



STRATEGIC MANAGEMENT

Text and Cases on Business Policy

LA RUE T. HOSMER



LaRue T. Hosmer
University of Michigan

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PREFACE

Business policy, as taught at most graduate schools and many undergraduate programs, is a very broad topic. It starts with the selection of an overall direction or strategy for the firm, chosen relative to the environmental trends, organizational resources, and managerial values; it continues with the integration of the functional and technical areas of marketing, production, finance, information technology, and organizational development into that direction or strategy; and it concludes with the development of the hierarchical structure and the design of the managerial systems to implement that direction or strategy. Industry analysis, market analysis, trend analysis, ratio analysis, and resource evaluation are needed just for strategy formulation, and a knowledge of organizational structures and information systems, planning systems, control systems, and motivation systems, together with an understanding of leadership styles and communication methods, are required for strategy implementation. The topic may have become too broad for existing methods of instruction.

Business policy courses, also as taught at most graduate schools and many undergraduate programs, seem popular with the students. They appear to like the last-term opportunity to apply prior learning to complex problems; they appear to like the practical aspects of case instructions; they even appear to like, despite frequent complaints, the heavy work load that is traditional in the policy area. I am not certain that instructors in many business policy courses are equally pleased with the outcome. As the subject matter has broadened, from strategy as a general concept of goals and objectives to strategy as a specific process for planning at the functional, divisional, and corporate levels, and as the orientation has shifted from primary emphasis on formulation to equal emphasis on formulation and implementation, the traditional reliance upon unstructured case analysis has seemed less satisfactory. It is difficult to cover all of the topics that are subsumed in the phrase "duties and responsibilities of the general manager," which many of us use to de-

scribe the contents of business policy classes, without adding more course structure, more explanatory text, and more focused cases. That is the reason for this book: to provide the structure, text, and cases needed for the broader range of concepts in modern business policy courses. There are eight elements in this approach to a modern business policy course that I should like to discuss with potential participants, both instructors and students:

1. *Formal structure.* The book is divided into fourteen sections, and the intent is that each section should add a further level of complexity, and understanding, to the strategic planning process. There is a formal progression from an introduction to the concept of strategy as the long-term method of competition for a business firm through the process of strategy formulation at different types of business organizations (smaller companies, product divisions of larger firms, single-industry corporations, and multiple-industry conglomerates), and then to the application of strategy as a long-term concept of performance to nonprofit and public institutions.

The second half of the book also follows a formal structure, from the need for strategy implementation to the design of the organizational structure and managerial systems as the means of that implementation, and finally to the problems that can be encountered in planning techniques, leadership styles, and communication methods in attempting to link the formulation and implementation processes. The intent is to provide an integrated description of the general management task.

2. *Explicit text.* The text introducing each of the sections in the book is short, but hopefully explicit. There are definitions of the numerous concepts required in strategy formulation and implementation, and graphic illustrations of the relationships among those concepts. The intent is that students can use the concepts in class discussions, with a clear understanding of the terms, and they can apply the concepts in case analysis, with a basic knowledge of the methods. My experience has been that an explicit introductory text greatly helps the learning process since the class discussion is more naturally focused, and needs less external direction by the instructor.
3. *Graduated cases.* The cases included in each section of the book increase in the expected level of difficulty, and vary in the anticipated direction of discussion. The first case in each series is termed "introductory" in the table of contents, but a more apt term would probably be "instructional"; it is designed to show the application of the concepts described in the text, and to illustrate some of the problems of that application. The second case in each series is termed "discussion"; it is designed to generate class discussions on the limits of the approach, and the assumptions of the theory. The last case is termed "complex," and hopefully it is exactly what the name implies: a difficult problem in general management with no obvious answers or easy solutions. All cases in the book have been written to sustain a class discussion easily, with multiple problems that extend throughout the organization. All cases in the book have been derived from actual situations at existing firms; some of the cases have been disguised, at the request of the managers or owners, but none have been fabricated.

4. *Diversified examples.* The cases in each series, used as examples for the application of the theoretical concepts in strategy formulation and implementation, have been drawn from a diversified list of industries, and include both manufacturing and service firms. The intent here has been to bring business policy away from its traditional manufacturing orientation, and to look at a wide range of general management situations in the types of companies that employ so many of the graduates of our programs in business administration: accounting firms, brokerage houses, banks, railroads, trucking companies, consumer products, basic industries, nonprofit institutions, and governmental agencies. My experience has been that the diverse types of firms generate student interest, and reduce the need for continued pressure for preparation by the instructor.
5. *Implementation and formulation.* The book has been divided into seven sections on strategy formulation, four sections on strategy implementation, and the remainder on general or introductory topics. Strategy implementation, of course, refers to the definition of the various tasks required by the selected strategy of the firm, and to the design of the organizational structure and the managerial systems needed to coordinate and integrate the performance of those tasks. The intent has been to create a *balanced emphasis* between formulation and implementation. My belief is that the implementation portion of business policy will become increasingly important in future years, with growing recognition that the "strategy + structure = performance" equation is the distinctive province of our area.

This strategy and structure continuum has been stressed in the book, with the inclusion of *sequential* or *follow-up cases* that require students to design the structure and systems for companies that have previously been studied in the formulation sections. These sequential cases can be short, since information about the company and the industry has been conveyed previously, but they also can be very instructive, as students will select different structures and systems depending upon their original choice for the strategy.
6. *Ethical content.* Short cases have been included in nearly each section of the book to illustrate problems in managerial ethics and social responsibility. These can be used at the option of the instructor as an adjunct to the regular class assignments. My opinion is that some discussion of managerial ethics and corporate responsibilities is essential in every program in business administration. My experience is that these short cases provide a lively discussion for 10 to 15 minutes at the end of a class session, and provide a meaningful method for including these important topics in the program curriculum.
7. *Focused conclusion.* The book is designed to conclude with the selection of a major case from the section on Strategic Management and Leadership; these cases combine the prior learning, and require a change in the corporate strategy, and a redesign of the organizational structure and managerial systems, to effect a change in the overall performance of the organization. In addition, these cases hopefully demonstrate that objective analysis alone is not sufficient, and that the general manager must add more subjective decisions on action timing, personnel selection, and leadership methods.
8. *Improved communication.* Finally, the book includes a section on the importance of communication in the general management process, and suggestions for the im-

provement of written and oral reports. My experience has been that these suggestions definitely improve the quality of student reports.

9. *Teaching guide.* The teaching guide will be complete. I think that all of us who teach by the case method have experienced the frustrations and trials of attempting to use new cases without adequate assistance or instructional guidance from the author. Obviously, we can all do the required analysis, but I feel that it is critical for the writer to explain the pedagogical objectives of each case, to suggest alternative assignments (especially for group reports that can enrich the class discussion), to detail the expected course of the class discussion, to complete the quantitative analysis, to prepare the pro forma statements, and to explain the final outcome. This material will be available to faculty members who select the book for use in a policy course.

I should like to conclude with the acknowledgment that, while my intent has been to provide a book with a structure, text, and cases adapted to the broader range of concepts in modern business policy courses, many of the ideas are not my own. I have benefited from my associations with colleagues such as William Hall, James Reece, Brian Talbot, C. K. Prahalad, Cynthia Montgomery, and Aneel Karnani at the University of Michigan, and with friends such as Steven Brandt, Henry Riggs, and Kirk Hanson at Stanford University, where I spent a very pleasant year on a visiting appointment. I thank them all.

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INTRODUCTION TO STRATEGIC MANAGEMENT

Strategic management is concerned with the definition of the major goals and objectives for an organization, and the design of the functional policies and plans and the organizational structure and systems to achieve those goals and objectives, all in response to changing environmental conditions, institutional resources, and individual motives and values. It is the study generally of leadership in business organizations, and specifically of the functions and responsibilities of the general manager of the firm, whose task is to combine and direct the efforts and activities of the other members of the company toward the successful completion of a stated mission or purpose.

Strategy may be considered either as the present product-market-process position of the company, or as the future growth plans for the firm, but the most meaningful definition is probably the method of competition to be followed by the business. There are different methods of competition (alternative strategies) that are possible within each industry, and the function of strategic management is to first select the method (strategy formulation) with the greatest probability of success, given the specific opportunities and risks within the environment and the specific strengths and weaknesses within the corporation, and then to coordinate the efforts and activities of the functional and technical specialists necessary to carry out this method of competition (strategy implementation) through explicit statements of the corporate objectives, policies, programs, and plans, and through consistent design of the organizational structure and systems. Strategy formulation and implementation are both required in strategic management; the first portion, formulation, can be presented in outline format as shown on the top of the next page.

The selected strategy, or method of competition chosen for the business, is then expressed through explicit statements about the goals, policies, programs, and actions for each of the functional areas of marketing management, market research, production management, financial management, product development, informa-