

STRATEGIC ANALYSIS AND ACTION

Joseph N. Fry
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2nd Edition

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Preface

This book was written to complement case analysis in university and company business-policy courses. It takes the point of view of the general manager and presents a consistent, operational approach to analyzing and acting on strategic problems.

General managers run businesses. Although their assignments may vary widely, from that of chief executive to profit center head, managers carry a common responsibility: they should provide the leadership for guiding their business units to success in a competitive environment. The aim of this book is to develop the basic general management skills of understanding a business, sensing the opportunities and problems that it faces, dealing effectively with strategic decisions, and setting in place the people and operations to implement those decisions.

In preparing the text materials, we have concentrated on analytic concepts that contribute to practical understanding and action for the resolution of specific strategic issues. Further, we have linked these issues into broader frameworks of strategic thinking. These conceptual frameworks serve to organize the lessons, in which we analyze challenging problems.

We have made two assumptions about our readers. First, we have assumed that they are engaged in trying to solve strategic problems—as students doing case analyses or field projects, or as managers on the job. Application and practice are the prime vehicles for understanding the power and limitations of the concepts in this text, and more importantly, for developing general management skills. Second, we have assumed that our readers possess a basic understanding of the background disciplines and functional areas of business, such as provided by the early courses in university business programs.

This is a textbook. Its contribution lies in the originality of its purpose and presentation. As we prepared the materials, we drew on the work of specialized researchers and writers in business policy and associated fields. Specific contributions are cited, but we would also like to acknowledge our general debt to those who have been part of building a better understanding of general management practice.

We have been fortunate to work for many years in an institution that values good teaching and professional relevance. These cultural attributes

have been developed and reinforced by many people. It is fitting to highlight the roles of Deans J.J. Wettlaufer (1963-1978) and C.B. Johnston (1978 to the present). They have been instrumental in marshalling the spirit and resources of the School of Business Administration, The University of Western Ontario. They have set the tone for our work.

The first edition of this book was published in 1986. In revising it for this second edition, we have relied on our subsequent teaching experience to sharpen important points and to explain procedures more effectively. We have completely rewritten some parts of the book, particularly in the section on strategy and organization. Throughout we have attempted to increase the relevance of the materials for solving case problems. The entire text is closely aligned with a new companion casebook *Business Policy: A Canadian Casebook* (2nd edition).

For both editions we have benefited from the ideas and the support of our colleagues. We would particularly like to acknowledge the role of the "business policy teaching group" at The University of Western Ontario, which over the years has consisted of Professors Paul Beamish, Harold Crookell, Michael Geringer, Gerald Higgins, Tom Poynter, Don Thain, and Rod White.

As we worked through the revisions, we were helped by many practical hands. Chelsea Donaldson did a wonderful editing job. Karen Belch and Sue LeMoine, as always, provided superb secretarial assistance.

London, Ontario
March 1989

JOSEPH N. FRY
J. PETER KILLING

Introduction

This introduction is your owner's manual. It explains the approach and organization of the book and suggests how you can best use it.

APPROACH

The book was prepared as a practical guide for strategic analysis and action. We have designed it for readers who are working on applied strategic problems, either through case studies or through on-the-job assignments. It provides an organized set of concepts and procedures to help readers identify strategic issues, make choices, and implement decisions.

The point of view taken on strategic issues is that of a general manager. We assume that you are willing to share this perspective—to see yourself responsible for the overall direction and success of a business unit. This approach has two important consequences. First, you must think in comprehensive terms of the total problem you are dealing with, taking into account the full breadth of its meaning and consequences for the business. Partial analyses, from a specialist or functional perspective, may be helpful, but they do not meet the general manager's need for the best overall approach to a situation. Second, in addition to broad issues of direction, you must worry about the specific steps of implementation—about closing the gaps between strategic choice and practical action. Again, it may be helpful to offer recommendations as a consultant or staff specialist, but this advice will usually address only the directional aspects of a general manager's concerns for achieving change. In short, we have asked you to step into a particularly challenging position in which you must think of problems in terms of a total business and then plan for tangible, practical action.

The choice and presentation of material in the book have been guided by practical utility. Our aim has been to provide useful tools organized into one consistent and comprehensive framework. We have drawn heavily on the available literature in developing this approach, but we have deliberately avoided reviews and discussions of alternative definitions, concepts, and procedures. These alternatives, it seems to us, are best left for another occasion since they would deflect attention from our prime aim of pragmatic problem solving. Additional readings are suggested for those who wish to explore the subject matter further.

Finally, throughout the book we have used examples frequently to make the connection between the concepts—which have to be somewhat general for flexibility and breadth of application—and specific strategic issues. You might find it useful as you read to think of examples in your own experience and test the applicability of the concepts to them.

ORGANIZATION

The book is organized according to a general pattern: problem identification to decision to implementation. This is a natural, logical sequence and is effective for the cumulative presentation of concepts. But it should not be taken to imply that strategic problems in practice can be dealt with in such a neat, serial fashion. On the contrary, most strategic problems require an iterative approach in which the analysis moves back and forth between choice and action. This point will become evident as you read through the book. Its immediate implication, however, is that you should not expect to find problems that neatly conform to the flow of the text.

The book is divided into five parts. Part I lays the foundation with a discussion of the concept of strategy and the presentation of an overall framework for strategic analysis. Part II focuses on strategic analysis in relation to environmental opportunities and problems. Part III shifts attention to internal analysis and deals with the relationships of strategic choice to business resources and management preferences. Part IV discusses the linkage of strategy and organization. Part V turns to the management of strategic change, of leading a business through transitions in strategy and organization.

SUGGESTIONS FOR USE

The following steps will help to correlate the concepts of the book with your work on applied problems.

At the outset we suggest that you read Part I thoroughly. This will provide a perspective for your thinking and a basic framework for analysis. Skim the rest of the book so that you know where to turn as specific circumstances arise.

As you deal with problems, use the book selectively. Try to work back and forth between the problem you are addressing and the relevant parts of the book. Use the concepts to check out your analysis and, as necessary, to expand it. Common sense is very important here. Don't try to force the concepts and procedures on a problem; instead, use them to enrich the analysis.

Study the book systematically *after* you have spent some time working on strategic problems. At that point you will more readily appreciate the general analytical approach and see the applicability of particular concepts. From then on, the building of skills in strategic analysis and action is a matter of practice, and more practice. Remember, you are dealing with the most complex problems in business. Good luck!

Contents

Preface / xv
Introduction / xvii

PART I STRATEGY AND STRATEGIC ANALYSIS / 1

ONE ■ Identifying Strategy / 2

A Working Definition of Strategy / 2

Goals / 4

Product Market Strategy / 7

Competitive Strategy / 10

Putting the Strategy Components Together / 12

Identifying Strategy in the Multibusiness Firm / 13

The Business Strategy Hierarchy / 14

Summary / 15

Notes / 16

Additional Readings / 16

TWO ■ Fundamentals of Strategic Analysis / 17

Strategy and Strategic Choices / 17

The Criterion of Consistency / 18

Strategic Choice, Consistency, and Risk / 19

The Diamond-E Framework / 21

Putting the Framework to Work / 23

Step 1: Identifying Performance Trends / 24

Step 2: Setting the Strategic Agenda / 26

Step 3: Analyzing the Current Strategy / 26

Step 4: Making the Strategic Choice / 27

Summary / 28

Notes / 28

Additional Readings / 28

THREE ■ *Basic Guidelines for the Diamond-E Drill* / 29

Preliminaries / 29

The Strategy-Environment Linkage / 30

The Strategy-Resources Linkage / 32

The Strategy-Management Preferences Linkage / 33

The Strategy-Organization Linkage / 35

Summary / 37

PART II ENVIRONMENT ANALYSIS / 39

FOUR ■ *Environment Analysis: Preliminaries* / 41

Defining the Relevant Environment / 42

Strategy as a Defining Tool / 43

The Business System as a Defining Tool / 44

The Profit Model as a Defining Tool / 47

Defining the Relevant Time Horizon / 49

Flexibility of Commitment / 50

Implementation Horizon / 50

Industry Restructuring / 50

Minimizing the Risks of Focus / 51

Macroenvironment Scanning / 51

Recycling / 53

Review / 53

Attractiveness of the Business Environment / 53

Identifying Business Environment Attractiveness / 55

Industry Key Success Factors / 58

Identifying Key Success Factors / 59

Summary / 60

Notes / 61

Additional Readings / 61

FIVE ■ *Environment Analysis: The Strategy-Environment Fit* / 62

Demand / 63

Basic Needs and Preferences / 63

Market Potential / 64

Customer Bargaining Power / 65

Synthesis of the Demand Analysis / 67

Competitive Rivalry / 67

Individual Competitor Strategies / 67

Aggregate Competitive Analysis / 74

Market Intrusions / 78

Synthesis of the Competitive Analysis / 78

Factor Supply / 79

Human Resources / 80

Energy and Raw Materials / 80

Capital / 81

Technology and Processing Equipment / 82

Parts and Components / 83

Infrastructure Services / 85

Government Policies / 85

Understanding the Rules of the Game / 86

Changing the Rules of the Game / 86

Incorporating Macro Policy Influences / 89

Synthesis of the Government Policy Analysis / 91

Summary / 91

Notes / 91

Additional Readings / 92

SIX ■ *Generic Strategies* / 93

Single Business Unit Strategies / 93

Generic Strategic Goals / 94

Generic Product Market Strategies / 99

Generic Competitive Strategies / 102

Transitional Strategies: Moving from Single to Multibusiness Operations / 107

Horizontal Diversification / 108

Implementation / 111

Vertical Integration / 111

Using Generic Strategies to Manage Multibusiness Companies:

The Portfolio Approach / 115

Identifying Strategic Business Units / 116

Assignment of Generic Strategies to Strategic Business Units / 117

The Use of Portfolio Planning Techniques / 122

Summary / 122

Notes / 123

Additional Readings / 123

PART III INTERNAL ANALYSIS AND STRATEGIC CHOICE / 125

SEVEN ■ *Resource Analysis / 126*

Defining Resource Requirements / 127

Identifying Resource Requirements / 128

Human Resources / 129

Physical Resources / 131

Financial Resources / 132

External Relationships / 133

Location Factors / 134

Assessing Resource Risk / 134

Assessment Variables / 135

Highlighting the Risks / 137

Modifying the Proposed Strategy / 137

New Strategic Opportunities / 140

Summary / 140

Notes / 140

Additional Readings / 141

EIGHT ■ *Analysis of Management Preferences / 142*

Preferences, Strategy and Performance / 144

The Roots of Strategic Preferences / 146

Basic Needs / 147

Beliefs / 147

Job Context / 150

Frozen Preference / 151

Implications / 152

Analytic Perspectives / 152

Matching Preferences and Strategy / 153

The Individual Manager's Preferences / 154

Management Group Preferences / 156

Management Preferences and Competitive Analysis / 158

Summary / 159

Notes / 160

Additional Readings / 161

PART IV STRATEGY AND ORGANIZATION / 163

NINE ■ *Strategy, Organization, and Management Behaviour / 164*

Identifying Organizational Problems / 166

Economic Performance and Organizational Health / 166

Matching Strategy and Organization / 168

From Strategy to Required Management Behaviour / 168

Observed Management Behaviour / 171

Comparing Observed and Required Management Behaviour / 173

Summary / 174

Additional Readings / 175

TEN ■ *Organizational Problem Solving / 176*

An Organizational Framework / 176

Culture / 178

Structure / 181

Systems / 184

Staffing / 186

Internal Consistency / 188

Evaluating Possible Courses of Action / 189

Summary / 190

Notes / 191

Additional Readings / 191

ELEVEN ■ *Organizing to Manage Strategic Transitions* / 192

Product Life Cycle Transitions / 192

From Entrepreneurial to Professional Management / 195

From Single-Business to Multibusiness Operations / 197

From Single Business to Vertical Integration / 199

From Single Business to Unrelated Diversification / 201

From Single Business to Related Diversification / 202

Managing a Related Product Firm / 204

From Domestic to International Operations / 205

International Single-Business Firms / 205

International Vertical Integration / 208

International Unrelated Diversification / 208

International Related Diversification / 209

Summary / 213

Notes / 213

Additional Readings / 214

PART V MANAGING STRATEGIC CHANGE / 215

TWELVE ■ *Diagnosing Problems of Implementation* / 217

Urgency of Change / 218

Crisis Change / 218

Reactive Change / 219

Anticipatory Change / 220

Urgency and the Timing Dilemma / 220

Internal Change Requirements / 221

Resource and Organizational Adjustments / 221

Behaviour Modification / 223

Change Targets / 224

Behaviour Changes / 225

Obstacles to Change / 226

Resource and Organizational Bottlenecks / 227

Behavioural Resistance / 228

Political Position / 236

Summary / 238

Notes / 239

Additional Readings / 239

THIRTEEN ■ *Basic Tactics for Strategic Change / 240*

Basic Tactics / 241

Face-To-Face Action / 241

Indirect Action / 244

Formal Resource and Organizational Changes / 244

Tactics and the Change Cycle / 246

Readiness for Change / 247

Implanting Change / 251

Summary / 255

Notes / 255

Additional Readings / 255

FOURTEEN ■ *Managing Crisis, Anticipatory, and Reactive Change / 256*

Radical Change Plans / 257

Crisis Change Plans / 257

Preliminary Analysis / 259

Crisis Change Tactics—External Change Targets / 260

Crisis Change Tactics—Internal Change Targets / 261

After the Crisis / 263

Anticipatory Change / 263

Preliminary Analysis / 265

Anticipatory Change Tactics—Internal Target Groups / 267

Reactive Change / 270

Preliminary Analysis / 271

Reactive Change Tactics—Internal Change Targets / 272

Summary / 274

Notes / 274

Additional Readings / 274

Index / 275

STRATEGY AND STRATEGIC ANALYSIS

I

This first section of the book provides an introduction to the concepts and procedures used in strategic analysis. Chapter 1 starts us on our way by presenting a working definition of strategy that we can use to identify the particular strategy pursued by a business and to isolate strategic choices for analysis.

Chapter 2 provides a broad overview of the fundamentals of strategic analysis. It introduces our basic analytic model, the Diamond-E framework, and identifies the major concepts, variables, and relationships that we are going to work with.

We have organized the fundamental steps for testing and revising a strategy into a specific analytic process called the Diamond-E drill. We review all of these steps in Chapter 3, and each one is described in more detail in subsequent chapters.

ONE ■ *Identifying Strategy*

Strategy is the guiding idea of a business. It is an expression of how a business intends to operate in a competitive environment. It sets priorities and boundaries for action. Consider the case of the McDonald's Corporation, the world's largest purveyor of hamburgers. For over thirty years McDonald's has operated with a singular dedication to simplicity, quality, service, and cleanliness. The company has been enormously successful. Nevertheless, over the years, McDonald's has been criticized for not diversifying into more elaborate menu offerings, different restaurant concepts, even new businesses, as a hedge against "inevitable" market saturation. But management have stuck to their guns. They see no limits to growth as yet and are deeply concerned that the company should continue to do what it does do with excellence. As one manager explained, with tongue in cheek: "We have over 16 000 washrooms; when they are all clean we will consider diversifying." Whether we agree or disagree with McDonald's management, one thing is for sure: they know how they want to run their business.

In the following chapters of this book we are going to discuss how to develop an effective business strategy and how to put it to work. First, though, we need to make sure that we have a clear and a common understanding of what we mean by strategy. Our aim in this chapter is to present a practical definition that will help us to identify the strategy of a business and to describe it in terms that are useful for analysis and action.

A WORKING DEFINITION OF STRATEGY

It is useful to visualize strategy in the form of three related components: *goals*, *product market strategy*, and *competitive strategy*. Roughly drawn, these components represent the answers to the following questions: