview: Social-Political and International Environments	111

9. Stakeholder Analysis and the Organization's Objectives 112

Introduction: A Different Approach to Objectives via Stakeholder Analysis	112
Stakeholder Analysis	113
The Stakeholder Audit	115
<i>Actions • Beliefs • Cooperative Potential • Stakes</i>	
Stakeholder Management	119
Social Responsibility	120
<i>Proactive versus Reactive Management • Empathetic Management: Thinking It Through • Interactive Management</i>	
Toward Evaluation	122
The Moral Factor: Judgment	123
Objectives	124
Evaluating Strategy and Objectives	124
Some Concluding Comments	125

10. Strategy Evaluation 127

- Introduction 127
- The Need for Judgment 128
- Evaluation from Many Points of View 128
- Evaluation and Time 129
 - The DAAG Example*
- Some Principles of Successful Strategies 132
- Consistency Checks 133
 - External Consistency • Internal Consistency • Resource Adequacy • Consistency with Stakeholders*
- Competitive Advantage 135
- Risk and Reward Balance 136
 - The Sources of Risk • Reducing Risk*
- Control 138
- Achievement and Gap Analysis 139
- An Integrative Multiplex View 141
 - Strengths, Weaknesses, Opportunities, and Threats*
- An Evaluation Framework 142
- The Practical Benefits of Evaluation 145
- Preview: Developing Solutions, New or Improved Strategies 146

PART THREE

STRATEGIC ALTERNATIVES

11. Generating Alternatives 147

- Introduction 147
- Selection of Problems to Solve 148
- Beginning the Process of Generating Alternatives 148
- Generic Strategies and Standard Alternatives 149
 - Liquidation • Integration • Diversification: The Product-Market Matrix*
- Managing the Process of Generating Alternatives 153
 - Creativity, Flexibility, and Timing • Mental Blocks • Breaking Mental Blocks • A New Concept of the Business • Exploiting Analogy • A New Perspective: An Industry Focus • Intractable Problems • Idealized Planning: Strategic Assumptions Analysis • No Apparent Problem*
- Every Manager Can Contribute 160
- Preview 161

12. Evaluating Alternatives 163

- Introduction 163
- Coping with Uncertainty 164
 - The Importance of Choice • Thoroughness • Unfounded*

<i>Optimism • Contingency Plans • Using Intuition in Evaluation • Consensus and Support</i>	
Opportunities to Reduce Uncertainty	167
Evaluating Alternatives: A Summary	168

PART FOUR

STRATEGIC ADMINISTRATION

13. Reading the Corporate Culture: Prelude to Executive Action	170
Introduction	170
Culture	170
Strategy and Culture	171
Identifying Culture	172
Reading the Culture	173
Role versus Job: The Use of Power Within a Culture	175
Culture, Role, and Power in Action	175
Summary	176
14. Administration: Using the Organization's Structure and Systems to Implement Strategy	177
Overview	177
Administration	177
The Strategic Variables	178
Strategy, Formal Structure, and the Stages of Growth	180
Meshing Structure Inside and Outside	182
<i>Matrix Organizations</i>	
The Internal Context: The Informal Organization	185
Developing Power in the Organization	187
A Model for Diagnosis and Design	187
Theories X, Y, and Z	188
Stress and Pressure Within the Organization	190
Changing Structure	191
Summary: Using the Organization to Achieve Results	192
15. Human Resource Strategy	194
Introduction	194
An Early Human Resource Consultant	195
Selection	196
Tensions Affecting Human Resource Strategy	198
Climate: Competition and Cooperation	199
Administrative Systems: Channels of Communication	199
<i>Climate and Systems • Authority, Accountability, and Ambiguity • The Purpose of Ambiguity • Policies and Delegation • Delegation and Trust • Control by Policy • Policies and Administration</i>	

The Administrative Purposes of Financial Measurement Systems	204
<i>Administrative Signals from Financial Results</i>	
Human Resource Evaluation: Dealing with Success and Failure	206
<i>The USCO-Euroco Example</i>	
Reaction to Poor Results	207
Performance Appraisal	208
Motivation and Development	209
Compensation	211
Bonus	212
Conclusion: Human Resources Shape Strategy	216

16. Planning and Control 219

Introduction	219
Does Planning Pay?	220
Planning Practice	221
Planning Problems	223
<i>Top Management's Role • Planners Are People Too (and Vice-Versa)</i>	
Causes of Poor Planning	225
Designing the Process	227
<i>Structure • Things to Consider</i>	
Some Additional Practical Considerations	229
Introducing Planning to an Organization	230
An Alternative Planning Model	231
Conclusion	234

PART FIVE

MULTIBUSINESS AND CORPORATE STRATEGY

17. Corporate Strategy in Diversified and Integrated Multibusiness Firms 235

Introduction	235
What Is Diversification?	236
Multibusiness Objectives	240
Financial Motivation for Diversification	241
Synergy	243
How Can Diversification Create Value?	244
An Acid Test for Diversification	245
Diversification Results	247
<i>Diversifying Acquisitions • Diversification in Practice • Summary on the Results of Diversification Research</i>	
Needed: Corporate Strategy	255

18. Portfolio Analysis: Tracking the Deployment of Funds 256

Introduction	256
Portfolio Analysis	257

Its Supporters 257
Types of Portfolio Analyses 258
The Usefulness of Portfolio Analysis 262
A Close Look at the Product Portfolio 263
Some Thoughtful Criticism 266
Some Comments from Users 269

19. Identifying Corporate Strategies 271

Introduction 271
Business Analysis 271
The Hierarchy of Objectives and Strategies 275
Business Analysis for a Diversified Corporation: The Bic Corporation 275
A Changing Strategy • Summary

20. International Competition and the Evolution of Global Businesses 286

Introduction 286
The Global Corporation 287
*Société Bic: Global Operations • Bic and Gillette • The
Future for Gillette in Global Competition*
Global Corporations and the Future Direction of International Business 295
A Conflict with Tradition 296
Guidelines for International Competition 297
The Essence of Global Competition 299

PART SIX

STRATEGY AND LEADERSHIP

21. Leadership, Values, and Objectives 301

Introduction: What Is Leadership? 301
The Leader of the Organization 303
The Contradictions of Leadership 304
The Values of a Leader 305
The Making of a Leader 306
Rules for Preserving Leadership 307
Values and the Preservation of Leadership 308
Leadership and Ideals 309
Leadership and Resistance 310
Leaders and Managers 311
Change and Continuity 311

22. Epilogue 313

References 315

CASES**Suggestions for Reading, Preparing, and Discussing a Case 332****PART ONE****INTRODUCTION TO THE ROLE OF THE GENERAL MANAGER**

- Yellowtail Marine, Inc. (A) 335
- Robin Hood 358
- Zachary Roberts 377
- B. J. Gunness Construction Company 383

PART TWO**IDENTIFICATION OF STRATEGY AND OBJECTIVES IN THE COMPETITIVE ENVIRONMENT**

- The Brewing Industry 399
- Ferment in the Beer Industry: Schlitz/Miller 431
- Cray Research 457
- Morgan Shoe Manufacturing Company 497
- Townsend Campinas 521
- Champaign Concrete Block Company 533

PART THREE**STRATEGIC ALTERNATIVES**

- Patio Time, Inc. 541
- United Way of Heaton 550
- Continental Illinois National Bank and Trust Company (A) 566
- Mammoth Paper 594
- Midwestern Mortgage Investors: A REIT in 1975 604
- General Development Corporation 622

PART FOUR**STRATEGIC ADMINISTRATION**

- Assuming Control at Altex Aviation (A) 660
- Mark Whitcomb 694
- Hasket Computer Services 695
- Cybersyn Systems, Inc. 726
- Mystic Electronics, Inc. (C) 753

PART FIVE

DIVERSIFIED AND INTEGRATED COMPANIES

Twentieth Century-Fox	770
Wolfe Industries, Inc.	795
Florafax International, Inc.	822
Midland Spark Plug Company (C)	847
Midland Spark Plug Company (E)	863
N. V. Philips' Gloeilampenfabrieken (Abridged)	886
Robertson Distribution Systems, Inc.	911
Pakhoed Holding, N.V.	932

PART SIX

STRATEGY AND LEADERSHIP

Big D Drug, Inc.	949
Big D Drug, Inc.: Denouement	964
Chrysler in the U.S. Auto Industry: 1921–1980	973
Chrysler in Crisis	998
The Doral Corporation	1004

Index	1036
--------------	-------------

What Is Strategy?

DEFINITIONS AND AN EXAMPLE

Strategic management is the process by which an organization formulates objectives and is managed to achieve them. Strategy is the means to an organization's ends; it is the way to achieve organizational objectives.

A strategy is a route to a destination; an objective is the destination. Picking a destination is the choice of an objective. Selecting a route represents a decision. Driving along it is the implementation of that decision. Of course, both decision and implementation are necessary if you are to reach your strategic objective.

Strategic management is an artful blending of insightful analysis and learning used by managers to create value from the skills and resources which they control. Let us use a brief example to see how management, with an appreciation of the resources it controls, attempts to find an opportunity to create value and sustain the growth of a company. In 1969, senior management at Philip Morris, a major US cigarette manufacturer, explained to its shareholders:

Inevitably our [Philip Morris's] domestic cigarette business will level off as our market share increases and growth in consumption stabilizes around one to two percent per year. Our cash flow will increase dramatically at that time and we need growth businesses in which to invest this cash flow. . . . [However] it's hard to find another business that is as good as this one. . . . Beer probably comes closest to matching our skills with a market opportunity. (Philip Morris, Annual Report, 1970, p. 25)

In May, 1969, Philip Morris purchased 53 percent of Miller Brewing. Twelve months later Philip Morris increased its shareholding to 100 percent of Miller and shortly thereafter management said:

We believe the long-range potential of Miller will be best served by increasing its share of the growing premium beer market rather than by emphasizing short-term profit goals. (Philip Morris, Annual Report, 1970, p. 25)

Strategies and objectives evolve as problems and opportunities are identified, resolved, and exploited. Philip Morris's strategy was to enter the brewing industry by acquisition. This decided, it first tried one route, Canadian Breweries. When a better

opportunity, Miller, presented itself, the first was allowed to die and the second seized. Recognizing the inconsistency of its objectives with the interests of Miller's minority shareholder, the DeRance Foundation (which wanted dividends for the Miller family and the foundations which the family funded), Philip Morris took time to gain complete control and then defined its objectives for Miller: growth before short-term profit.

Miller's management developed a strategy which encompassed a program of massive advertising, product development, and capacity expansion. Miller's image was changed from the "Champagne of Bottled Beers" to "Miller Time" as the reward at the end of a day of hard work. The former champagne of beers was sold in a wider range of packages, bottles, and cans than ever before. Miller Lite, a low-calorie beer similar to those which the Rheingold and Meister Brau companies had introduced unsuccessfully as diet beers for women, was reformulated to taste like Coors and promoted to appeal to the heavier-drinking males. As sales rose, new, larger breweries were built to meet the growing demand.

Strategies and objectives exist and have relevance at all levels of management. At Miller, specific strategies and objectives at the product level were made to fit with higher-level strategies at the brewing business level. Miller's management, in turn, had to develop strategies and objectives which were consistent with Philip Morris's corporate strategies, objectives, and resources. While the overall thrust of Philip Morris's entry into the brewing business was determined at the top, much of the impetus for change at the product level came about because of the actions and insight of specific people, often middle managers.

Other companies' histories can also illustrate the link between objectives and strategy. When Coca Cola bought Taylor Wine, its objective was to own a nationally known vintner. Under Coke's aegis, Taylor's strategy shifted from producing New York State wines with heavy East Coast distribution to include producing nationally distributed California wines with a new brand name, Taylor California Cellars. Polaroid wanted to revolutionize instant photography and establish new patents to protect its business from competitors. To do so, it developed the new SX-70 camera and film and manufactured them itself rather than contract production to Timex and Kodak as it had done previously.

Interlocking objectives and strategies characterize the effective management of organizations; they bind, coordinate, and integrate the parts into a whole. Effective organizations are tied by means-ends chains into a purposeful whole (in our terminology, *means* refers to strategy, and *ends* are objectives). Indeed, a high-level manager's strategy to achieve corporate goals can itself provide objectives for lower-level managers. For example, Miller's top management could have seen the introduction of Lite beer as a strategy to boost Miller's market share growth, but it was the task of Lite's product managers to develop the product and the promotional strategy necessary for the success of Lite beer.

KEY STRATEGIC CONCEPTS

To design successful strategies, there are two key rules:

- 1 Do what you do well.
- 2 Pick competitors you can beat.