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# BUSINESS POLICY TEXT AND CASES

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SEVENTH EDITION

Joseph L. Bower  
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Andrall E. Pearson  
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# BUSINESS POLICY

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## TEXT AND CASES

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E9760625

SEVENTH EDITION

**IRWIN**

Homewood, IL 60430  
Boston, MA 02116

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Associate publisher: Martin F. Hanifin  
Project editor: Paula M. Buschman  
Production manager: Carma W. Fazio  
Compositor: Graphic World Inc.  
Typeface: 10/12 Melior  
Printer: R. R. Donnelley & Sons Company

**Library of Congress Cataloging-in-Publication Data**

Business policy : text and cases / Joseph L. Bower . . . [et al.].—  
7th ed.

p. cm.

Includes index.

ISBN 0-256-08602-8

1. Corporations—United States—Case studies. 2. Industrial management—United States—Case studies. I. Bower, Joseph L.

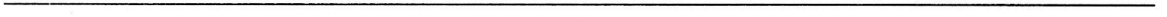
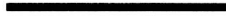
HD2785.B78 1991

658.4'012—dc20

90-42473  
CIP

*Printed in the United States of America*

1 2 3 4 5 6 7 8 9 0 DOC 7 6 5 4 3 2 1 0



# BUSINESS POLICY



TEXT AND CASES

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To  
Edmund P. Learned  
For reasons he knows well

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## PREFACE

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The seventh edition of *Business Policy: Text and Cases* provides concepts, text, and cases for a course in Business Policy. Building on previous editions, the authors have again incorporated changes in both text and case material that we hope will increase the usefulness of this edition.

In the development of this edition we have retained those cases which our users have found most helpful in accomplishing the objectives of their course. Fourteen of the holdover cases are listed as all-time best sellers by the Harvard Business School Publishing Division. They provide challenging and fun discussion vehicles for education in the policy process as well as apt illustration that there is a timeless quality to fundamental administrative tasks of general management.

In the seventh edition, as in preceding efforts, we have emphasized four basic educational themes. First, the 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.

The text and cases in this edition expand the attention given to the interdependence of strategy formulation and implementation. We have always viewed achieving commitment to purpose as essential to superior

accomplishment, but now participation in the process of setting and amending goals is more explicitly emphasized as essential to commitment. The kind of corporation implied by our approach is now more clearly than ever the responsive, innovative, informal, and flexible corporation that builds on the strengths and traditions of its past while adapting to, and bringing about, changes in the marketplace. In an increasingly egalitarian world, the general manager who leads a traditional pyramidal organization faces a major question as to his or her authority and administrative practices. We believe that leadership of the kind of corporation most likely to thrive in the early 21st century makes itself influential in stimulating continuous consideration of strategic alternatives by everyone whose cooperation is essential to the success of the chosen purpose.

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 levels.

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. In particular, this edition includes more material with an international outlook, especially the intensity and turbulence of the contemporary global economic battle, and new cases dealing with the problems of transforming U.S. companies so that they are competitive.

The specific core ideas—the concept of corporate strategy and the organization plan for this book—were developed at the Harvard Business School in the early 1960s under the leadership of three now emeriti professors—Kenneth R. Andrews, C. Roland Christensen, and Edmund P. Learned. While course concepts and materials continue to undergo steady modification, course objectives have been maintained. In the hands of many colleagues developing cases, doing research in general management, and teaching in both years of the MBA Program and executive programs, the emphasis on elements of corporate strategy has changed. The material in the first half of this book dealing with the formulation of corporate purpose is now often taught as a separate course in competitive strategy with truncated focus on the economic aspects of a company competing in its industrial environment. That is the case at Harvard Business School.

Book One of this text addresses corporate strategy as a combination of market opportunity, company resources, and individual and social values

that gives direction to the company in its industry and society. Book Two with its emphasis on implementation and the *process* by which ideas are translated into action through organization and administrative activity illustrates the extent to which the development of economic strategy is virtually an outcome of a continuing effort by general management to maintain and enhance the prosperity of the enterprise.

The concept of corporate strategy articulated in this textbook has been derived from the careful study in hundreds of company situations of the uniformities that constitute the way decisions about corporate strategy are made and carried out. Distinguishing more from less successful experience has led to a theory about how the formulation and execution of corporate purpose can be more effective against all the economic, organizational, and social tests that are properly applied to it. The idea of corporate strategy is a simple practitioner's theory. It is a kind of Everyman's conceptual scheme made for use in real life in unstructured, complex, and unique situations. Brought to its full power in intelligent use, it is capable of including the most extensive combination of interrelated variables involved in the most important of all business decisions.

The first function of the general manager, as we say again later, is leadership of the continuous process of determining the nature of the enterprise and setting, revising, and attempting to achieve its goals. Corporate strategy, as a concept, defines the manager's central function, whether he or she is a staff specialist contributing in depth and detail to the identification of alternatives or the senior executive who must finally sign off on the decision and submit it to the board of directors.

Our modest characterization of this conceptual scheme as finding its power only in its application to the unique situation (that is, history, organization, present strengths, and future opportunity) of a particular company should not mislead you. It has been derived, not from theoretical modeling or laboratory inquiries and simulations of management science, but from experience. The authors, besides being familiar with the literature of strategic management and organizational behavior, have been teaching and doing research in Business Policy for a combined total of 175 years. They have written or supervised the preparation of more than 400 case studies of domestic, foreign, and multinational companies. They each have prepared or studied for class from 200 to 400 cases written by others. They have served as consultants to about 200 companies on strategy problems. They either now serve or have served on 390 different corporate boards of directors. Apart from case collections, they have authored 15 books, mostly research based.

We conclude from this varied experience that no more comprehensive or useful theory of general management is currently possible. The combination of objective and subjective elements, of economic and personal purposes, and of complex ethical and social responsibilities makes automatic outcomes impossible. Close competitive analysis may point to a generic



economic or business strategy. A unique corporate strategy, however, will reflect judgment, aspiration, desire, and determination in ways which no theoretical model can prescribe. All-purpose management formulas are transparent fantasies. We cannot tell you from our conceptual scheme what the strategy should be in any one company we do not know; this book will help you find out, in a company you do know, how to approach your own conclusion.

How is this conceptual scheme translated into effective management practice? What is the relationship of strategy to the education of general managers? We would summarize our answers to these problems as follows:

The uniqueness of a good general manager lies in one's ability to lead effectively organizations whose complexities he or she can never fully understand, where a capacity to control directly the human and physical forces comprising that organization is severely limited, and where he or she 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 a manager reasonably clear indications of what one should try to know and understand in order to direct an organization's efforts. It counsels on what to decide, what to review, and what to ignore. It gives guidelines as to which critical, central activities and processes one should attempt to influence or, on rare occasions, attempt to control. It encourages a general manager 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 we 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 sense—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 administrative skill—the process of selecting and ordering data so that 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 case discussion process, to educate in the nonlogical—that mixture of feeling 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.

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. 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.

**Joseph L. Bower**

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## ACKNOWLEDGMENTS

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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 general 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 60 years of dedicated leadership to course ideals and development. We are in their debt, as we are to those colleagues who worked under the 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 present members of the teaching group. Francis J. Aguilar, Joseph L. Badarraco, Christopher A. Bartlett, Norman A. Berg, J. Ronald Fox, James L. Heskett, John B. Matthews, Cynthia Montgomery, Michael E. Porter, Malcolm S. Salter, Howard H. Stevenson, David B. Yoffie, and Michael Y. Yoshino.

Our sincere appreciation goes to the supervisors and authors of the cases included in this edition. To the following our thanks: Joseph L. Badaracco for Allied Chemical (A); Norman A. Berg for The Lincoln Electric Company; E. Tatum Christiansen\* for Schlumberger Ltd.; Jean Riboud Excerpts from "A Certain Poetry"; Nass Dassabhoy for Note on the Major Home Appliance Industry—1984 (Condensed), and the Competitive Positioning in the Dishwasher Industry Series; Hideo Ishida, Susan Ehrlich, and Richard Pascale for Honda Motor Company and Honda of America; Richard Hamermesh with Francis J. Aguilar for General Electric: Strategic Position

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1981 and General Electric 1984, with Nass Dassabhoy for Cleveland Twist Drill (A), with E. Tatum Christiansen for PC&D, and with 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; Christine Harris and Mark Fuller for Marks and Spencer, Ltd.; Rosabeth Kanter and Paul S. Myers for Banc One Corporation (1989); Adam Klein, David C. Rikert, and Michael Roberts for Phil Knight: CEO at NIKE; and Paul Lawrence and Shirley Spence for Millipore Corporation (A).

We are also indebted to Edmund P. Learned for his development of The Rose Company case; Laura Nash for Peter Green's First Day; Richard T. Pascale and Leonard A. Schlesinger for Transformation at Ford; John W. Rosenblum for the Basic Industries and Industrial Products, Inc. cases; Howard Stevenson for Head Ski Company, Inc.; Martha Weinberg for Continental Airlines (A).

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

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.

Dean John H. McArthur and Professor Jay W. Lorsch, director of the Division of Research, provided us with intellectual support and practical administrative assistance. We are in their debt.

Marguerite Dole took on the management task of producing this edition of *Business Policy: Text and Cases* and carried out this assignment with her usual blend of efficiency and good humor.

We hope this book, within which the efforts of so many good people are compressed, will contribute to constructive concern for corporate purpose and accomplishments and to the continuing and effective study and practice of Business Policy in private, semiprivate, and public organizations.

J.L.B.  
C.A.B.  
C.R.C.  
A.E.P.  
K.R.A.

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