

*BUSINESS
POLICY
TEXT AND CASES*

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B U S I N E S S P O L I C Y

Text and cases

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FIFTH EDITION • 1982

RICHARD D. IRWIN, INC.
Homewood, Illinois 60430

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Case material of the Harvard Graduate School of Business Administration is made possible by the cooperation of business firms who may wish to remain anonymous by having names, quantities, and other identifying details disguised while basic relationships are maintained. Cases are prepared as the basis for class discussion rather than to illustrate either effective or ineffective handling of administrative situations.

ISBN 0-256-02626-2

Library of Congress Catalog Card No. 81-86114

Printed in the United States of America

3 4 5 6 7 8 9 0 H 9 8 7 6 5 4 3

Preface

THIS FIFTH EDITION of *Business Policy: Text and Cases* provides educational concepts, text, and cases for a course in Business Policy and/or Corporate Strategy. Building on previous editions, the authors have incorporated a number of changes in both text and case material; we hope that modifications of our basic format will increase the usefulness of this edition for all concerned.

In the development of this fifth edition we have retained those cases which our users have found most helpful in accomplishing the objectives of their seminar or course. Indeed, 10 of our holdover cases are listed as all time classic “best sellers” by the Intercollegiate Case Clearing House. They provide, as some of you know, challenging and “fun” discussion vehicles for education in the policy process.

In this fifth edition, as in preceding efforts, we have emphasized four basic, educational themes. First, this material focuses on the tasks of general management in leading the overall enterprise, in contrast to the tasks of a specialist manager whose responsibilities are limited to a subdepartment of the total organization. Second, our text and cases highlight strategic management as a key function and responsibility of the line general manager, not as a staff planning activity. Third, critical to the success of any firm, is the general manager’s ability to manage the *process* by which an organization both formulates and implements its strategy. These case histories encourage apprentice managers to practice vicariously the organizational process of goal definition and accomplishment. Finally, a study of this material emphasizes the importance of general management practice as a professional activity. The general manager is responsible to multiple constituencies with conflicting needs and goals. He or she must manage that organization so as to achieve both economic and social-ethical goals.

In this fifth edition we have made a number of significant changes from earlier efforts. We have increased the reader’s opportunity for systematic exploration of the industry dimension of strategic analysis. The

revised text material provides the reader with a practical framework for analyzing industries, and additional case histories provide opportunities to apply that framework to complex, real-life situations. We are indebted to one of our two new authors, Michael E. Porter, for this contribution to the evolution of the Business Policy field.¹

Much of the new case material in Book Two has been developed under the supervision of our other new author, Richard G. Hamermesh with the collaboration of coauthor Joseph L. Bower. These implementation cases provide us with rich data for the practice of the general manager's critical job—"getting things to happen." Some of these cases are drawn from new industries, including service industries. Another case emphasizes the challenge to women managers as they assume senior management positions. The problems of new leadership in one of our nation's oldest industrial organizations is illustrated in depth in the International Harvester case. That case series offers all of us an opportunity to learn from this ongoing corporate drama.

We believe you will be specially interested in studying the concluding text section of this fifth edition, which gives added emphasis to the general manager's task of corporate governance. In an increasingly egalitarian world, the general manager who leads a traditional pyramidal organization faces major questions as to his or her authority and administrative practices. He or she must govern in such a way as to achieve the granted cooperation and contribution of all involved parties.

The evolution of this book has been encouraged by many individuals—both business managers and academic instructors and students—who have taken the time and effort to send us suggestions for improvements. We are in their debt. Their continuing interest has helped us to develop a policy course which can be taught effectively at the undergraduate, graduate, and executive seminar level.

All students of business policy participate in a long-term, evolving intellectual adventure. The basic administrative processes and problems with which business policy is concerned have been part of organizational life for centuries, but the history of business policy as an academic field dates back less than seven decades.

This edition builds on substantial contributions made by former and present policy colleagues; it carries their efforts further along the way to better understanding and greater applicability. The specific core idea—the concept of corporate strategy, and the organizational plan used in this book—were developed at the Harvard Business School in the early 1960s under the leadership of Kenneth R. Andrews, C. Roland Christensen, and now Professor Emeritus Edmund P. Learned. While course concepts and material have undergone steady modification, course objectives and organization have been maintained. Our teaching focus then, as today, emphasizes the determination of corporate strategy (Book One) and the implementation of corporate strategy (Book Two). This format has stood the test of time.

Opportunities for further evolution of the concept of corporate strategy, however, remain large. As coauthor Andrews notes:

¹ See Michael E. Porter, *Competitive Strategy* (New York: Free Press, 1980).

This concept is far from complete. But its early development shows this framework allows all other fields to be brought to bear upon the highest function of the general manager—supervision of the continuous process of determining the nature of the enterprise and setting, revising, and attempting to achieve its goals. So far the development of organizational behavior fits well into the framework of implementation. The sophisticated developments in quantitative analysis are not yet readily available to policy problems, but if all goes well, this will come.

The idea of corporate strategy constitutes a simple practitioner's theory, a kind of Everyman's conceptual scheme. It is nonetheless capable of including the most extensive combination of interrelated variables involved in the most important of all business decisions. It is a definition of the manager's central function, whether he is a staff specialist contributing in depth and detail to the identification of alternatives and to the predicted return on investment for each of these alternatives, or the senior executive who must finally make or complete the decision.²

In summarizing the relationship of strategy to the education of general managers, coauthor Christensen has noted:

The uniqueness of a good general manager lies in his ability to lead effectively organizations whose complexities he can never fully understand, where his capacity to control directly the human and physical forces comprising that organization are severely limited, and where he must make or review and assume ultimate responsibility for present decisions which commit concretely major resources for a fluid and unknown future.

These circumstances—lack of knowledge, lack of an ability to control directly, and a mixture of past, present, and *future* time dimensions in every decision—make the concept of strategy so important for the generalist, senior manager. For strategy gives the manager reasonably clear indications of what he should try to know and understand in order to direct his organization's efforts. It counsels him on what to decide, what to review, and what to ignore. It gives him guidelines as to what critical, central activities and processes to attempt to influence—or in rare occasions—to attempt to control. It encourages him to view every event and question from multiple time dimensions.

Chester Barnard said that the highest managerial traits are essentially intuitive “being so complex and so rapid, often approaching the instantaneous, that they could not be analyzed by the person within whose brain they take place.” If Barnard is correct, and I think that he is, how do those of us interested in management education strive to contribute to the development of future general managers? We do this first by disciplined classroom drill with the concept of strategy. Drill in the formal and analytic—what is the current strategy of the firm? What are its strengths and weaknesses? Where, in the firm's perceived industry, are profit and service opportunities? And, how can those corporate capacities and industry opportunities be effectively related? This framework of questions helps to give order to the familiar chaos of complex organizations. It provides the manager with a map relating past, present and future, industry and company, and specific decisions to wider corporate strategy.

Moreover, this analytic classroom process focuses attention on a key administration skill—the process of selecting and ordering data so that

² Kenneth R. Andrews, “The Progress of Professional Education,” in Olga Craven, Alden L. Todd, and Jesse H. Ziegler, eds., *Theological Education as Professional Education* (Dayton, Ohio: The Association of Theological Schools, 1969).

management asks the critical questions appropriate to a particular situation. Here the choice of abstraction level is key, for the question has to be stated in a way that avoids the "specific that has no meaning and the general that has no content."

We seek also, via the classroom group discussion process, to educate in the nonlogical—that mixture of feelings and sentiment, comment and commitment, certainty and uncertainty—which goes into every decision and judgment. Such directed group discussions force attention to the human dimensions through which the analytic framework is filtered in real life. It serves further to emphasize the ongoing or process nature of the general manager's world.

It is a combination of these two forces: the analytic framework of strategic planning and the process framework emphasizing human interaction, the complexities of persons, and the difficulty of communication and persuasion that make up our business policy educational fare. It is the discipline of practicing these two processes via a case discussion countless times, that helps us to contribute to education for the future generalist.³

The business policy subject area continues to evolve and develop. The need for professionally trained generalists—the men and women who make our organized society's critical decisions—is great; our present efforts are limited. Sir Eric Ashby has put the challenge well:

But the world needs generalists as well as specialists. Indeed you have only to read your newspaper to know that the big decisions on which the fate of nations depends are in the hands of generalists. I do not think that universities, American or British, are satisfied with the education they give to the man who is to become a generalist. Some believe he should have a rigorously specialist training in some field which he then abandons for life. Others believe he should have a synoptic acquaintance with the ways of thinking of humanists, social scientists, and natural scientists. And I suppose there are still a few antique persons who cling to the view that generalists need no higher education at all. We can with some confidence prescribe the minutiae of curriculum for doctors, physicists, and lawyers. The unpalatable fact is that we have no such confidence in prescribing curricula for men who will become presidents of industries, newspaper editors, senior civil servants, or Congressmen.⁴

We continue to believe that this challenge will be met, at least in part, by all of us who work in the policy area, both in academic and practical pursuits, throughout this country and the world. And we hope this book will be of some help in meeting that challenge.

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³ C. Roland Christensen, "Education for the General Manager," unpublished working paper, Harvard Business School.

⁴ Sir Eric Ashby, Master, Clare College, Cambridge, "Centennial Convocation Address," delivered at the 100th anniversary of the granting of the charter to Cornell University, October 9, 1964.

Acknowledgments

THE HISTORY of the Business Policy course at the Harvard Business School began in 1911, when a small group of instructors first developed a course outline and materials for a pioneering venture in education for senior management. Those of us who currently teach and do research in the business policy area are in debt to those pioneers who provided the academic platform on which current efforts rest. We wish to especially recognize and thank the pioneering efforts of A. W. Shaw, the first policy professor at the Harvard Business School, and M. T. Copeland, George Albert Smith, Jr., and Edmund P. Learned, who provided almost 40 years of dedicated leadership to course ideals and development. We are in their debt, as we are to those colleagues who worked under their leadership and who assisted in past course development.

Many members of the Harvard Business School faculty have contributed to the constant development of our field. We appreciate the help of the present members of the business policy teaching group: Francis J. Aguilar, Joseph L. Badaracco, Jr., Christopher A. Bartlett, Norman A. Berg, Richard R. Ellsworth, Mark B. Fuller, Laura L. Nash, and Malcolm Salter; and we also appreciate the contributions of our associates J. Ronald Fox, Kenneth E. Goodpaster, Claudine B. Malone, John B. Matthews, Jr., Thomas K. McCraw, Bruce R. Scott, Hugo E. R. Uyterhoven, Howard H. Stevenson, Michael Y. Yoshino, and Abraham Zaleznik.

Our sincere appreciation goes to the supervisors and authors of the cases included in this edition. To the following our thanks: Robert W. Ackerman for the Xerox Corporation case; Francis J. Aguilar (assisted by Robert E. Swensk) for the Introductory Note to DAAG Europe and DAAG Europe (A); Alexander Bergmann for Air, Inc.; Robert F. Bruner for The Real Paper, Inc.(A); Ram Charan for his case, Hawaii Best Company; E. Tatum Christiansen for her cases, Mitek Corporation, PC&D, Inc., and the International Harvester series; Paul Cook, who wrote Strategy Revisited or Strategy with a Grain of Salt; Jesse B. Dougherty for

the EG&G series; Linda Elmer for Charles River Breeding Laboratories and her support research for the Note on the Soft-Drink Industry in the United States; John J. Gabarro for the Robert F. Kennedy High School case; Karen D. Gordon and John P. Reed for Crown Cork & Seal Company, Inc., a revised case based on an earlier document written by James Garrison and William D. Guth; Taieb Hafsi for General Health Company; and John W. Hennessey for The Viking Air Compressor, Inc.

We are also indebted to Edmund P. Learned for his development of The Rose Company case; Leslie Levy and Cheryl Suchors for their contributions to the Note on the Soft-Drink Industry in the United States; Michael Lovdal for the Mead Corporation and Dayton Hudson cases; Susan Mayer, David Collis, James C. De Belina, Jon T. Elsassner, James J. Hornthal, and Robert G. Shearer for The Chain-Saw Industry in 1974; and John Friedeman (assisted by Robert C. K. Valtz) for Rugby Portland Cement Company Limited (A) and (B) series.

We would also like to thank Elizabeth Lyman Rachel for the BIC Pen Corporation (A) and (B) cases; Stephen J. Roth for Hospital Affiliates International, Inc., and the Hospital Management Industry material; John W. Rosenblum for Basic Industries and Industrial Products, Inc.; Howard H. Stevenson for the Head Ski Company, Inc. case; Roderick White for The Dexter Corporation case; H. Edward Wrapp (assisted by L. A. Guthart) for Texas Instruments, Incorporated cases; George S. Yip for Sweco, Inc. (A); and Abraham Zaleznik (assisted by John M. Wynne) for *The Saturday Evening Post* case.

We continue to be indebted to Kenneth R. Andrews for the text material found in this book. His capacity to articulate course concepts and principles for a practitioner is demonstrated not only in this book but in his pioneering volume, *The Concept of Corporate Strategy*.¹

We owe special thanks to M. Liotard-Vogt, chairman of Nestlé Alimentana, and chairman of the board of trustees of IMEDE and to M. Jacques Paternot, general manager, Nestlé Alimentana, formerly a member of the Harvard Business School Visiting Committee and member of the board of trustees of IMEDE, and finally to Dean Derek F. Abell, director of IMEDE for their willingness to let us use IMEDE cases in this fifth edition. IMEDE continues as the leader in education for international and European general management. We are indebted to Dr. Ram Charan for his willingness to let us use the Hawaii Best Company (A) case, written when he was a member of the Business Policy faculty at the Northwestern Graduate School of Business Administration.

Edmund P. Learned, a "great" in the development of the business policy field of study, continues to enjoy his well-deserved retirement. We rededicate this book to him. All who have been touched by his teaching and research efforts realize his major contributions to private and public administration. He was our teacher, counselor, and friend.

Former Dean Donald K. David, the late Dean Stanley F. Teele, Dean George P. Baker, and Dean Lawrence E. Fouraker provided the steady

¹ Kenneth R. Andrews, *The Concept of Corporate Strategy*, rev. ed. (Homewood, Ill.: Dow Jones-Irwin, 1980).

encouragement and support which was so essential for the development of the policy area. Dean John H. McArthur and Senior Associate Dean for Educational Programs, James L. Heskett, encouraged us in the development of this edition; we appreciate their interest and assistance.

Dyanne Holdman took on the management task of producing this fifth edition of *Business Policy: Text and Cases* and carried out this assignment with efficiency and good humor. Victoria Lancaster directed the production of the accompanying Instructors' Guide. We owe them special thanks.

Professor Raymond Corey, director of the Division of Research, was most helpful in providing us with intellectual support and practical administrative assistance. We are in his debt.

We hope this book, in which the efforts of so many good people is compressed, will contribute to constructive concern for corporate purposes and accomplishments and to the continuing and effective study and practice of business policy, in private and semiprivate and public organizations.

C.R.C.
K.R.A.
J.L.B.
R.G.H.
M.E.P.

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Introduction

Introduction

BUSINESS POLICY AS A FIELD OF STUDY

THIS BOOK is an instrument for the study of Business Policy. As a field in business administration, Policy is *the study of the functions and responsibilities of senior management, the crucial problems* that affect success in the total enterprise, and *the decisions* that determine the direction of the organization and shape its future. The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the molding of organizational identity and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of competition or adverse circumstance.

The presidential point of view

In Business Policy, the problems considered and the point of view assumed in analyzing and dealing with them are those of the chief executive or general manager, whose primary responsibility is the enterprise as a whole. But while the study of Business Policy (under whatever name it may be called) is considered the capstone of professional business education, its usefulness goes far beyond the direct preparation of future general managers and chief executives for the responsibilities of office. In an age of increasing complexity and advancing specialization, and in companies where no person knows how to do what every other person does, it becomes important that the functional specialists—controller, computer scientist, financial analyst, market researcher, purchasing agent—acquire a unique nontechnical capacity. This essential qualification is the ability to recognize corporate purpose; to recommend its clarification, development, or change; and to shape their own contributions, not by the canons of specializations but by their perception of what a cost-effective purposeful organization requires of them. The special needs of individuals and the technical requirements of specialized

groups and disciplines inevitably exhibit expensive points of view that ultimately come into conflict with one another and with the central purposes of the organization they serve. The specialists who are able to exercise control over this tendency in organizations and keep their loyalty to the conventions of their own specialty subordinate to the needs of their company become free to make creative contributions to its progress and growth. To be thus effective in their organization, they must have a sense of its mission, of its character, and of its importance. If they do not know the purposes they serve, they can hardly serve them well. Most users of this book will neither be nor become corporate chief executive officers. But virtually all can benefit from the detachment implicit in the impartial, functionally unbiased, results-oriented attitude we will call the presidential point of view.

Relevance of Policy to all organization members

The purposes of organized effort in business as elsewhere are usually somewhat unclear, apparently contradictory, and constantly changing. Except in abstract language they cannot be communicated once and for all to the variety of persons whose effort and commitment are demanded. It is not enough, therefore, for senior executives to issue statements of policy and for junior managers to salute and go about their business. In each subunit of an organization and in each individual, corporate purpose must become meaningful in ways that announcement cannot accomplish. It must be brought into balance with individual and departmental needs, satisfactions, and noneconomic aspirations. But if corporate purpose is to be reconciled with (rather than subordinated to) individual and departmental purposes, then there must be widespread knowledge of the considerations on which corporate policy is based and understanding of the risks by which it is threatened. In addition, the adaptation of corporate purpose to changing circumstances, to tactical countermoves by competitors, or to newly identified opportunities, is assisted if there can be *informed* participation in policy thinking by subordinate managers from different ranks and groups. This advantage, however, can be realized only if these subordinates are capable of looking beyond the narrow limits of their own professionalization. Thus the study of Policy is not as remote from the immediate concern of apprentice managers or students of business as it first appears. In fact whenever people are challenged—in business or out—by the problem of establishing goals for *themselves* that will shape productive and satisfying lives, they will find the study of the process of determining institutional purpose of central relevance. It is helpful to personal as well as to corporate decision. It permits discovery of the individual's own powers and the purposes to which they might well be devoted.

The study of Business Policy provides therefore a direct if distant preparation for performance as a general manager and a less direct but more immediate broadening of the perspective of the technician. In addition, it may be viewed as resulting in certain *knowledge, attitudes, and skills*. Some of these are unique to Policy studies. Others may have germinated in other activities in learning. But the latter are