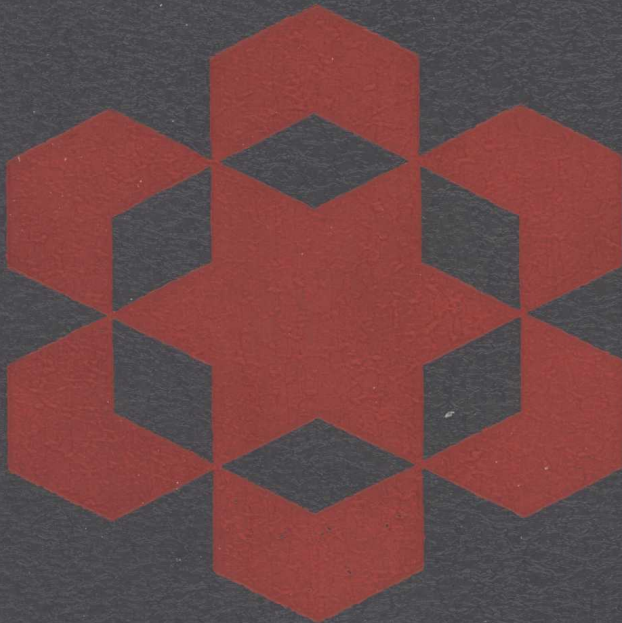


McGRAW-HILL SERIES IN MANAGEMENT



POLICYMAKING AND EXECUTIVE ACTION

Thomas J. McNichols



**POLICY-
MAKING
AND
EXECUTIVE
ACTION**

This book was set in Times Roman by A Graphic Method Inc.
The editors were Kathi A. Benson and Scott Amerman;
the production supervisor was Leroy A. Young.
New drawings were done by Burmar.
The cover was designed by Hermann Strohbach.
Halliday Lithograph Corporation was printer and binder.

POLICYMAKING AND EXECUTIVE ACTION

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234567890 HALHAL 89876543

ISBN 0-07-045680-1

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Library of Congress Cataloging in Publication Data

McNichols, Thomas J.

Policymaking and executive action.

(McGraw-Hill series in management)

Includes bibliographies.

1. Industrial management. 2. Industrial manage-
ment—Case studies. I. Title. II. Series.

HD31.M386 1983 658.4'01 82-20891

ISBN 0-07-045680-1

PREFACE

This sixth edition of *Policymaking and Executive Action* is designed to provide a comprehensive framework which delineates the process of strategic planning and policy formulation. The text represents a blend of concepts, theory, and current practice which is coordinated with selected cases drawn from actual dynamic business and other organizational situations. The broad range of cases provides a laboratory to test and extend the analytical and conceptual skills of the student.

This edition, like the previous editions, is intended to advance the teaching of strategic planning and business policy to students in undergraduate and graduate schools of business and management, and to serve the requirements of executive development programs. An effort has been made in coordinating the text and cases to recognize the possible variations in the teaching of strategic planning and business policy. A basic approach for developing the skill of strategic planning and policymaking was used in the arrangement of the text and cases. Although the cases are keyed to the text, the arrangement is not intended as an absolute guide and changes in the sequence of cases can readily be made to adapt the material to accommodate particular teaching methods or techniques. With the exception of some cases in Parts Eight and Nine, almost all cases have a sufficient variety of strategic issues to be effectively used under several topical headings.

Part One introduces the student to the complexities of the general management function and the demanding role of the chief executive. Chapter 1 emphasizes the necessity and importance for the general manager to develop an overall view of the organization and to grasp the totality of the firm as a single unit directed toward the attainment of specific objectives. A basic conceptual model of the strategic planning and policymaking process is developed in the chapter. This conceptual model is stressed throughout the book and is sequentially developed in the succeeding chapters.

The automotive industry with its rich background and extensive historical literature provides the backdrop for Chapter 2 to illustrate situational and institutional differences in strategic behavior. The strategic planning and policy formulation processes of Ford and General Motors are analyzed and con-

trusted over time as examples of the concept of strategy and of the response of management to environmental changes.

Part One includes introductory cases intended to provide direction and a framework for the analysis of business situations. The various functions and levels of the executive group should become apparent to students in their initial exposure to policy cases, and in this phase of case analysis they should also begin to cultivate a “feel” or “way of thinking” about the management job from the viewpoint of top-level executives. The importance of the role of the chief executive in shaping the corporate image and in charting the course of the business operation should become increasingly apparent as the student progresses from the simpler to the more complex cases. The need for policymaking—the “think” aspect of the top management role which leads to the setting of guiding principles for courses of action—should also become apparent to the student at this stage.

The student’s ability to recognize the interrelationship of business functions in these early cases should mark the first step in a gradual development of unique conceptual skill—the ability to see the business enterprise as a whole and the awareness that the various functions of the business organization are interdependent and must be coordinated for successful operation. As students progress through the sequence of cases, it is not expected that they will perceive any abrupt change in the nature of the cases. Their experiences with each distinct business situation are more likely to meld together in easy stages eventually forming the whole structure of the policymaking skill.

Part Two develops one of the major management tasks, that is, the analysis of competitive threats and opportunities. Chapter 3 assesses and appraises the opportunities available for the business enterprise to effect profitability and growth and examines the threats from competition and environmental changes which affect its operations and in some cases its survival. The life cycle of the firm is described and analyzed to indicate expected management behavior of the typical pattern of events likely to be associated with each separate stage of the cycle. The chapter also emphasizes the importance of industry structure and the life cycle of industries as major factors which determine a company’s competitive posture.

Chapter 4 examines management’s response to environmental change. The potential impact of economic, political, and technological change on the firm is evaluated. Environmental forecasting is discussed and analyzed as a strategic aid to evaluate and prepare management’s response to environmental change. The international dimensions of environmental scanning are also discussed to indicate the extent and importance of global competition and to delineate the opportunities and challenges it presents to the firm. Industry structure significantly affects a firm’s competitive position. The importance of recognizing this vital factor in environmental scanning is also stressed in the chapter.

Chapter 5 outlines a pragmatic and conceptual approach to problem solving and situational analysis. The firm is analyzed as a system which comprises a number of interrelated functions which make up the whole. The need for con-

tinued recognition of the stated mission and purpose of the enterprise is emphasized in this chapter, as are key factors in internal analysis. The principle of functional dynamics—how decisions to change policies and operations of one functional area affect the other functions of the firm—is described and analyzed. The importance of taking into account the interrelatedness of all operations of the enterprise in internal analysis is stressed in this chapter. A series of probing questions for management consideration in conducting an audit and appraisal of the firm's internal problems and competitive position is also provided in the chapter.

The cases in Part Two provide the student with the opportunity to assess the impact of environmental change on the competitive position of the firm. The varied industries represented in the cases can be effectively utilized to acquaint the student with industry structure and the necessity for industry analysis in evaluating the competitive opportunities and threats to the enterprise. The life cycle of the company and the problems associated with the transition from one cycle to the next are clearly indicated in several of the cases.

Part Three defines the basic objectives that shape the image and character of the enterprise. Specific attention is directed in Chapter 6 to the overriding economic objectives which provide the initial guidelines for all strategic action and form the basis for control and accountability. Discussion of the first phase of the policymaking process—the formulation of a root strategy, which defines the kind and type of business the enterprise will engage in and the extent of its commitment of skills and resources—forms a large part of the chapter. The cases in Part Three provide issues and business situations to permit the analysis of basic objectives, root strategy formulation, and the application of the concept of profit maximization.

Parts Four and Five emphasize the successively more pragmatic phases of policymaking, implementation, organization, and interpretation, in which operating, organizational, and control strategies are developed. The chapters and cases in these parts are integral blocks in the development of the conceptual skill of the policymaker. Here students are presented with diverse business situations of increasing complexity, which serve as the raw materials for strengthening their analytical ability and for developing a conceptual action-oriented approach to the problems of business policy.

Operating strategy flows from the root strategy and defines the specific operational plans to accomplish the mission of the firm. Chapter 7 develops the process of implementation and analyzes a number of operating strategies which have proved effective or have been the cause of corporate problems. Specific strategic aids for developing operating strategies such as the experience curve, growth/share matrices, planning grids, and the PIMS data are described and analyzed in the chapter.

The organizational strategy of the firm follows the development of the root and operating strategies. Chapter 8 provides a number of examples of unique organization strategies which have been a significant factor in the success of prominent industrial companies. The process of organizational design and its

relationship to the company's structure, objectives, and operating plans is emphasized in this chapter.

Part Six stresses the importance of the monitoring of the control system to determine when and if reformulation should be effected and to what extent the strategic plan should be revised. Chapter 9 discusses these vital elements of the strategic planning process and illustrates reformulation and the development of recovery strategies with examples drawn from industry. The importance of the cases in Part Six must be emphasized. These cases are very comprehensive and provide an opportunity to synthesize the elements of policy formulation and the strategic planning process. The cases also offer excellent examples of recovery strategies necessitated by a complete reformulation.

The importance of expansion, acquisitions, and mergers is stressed in Part Seven through the utilization of case examples of prominent business organizations. The concept of growth as a basic economic objective and the pressure for diversification and integration to attain organizational goals are described and analyzed in Chapter 10 and illustrated in the cases in this part.

Cases in Part Eight develop the external influences beyond the direct control of management which have a decided effect on the planning process of the firm. The cases in this part provide the student with an opportunity to examine the external, environmental problems of decision making associated with antitrust considerations, minority groups, and consumer pressures. While the cases describing these topics are not readily interchangeable with other parts of the book, they can be effectively used in sequence with cases in other parts, particularly in Parts Two, Three, Four, and Six.

The cases in Part Nine describe the importance of leadership and executive style in policy formulation. The nature of the human factor in day-to-day administration and in the development of the character and image of the enterprise is clearly illustrated in these cases.

The cases in this edition have retained the use of generic masculine pronouns in references to individuals whose gender is not otherwise established. I wish to emphasize, however, that I have done so solely for succinctness of expression and intend such references to apply equally to men and women.

ACKNOWLEDGMENTS

The collection of business policy cases in this book was made possible by the cooperation of many business executives who provided the opportunity to write cases about their companies and who generously shared their business experiences with the author and the case writers. I wish to thank Dean Donald P. Jacobs and the faculty of the J. L. Kellogg Graduate School of Management of Northwestern University for permission to use the Northwestern University cases which appear in this volume.

Many of the cases in this edition were written or supervised by the author, some represent joint efforts, and others were individual efforts of present or former professors or staff members of the J. L. Kellogg Graduate School of

Management. I wish to thank them for their contributions and cooperation in making this collection of cases available for publication. Present members include Professors Laurence G. Lavengood and Edward T. P. Watson. Former faculty and staff members who have contributed cases to this edition include Professors Anthony Akel (who is responsible for several cases), Kenneth Armstrong, Gwen Baker, Ram Charan, Charles W. Hofer, Robert D. Hamilton, Serge Oreal, Dominic Parisi, Lawrence C. Rhyne, Professor Robert C. Shirley, Richard Slovacek, Curt Stiles, and David M. Voorman. Additional contributions to case development was provided by Robert L. Campbell, Lawrence D. Chrzanowski, Judy Lipnick, Peter C. Pierce, Gerald A. Rolph, William Sandberg, James C. Shaffer, Frances Sheridan and Roger A. Wojtkiewicz. Former staff member William L. Dejon deserves special recognition for the many cases he has written which are a part of this and previous editions.

I wish to extend my gratitude and special thanks to Albert W. Isenman, of the staff of the Policy and Environment Department, in the J. L. Kellogg Graduate School of Management for his invaluable assistance in the preparation of this book. He has contributed new cases, aided in the revision of other cases, and provided editorial assistance.

I am grateful to staff member Gloria Liberthal for her very special and excellent secretarial assistance.

I would also like to express my thanks for the many useful comments and suggestions provided by colleagues who reviewed this text during the course of its development, especially to Sheila Adams, Arizona State University; Hale Bartlett, University of Illinois at Chicago Circle; Bruce Coleman, Michigan State University; John Faris, Loyola University, Baltimore; Fred Luthans, University of Nebraska; Clayton Reeser, University of Hawaii at Manoa; Earl Sage, University of North Carolina at Charlotte; John Stanley, University of Texas, Arlington; and Curt Stiles, University of Southern California.

I am most indebted to my wife, Willelene A. McNichols, for editorial assistance, counsel, encouragement, and patience during the preparation of this book. Without her help it would not have been possible.

Thomas J. McNichols

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PART ONE

POLICY FORMULATION AND STRATEGIC PLANNING: THE GENERAL MANAGEMENT VIEWPOINT; THE ROLE OF THE CHIEF EXECUTIVE

The Concept of Policy Formulation and Strategic Planning

RELATING STRATEGIC PLANNING TO POLICY FORMULATION

In this book we are concerned with *strategic planning as a part of the policy-making process*. The chief executive officer and the policymaking group determine the organization's strategic design by distinct or determined action or by *drift strategy* through the day-to-day decisions at the operating levels as managers seek to suboptimize their specific units, divisions, or departments. A company's strategic plan may be explicit or derived implicitly from its pattern of operations. *Strategy is embedded in policy formulation*; it comprises a sequence of decisions reflecting the will and purpose of the organization, its basic economic and business objectives, and its operational plans to utilize its skills and resources. Strategic planning is related to the future, and to the external environment. The strategic planning process involves environmental scanning and reasoned projections to ascertain the most promising opportunities for the business entity to position it for future profitable growth. It is utilized to provide for the identification of the firm's future products and product market scope to meet real, assumed, or potential demand, and to keep pace with competitive threats and pressures.

Policy results from the institutionalization of strategic decisions. The choice of the kind and type of business to be engaged in sets the initial stage for the development of policies which may guide and direct a company for a long time period until reformulation changes its strategic thrust. The business firm and the not-for-profit organizations crystallize their purpose by defining the dimensions and scope of their efforts. Their strategy is directed toward accomplishing specific objectives; over time these strategic decisions evolve into policies

which frame the culture of the organization and are reflected in their products and product market scope or in the range of services they perform. Over time the hierarchical policies become symbols and badges of identification which are frequently well recognized in the communities which the firms or organizations serve.

The proliferate use of the term *strategy* in management literature and in corporate annual reports has resulted in confusion and varied interpretations of the word. Strategy is used to identify single actions taken by organizations covering a wide range of decision choices, past and present, which resulted in establishing the image and culture of the firm, its role in the marketplace, and its day-to-day operations. It is infrequent that you find attempts to distinguish these decisions, to classify them, or to evaluate their significance to the organization's strategic design. The strategy of a firm cannot be isolated to a single all-encompassing decision which provides purpose and direction over a long-term horizon. The enterprise develops a strategic design based on a series of significant decisions which relate and delineate the interdependence of the formulation, implementation, organization, and control phases of the policymaking process. Strategic designs form a linking device which connects categories of decisions at the various stages of the policy process. Each class of decisions has separate and distinct characteristics which permit the various classes to be analyzed and studied separately. However, they must be taken as a whole, as a pattern of decisions, to form a strategic design which guides the firm in the marketplace. Each successive set of strategic decisions is derived and flows from the preceding set.

In the formulation phase of the policymaking process, a *root strategy* is developed to give the firm its basic guidelines in terms of the nature and scope of its business commitment and the extent of its skill and resource development and allocation. In the implementation phase an *operating strategy* is developed which flows from the *root strategy* and guides the enterprise in its action commitment in the marketplace. The blueprint for market penetration, coping with environmental changes, and directing day-to-day operations are part of a firm's *operating strategy*.

The organizational phase logically flows from the implementation phase: here management has a decision choice of alternative *organizational strategies* to provide the guidelines, framework, and communication network to complete and put into effect the operating strategy. In the interpretative phase, *control strategies* must be developed to determine the effectiveness of the organization's performance in relation to the predetermined objectives developed in the formulation and implementation phases. The interpretation of control data provides the basis for determining the necessity for reformulation or recycling of the policymaking process and the development of a *recovery strategy* with its consequent effects on *root strategy*, *operating strategy*, *organizational strategy*, and *control strategy*.

The interrelationship of this policymaking process and the concept of a strategic design are illustrated in Exhibit 1-1. This conceptual model stresses the

interdependence of the five basic phases of a continuous flowing process which shapes the image and character of the business enterprise and provides it with basic guidelines for executive action.

The specific elements of the strategic design and the policymaking process are discussed in greater detail in Chapters 2 through 8.

THE ROLE OF THE CHIEF EXECUTIVE AS A POLICYMAKER AND STRATEGIC PLANNER

Functional Skills and the General Management Viewpoint

To understand the importance and significance of functional decisions and the relationship of the functional manager or staff specialist to the basic purpose, objectives, and strategic design of the organization, the student or manager must grasp the totality of the firm and recognize that the whole is greater than the sum of its parts (or specific functions). The all-encompassing role of the top decision makers must be analyzed and studied to be understood. The importance of the linkage of decisions at all levels of the organization to the strategic design and "overall master plan" should be comprehended in order to view the firm as a system and to gain an understanding of the significance and dimensions of the functional areas.

The hierarchy of management is confronted with a complex organization which may include separate divisions and companies as well as specialized functions and departments. The chief executive and the policymakers must possess more than a comprehensive knowledge of the operations of the multiple functions of the business entity; they must make judgments about the organization as a whole, and their strategic decision-making efforts must be directed toward the attainment of objectives designed to maximize the efforts of the enterprise as a single integrated unit. Top management has the advantage of perspective since they look down on the entire business operation; but the view may be distorted by their backgrounds and functional specialties. Most policymakers were at one time specialists in one function or another and most likely received recognition for performance at this level, thus earning the opportunity to direct and coordinate the efforts of the enterprise at the higher echelons of management.

The skills and abilities learned at the functional level may, in many instances, prove to be among the greatest handicaps of executives in their attempts to adapt to the overall viewpoint so necessary to the policymaker. It is not uncommon for top managers, particularly in the initial stages of their role as policymakers, to suffer from functional emotionalism—they may tend to see many corporate problems as stemming from poor financial policy, a failure to apply the "marketing concept," or ignorance of the ramifications of production difficulties. Others, trained and experienced in different specialties, may tend to approach the decision-making process through their own familiar channels. The tendency toward functional emotionalism is not unusual or unexpected in view of the career path of most executives. Their education, job assignments,

