

**WILLIAM F. GLUECK**

# **Strategic Management and Business Policy**



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# Strategic Management and Business Policy

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William F. Glueck

The University of Georgia

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## STRATEGIC MANAGEMENT AND BUSINESS POLICY

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# About the Author

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William F. Glueck is Distinguished Professor of Management at the University of Georgia. He is currently president of the Academy of Management (academic year, 1979–1980.) Professor Glueck is the author of over twenty books (including *Business Policy and Strategic Management* and *Readings in Business Policy from Business Week*, both published by McGraw-Hill), and over 150 articles, monographs, and cases. He earlier spent many years as a food industry executive, was a Fulbright scholar, and has served on the editorial review boards of *Long Range Planning*, *Journal of Business Strategy*, and *Academy of Management Journal*. Professor Glueck is also the advisory editor for the Management Series of Dryden Press.

# Preface

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This book is designed to provide a beginning understanding of the strategic management process in modern organizations. It consists of two types of material: text and readings.

The text examines the strategic management process in an integrated fashion. It uses a model which links the subprocesses together. Each subprocess is described in turn. In addition, the text contains a summary of much of the current research. No doubt I have overlooked some important research, but I have tried to review the work of most of the theorists, practitioners, and researchers in the field. My own experience and the insights provided by practicing managers have influenced my selection and evaluation of this material.

The readings, which are found at the end of Chapters 3 through 8, were prepared just for this book. The terminology used in them is integrated with the terms used in the text. The readings serve several purposes:

- They present viewpoints at variance with those expressed in the text. This is done where there is a respectable body of opinion or evidence differing with my opinion. This provides an opportunity for significant discussion of important issues. (For example, Archie B. Carroll makes a forceful case for social responsibility as a corporate objective.)
- They present viewpoints different from each other. (For example, A. G. Kefalas makes the case for sustainable growth strategy, while William D. Guth rejects this and makes the case for growth strategy.)
- They provide information not widely available. (For example, Jan Kreiken discusses vertical integration strategy.)

A book such as this is a product of the author and many others. Although I am responsible for its content, I'd like to thank some of those who have been helpful in its development. These include the authors of the readings: Jan Kreiken, William D. Guth, Charles W. Hofer, Archie B. Carroll, A. G. Kefalas, Robert J. Litschert, Howard H. Stevenson, Maurice A. Saias, Michel Montebello, Charles Saunders, Jerry L. Wall, Bong-gon P. Shin, William R. Boulton, and Richard Rumelt. Bernard Taylor of the Administrative Staff College, Henley-on-Thames, England, was very helpful in his comments and suggestions, as was Lawrence Jauch of Southern Illinois University at Carbondale.

My doctoral students in the Management Policy and Systems major provided useful insights. They include: Neil Snyder (University of Virginia), Timothy Mescon (Arizona State University), Richard Robinson (University of South Carolina), George Vozikis (North Texas State University), and those presently completing their doctoral work at Georgia: Jon Goodman, William Sandberg, and Phyllis Holland.

I also want to thank the many people at McGraw-Hill who helped make this book a reality, including my editor, John Carleo.

Finally, Jean Hanebury, my assistant, contributed in numerous ways to the development of this book, and deserves my special thanks.

As we face the challenges of the 1980s, it is essential to the survival of our society that managers prove capable of planning effective strategies for their enterprises. I hope that this book will contribute to this result.

William F. Glueck

# **Strategic Management and Business Policy**

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# **Text and Readings**

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# An Invitation to Strategic Management

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## 1

### OBJECTIVES

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- To learn what the strategic management process is
- To understand why strategic management takes place
- To learn how strategic management takes place in modern businesses
- To understand how strategic management is practiced in the not-for-profit and public sectors

### CHAPTER OUTLINE

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- I. Introduction
  - II. What Is Business Policy and Strategic Management?
  - III. What Is a Strategy?
  - IV. Strategic Management in Multiple-SBU Businesses
  - V. Strategic Management at Olin, Mead, Gulf Oil, Daylin, Fairchild Camera & Instrument, and Eaton
  - VI. Why Strategic Management?
  - VII. Summary and a Preview
- Appendix 1: Strategic Management in the Not-for-Profit and Public Sectors
- Appendix 2: Strategic Management around the World

### Introduction

This book is about decision making which determines whether a firm excels, survives, or dies. This decision process is called strategic management. The job of strategic managers is to make the best use of a firm's resources in a changing environment.

If you looked at a list of the largest and most successful firms in 1900, 1930, or 1950 and compared this with a list of those in 1980, you'd be amazed! Few of the leaders then are leaders now in spite of their economic power then. That's what happens when strategic management is inadequately done.

Let's look at this a different way. We are experiencing a nostalgia craze. So this should be popular, but it's also very practical. Most of us have a work life of about 42 years or so. Put yourself in the shoes of a person retiring in 1980. Exhibit 1.1 gives a brief summary of what 11 firms were like when the retiree began work and what they were like at his or her retirement.

Close examination will show examples of success and failure, stability of business sector operated in, and complete change, as well as many stages in between. Some of these changes occurred because of pressures from the outside: government, competitors, and consumer-preference changes. Others developed because the employees and management made decisions to change the nature of the business. The exhibit also tells of firms who haven't changed their businesses—just approached them differently.

**EXHIBIT 1.1**  
**Eleven Companies' Experiences during One Business Executive's Work Life**

<i>Company</i>	<i>1938</i>	<i>1980</i>
Beatrice	Small manufacturer / processor of milk and dairy products—moderately profitable	\$5 billion sales, very profitable manufacturer of food products
Taft	Publisher of <i>Cincinnati Times Star</i> —marginally profitable	Runs TV, radio stations, and Kings Island Amusement Parks profitably
Great Atlantic and Pacific Tea Company (A & P)	The largest U.S. food retailer—very profitable	Barely ekes out a profit as a declining food retailer
Burroughs	Manufacturer of business machines—thought to have no chance in computer business	Second largest and very profitable computer manufacturer (also manufactures other goods)
Curtiss-Wright	Large manufacturer of, among other things, airplanes. In World War II, the largest manufacturer of planes	Marginally profitable manufacturing firm
Illinois Central Railroad	Moderately sized Midwestern railroad	Now called IC Industries, \$1.5 billion in sales with 30 operating companies in such fields as consumer products, real estate, and transportation
Xerox	Did not exist	Largest and most profitable manufacturer of duplicating equipment
Addressograph Multigraph	Largest and most profitable manufacturer of duplicating equipment	Marginally profitable manufacturer of products—mostly outside duplicating
SS Kresge	One of the larger variety-store retailers	The largest and most profitable discount-house retailers (K mart)
W T Grant	One of the larger variety-store retailers	Out of business
Merrill Lynch	A moderate-sized stock-brokerage firm	The largest stock-brokerage firm that has diversified into commodities trading, money management, financial counseling, insurance, and real estate

## 5 WHAT IS BUSINESS POLICY AND STRATEGIC MANAGEMENT? [1]<sup>1</sup>

Just as this executive experienced these changes in a lifetime, so will you. You may experience even more changes than these in your career.

This book's purpose is to help you understand how and why strategic decisions are made so that you can make sense of this process while you are a first-line manager and a middle manager. It is also designed to help prepare you to become a successful top manager. Its goal is to show you that if you understand the business policy and strategic management process before you get to the top, you'll be a more effective manager. And that you are more likely to reach the top once you understand this process. [1]<sup>1</sup>

The book also is designed to fulfill a teaching function in schools of business, management, and administration. The material is designed to help you integrate the functional tools you have learned. These include the analytical tools of production/operations management, marketing management, financial management, accounting, physical distribution and logistics, personnel and labor relations, risk management and insurance, and real estate. All of these provide help in analyzing business problems. This book and the materials in it provide you with an opportunity to learn *when* to use which tools and how to deal with trade-offs when you cannot maximize the results/preferences of all the functional areas simultaneously.

The book contains three types of material. The first is the *textual* material, which describes what we know about business policy and strategic management. Then there are some *readings*, essays written especially for this book which elaborate on or differ with the textual material. Some of you may wish to use this book in conjunction with cases. Cases are descriptions of businesses and of other organizations. They provide the opportunity to analyze the strategic management of real organizations and to prescribe improvements for them. The application of this text material to the analysis of cases will enhance your understanding of it. The case-analysis approach will be outlined in a note at the end of this book.

Understanding a company's strategy and effectiveness is not easy. It requires that you look at how the company has come to grips with the challenges and opportunities facing it. It requires that you make judgments about whether the business or other organization is well-run and how to improve its operations and results. This is a challenging job, the job of top managers of divisions or companies. It will provide you with a new understanding of how companies succeed or fail.

### What Is Business Policy and Strategic Management? [2]

Business policy is a term traditionally associated with the course in business schools devoted to integrating the educational program of these schools and understanding what today is called strategic management.

"Strategic management" is the term currently used to describe the decision process on which the book focuses. It will be defined shortly. But first let's review previously used terms for this process so that they will not be unfamiliar to you if you come across them. [Channon analyzes this evolution well.] In most businesses in earlier times (and in smaller firms today), the focus of the

<sup>1</sup>Reference footnotes are not used in this text. Instead, end-of-chapter references are divided into numbered sections comprising numerous entries. These sections are referred to in the text by bracketed numbers.

manager's job was on today's decisions for today's world in today's business. That may have been satisfactory then. However, the changes illustrated in Exhibit 1.1 and similar ones taking place all around led to a different approach to management.

Instead of focusing all their time on today, managers began to see value in trying to anticipate the future and to prepare for it. They did this in several ways.

- They prepared systems and procedures manuals for decisions that must be made repeatedly. This freed time for more important decisions and ensured more or less consistent decisions.
- They prepared budgets. They tried to anticipate future sales and flows of funds. In sum, they created a planning and control system.

Budgeting and control systems helped, but they tended to be based on the status quo—the present business and conditions—and did not by themselves deal well with change. These systems did provide better financial controls. Later variations included capital budgeting and management-by-objectives systems.

Because of the lack of future emphasis in budgeting, long-range planning appeared. This movement focused on forecasting the future by using economic and technological tools. Long-range planning tended to be performed primarily by corporate staff groups whose reports were forwarded to top management. Sometimes their reports and advice were heeded (when they were understood and were creditable); otherwise they were ignored. Since the corporate planners were not the decision makers, long-range planning had some impact, but not as much as would be expected if top management were involved. Then too, they were producing what Roney calls first-generation plans: single plans for the most likely future.

"First-generation planning" means that the firm chooses the most probable appraisal and diagnosis of the future environment and of its own strengths and weaknesses. From this, it evolves the best strategy for this match of the environment and the firm.

Today's approach is called "strategic planning" or, more frequently, "strategic management". As will be seen in Chapter 2, strategic management has parts to be played by the board of directors and corporate planners. But the starring roles are for the top managers of the corporation and its major operating divisions. Strategic management focuses on "second-generation planning": analysis of the business and the preparation of several scenarios for the future. Contingency strategies are then prepared for each of these likely future scenarios.

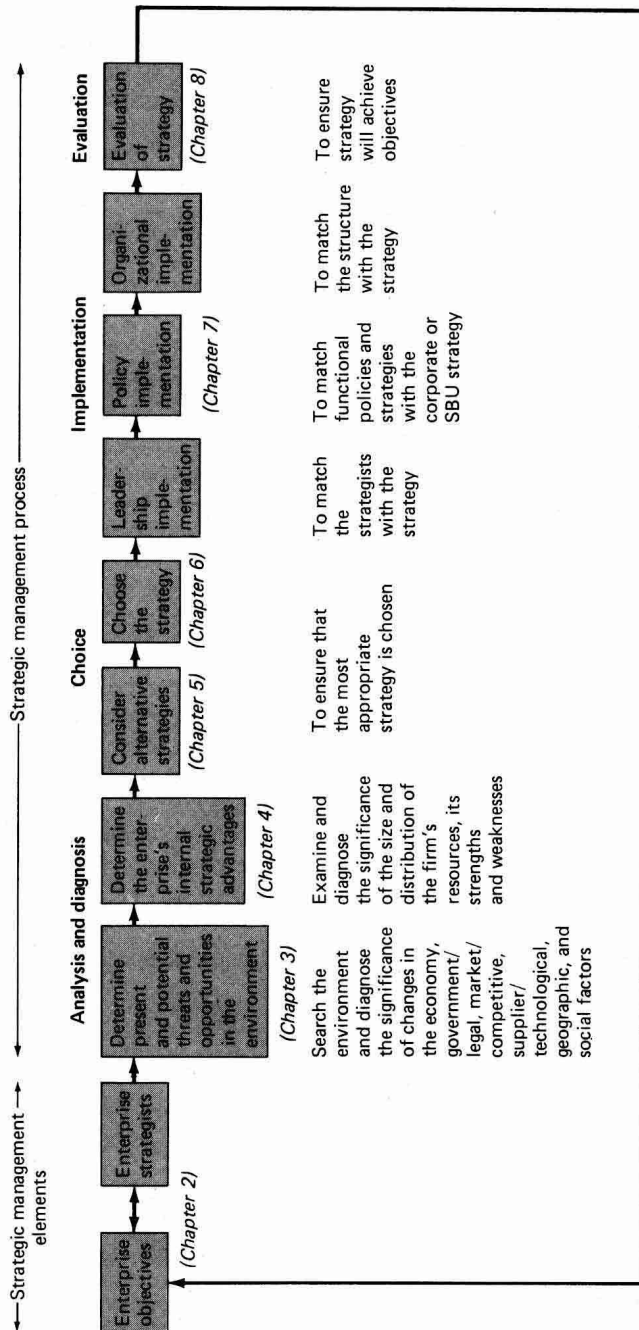
But these are my distinctions, and the terms "long-range planning," "strategic planning," and "strategic management" have as many definitions as there are experts. The terms "strategic management" and "strategy" will be used often in this book.

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Strategic management is that set of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives.

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**EXHIBIT 1.2**  
A model of strategic management for a firm with one strategic business unit using first-generation planning.



The strategic management process for a business which has organized itself with only a single strategic business unit (SBU) is given in Exhibit 1.2.

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A strategic business unit (SBU) is an operating division of a firm which serves a distinct product/market segment or a well-defined set of customers or a geographic area. The SBU is given the authority to make its own strategic decisions within corporate guidelines as long as it meets corporate objectives.

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Each of the strategic management elements and decisions in the strategic management process is explained in more detail in Chapters 2 through 8, as indicated on Exhibit 1.2. This model is used throughout the book to relate the material to that covered previously and that which will come later.

As you will note in Exhibit 1.2, strategic management decisions include analysis and diagnosis, choice, implementation, and evaluation. Simon, in his description of decision making, described intelligence (search activities), design (test alternatives), and choice (decide which alternative) activities as composing decision making. My description collapses these three into analysis and diagnosis and choice but considers implementation of the decision as part of the strategic management process.

The phases of the model in Exhibit 1.2 are as follows:

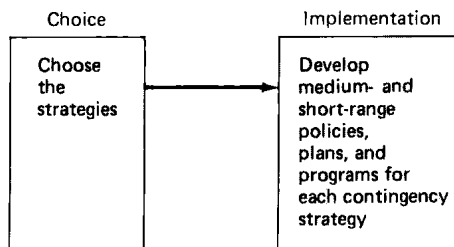
- *Analysis and diagnosis:* Determining environmental problems and opportunities and internal strengths and weaknesses. This involves recognizing problems and/or opportunities and assessing information needs to solve the problems and heuristics for evaluating the information.
- *Choice:* Generating alternative solutions to the problem, assessing them, and choosing the best one.
- *Implementation:* Making the strategy work by building the structure to support the strategy and developing the plans and policies to make it work.
- *Evaluation:* Through feedback, determining whether the strategy is working and taking steps to make it work if it is underproducing.

Note too that Exhibit 1.2 is also drawn up for the firm which is using first-generation planning, the most frequent approach at present.

More advanced firms are using second-generation or contingency planning. In this system, the choice and implementation decisions appear as in Exhibit 1.3

Note that in this case the firm chooses several scenarios of the future environment (analysis and diagnosis) and strengths and weaknesses given

**EXHIBIT 1.3**  
Strategic management model for second-generation planning (modifies Exhibit 1.2).





different futures. It then prepares several strategies and short- and medium-range implementations of the strategies. When the future arrives, the firm puts into effect that strategy which comes closest to meeting the environmental conditions outlined in each scenario/strategy. For simplicity's sake, Exhibit 1.2 will be used throughout the book. But you should keep in mind that if contingency planning is used, the modification of the model in Exhibit 1.3 applies.

The Exhibit 1.2 model also is drawn for a single business unit firm. If it is a multiple-strategy business unit firm, the model will also have to be modified. This will be done shortly.

### What Is a Strategy?

A strategy is the means used to achieve the ends (objectives). A strategy is not just any plan, however. A strategy is a plan that is *unified*: it ties all the parts of the enterprise together. A strategy is *comprehensive*: it covers all major aspects of the enterprise. A strategy is *integrated*: all the parts of the plan are compatible with each other and fit together well.

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A strategy is a unified, comprehensive, and integrated plan relating the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved.

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A strategy begins with a concept of how to use the resources of the firm most effectively in a changing environment. It is similar to the concept in sports of a "game plan." Before a team goes onto the field, effective coaches examine a competitor's past plans and strengths and weaknesses. Then they look at their own team's strengths and weaknesses. The objective is to win the game with a minimum of injuries. Coaches may also not wish to humiliate an opponent with a 100-0 score. They may wish not to use all of their best plays but to save some for future opponents. So coaches devise a plan to win the game.

A game plan is not exactly a strategy, however. A game plan is oriented toward one game. A strategy for a firm is a long-run plan. A game plan is oriented only against one competitor. A firm deals with a number of competitors simultaneously: with the government, suppliers, owners, labor unions, and others. A strategy is oriented toward basic issues such as: What is our business? What should it be? The Dallas Cowboys' coach doesn't ask questions like that. Still, it may help you understand the concept of strategy as a plan which is the result of analyzing our strengths and weaknesses and what the environment has to offer so that we can achieve our objectives.

Hedberg and Jönsson explain strategies and their purposes in an interesting way. Strategies are causes of streams of decisions (strategic management). Strategies are more or less integrated sets of ideas through which problems are spotted and interpreted, and action flows from this. To Hedberg and Jönsson, managers operate in the way shown in Exhibit 1.4.

To be able to operate at all, managers look at the world and intuitively create a myth or theory of what's happening in the world. With this myth in mind, they create a strategy to react to the myth so that they can form defense networks against information overflows from other myths and to map information into definitions of the situations. Then they test the strategy out on the world and evaluate its success.