Strategic Management **Thompson** Strickland **Fulmer**

Readings in Strategic Management

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all of The University of Alabama

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Preface

During the past decade or so, business policy has expanded its status from being just an integrative course in the business curriculum to one of being a full-fledged discipline with a distinctive literature of its own. A large knowledge base is rapidly building on the concept of strategy, the tasks and process of strategy formation and strategy implementation, and all the ramifications of aligning the operations and culture of the enterprise to fit the requirements of strategy.

Important, insightful techniques for examining a company's competitive position, business strengths, and industry attractiveness and the makeup of multibusiness corporate portfolios have come to the fore. Formal strategy evaluations and annual strategy reviews are growing in use, having already risen to become a standard management practice in most large companies. There is heightened managerial application of such strategic concepts as driving forces, strategic groups, competitor analysis, key success factors, distinctive competence, strategic fit, switching costs, first-mover advantages, and strategic business units. Issues pertaining to strategy formulation and strategy implementation enjoy high priority on managerial action agendas. The whole strategy management cycle—from defining the business to strategy formation to implementation and execution to evaluation of results to reformulation and fine tuning of the game plan—is being intensively scrutinized by practitioners, consultants, and business school academics.

Although many instructors rely upon text treatments and case analysis to teach their courses in strategic management, there is reason to supplement

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the "standard approach" with articles in the field of strategic management. For those instructors who see the value of incorporating samples of the strategic management literature into their course, *Readings in Strategic Management* attempts to provide a variety of current articles that reflect the thinking and research of academics and the state of the art as it is being practiced by consultants and managers.

This book contains 52 readings, varying in length from 3 pages to 20 pages. These readings come from a variety of sources and are very current (only one was published prior to 1980, and it appeared in 1979). More importantly, all are eminently readable and well matched to the level of most business policy/strategy texts.

The readings themselves are primarily of three types. One type, consisting of 14 standard-length articles reprinted from leading journals, adds in-depth treatment to important topic areas covered in most business policy/strategy texts, thereby probing further into the details of particular techniques and exposing students to current research "classics." The second type includes seven shorter articles, drawn from practitioners' sources, which emphasize how strategic management concepts and tools relate directly to actual practice. The third type consists of 31 short "strategy in action" and "the general manager at work" kinds of articles which have appeared in the business press; these articles not only build student exposure to the strategyrelated experiences of particular individuals and companies but also provide fresh, easy-to-read illustrations of the practical value of viewing the management process from a strategic perspective. In tandem, the three types of readings provide an effective and efficient vehicle for reinforcing and expanding text-case treatments and for giving students a feel for current research and a flavor of what's happening in the real world.

Organization of the Readings

This book is divided into seven sections. Each section is organized around one of the major building blocks of strategy management. At the beginning of each section is a brief overview of the topics covered and of how each article fits into the scheme and structure of strategy management as well as an introductory statement about the content of each article. At least two of the three types of articles mentioned earlier are included in each section.

Section 1 addresses the role of the general manager as chief architect and chief implementer of strategy. The lead article summarizes John Kotter's important research on the general managers—who they are, what they do, and why some are more effective than others. This is followed by seven "general manager in action" articles illustrating the experiences of small business entrepreneurs, corporate CEOs, a not-for-profit entrepreneur, a foreign entrepreneur, and an unsuccessful entrepreneur.

Section 2, on the strategy formulation process, contains two significant journal articles and an illustration article. The first of these concerns James Brian Quinn's research findings on what the strategy formulation process is like in large corporations and how executives manage the process. Quinn's research is very important for the insights it reveals into why strategy formulation is a gradual, incremental, evolutionary process. Ian Wilson, the

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executive in charge of General Electric's highly regarded work in strategic planning, provides a very readable description of GE's pioneering efforts in environmental scanning and the role it plays in strategy formation. The third article, which concerns Paramount Pictures' response to technological threats to its movie-making business, is intended to illustrate the strategic importance of doing a good job of environmental analysis.

The third section deals with business strategy alternatives in big and little companies. Peter Wright forcefully presents the unique competitive skills of small businesses and how they can be used to build competitive advantage. John Fayerweather, one of the most respected authorities on international business, gives us his portrayal of strategies for international firms operating in a globally competitive environment. The articles by Wright and Fayeweather are followed by four "strategy in action" articles involving such frequently encountered business strategy situations as attacking a dominant firm, refurbishing a concentration strategy, positioning a firm in an emerging industry, and dealing with market maturity.

The readings in the fourth section concern corporate strategy in multibusiness enterprises. The spotlight is on diversification via acquisition and managing a diversified business portfolio. Some important research is being done in these areas, and we have included a representative sampling. Setting the stage for this section is a candid description of how Norton Company's strategic planning process works, written by Norton's president. This is followed by two articles on approaches to accomplishing diversification via acquisition—how to do it and lessons to be learned from the experiences of acquisition-minded firms, and a third very interesting article discussing the "personal chemistry" aspects of merger-acquisition negotiations. Next are two articles on the ins and outs of business portfolio matrix analysis and the validity of the strategy prescriptions which flow from the matrix approach. This section concludes with two applications articles—one dealing with the pitfalls of unrelated diversification, one on the economics of joint ventures between U.S. and Japanese firms.

Section 5 takes an in-depth look at strategic initiative, with emphasis on competitor analysis and diagnosing competitive forces. This section appropriately begins with a very interesting article by Michael E. Porter, who has led the way in proposing techniques for doing competitive analysis and formulating competitive strategy. Ian MacMillan's article on "Seizing Competitive Initiative" provides further exposure to the whys and hows of adopting a powerful strategy in the marketplace. With these two articles as analytical background, the emphasis shifts to illustration and application. There is a pair of articles on how two well-known firms (McDonalds' and Frito-Lay) have built and used a distinctive competence to good advantage; there is a three-article series exposing and probing competition in the beer industry (always an interesting subject for students); and there is a two-article series on competition in the bicycle industry that highlights the critical importance of competitive positioning. The last two articles in the section depict the strategies of name-brand, discount outlets in the retail industry and the ways major oil companies are positioning themselves to gain access to crude oil supplies.

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Section 6 shifts to the problems of managing strategy implementation. The lead article emphasizes that "making it happen" is the real strategic challenge. The second article probes the relationship between structure and strategy and features the massive reorganization under way at AT&T—undoubtedly the biggest, most visible strategy-related reorganization in all of business history. Milton Leontiades' article on "Choosing the Right Manager to Fit the Strategy" helps emphasize how the general manager drives the tone, pace, and style of implementation and why selection of the general manager is thus important. The next two articles reinforce the central role of the general manager in implementation and discuss two different types of general managers, the group vice president and the turnaround specialist. The last two articles concern the links between strategy and the delegation of authority; one explores the decentralized approach often followed in multibusiness enterprises, while the other describes Japanese approaches to strategic management.

The final section continues with a survey of the problems and tasks of strategy implementation. There are articles on linking the reward structure to strategic performance, the McKinsey 7-S framework, the attention that must be paid to corporate culture, the corporate culture at IBM, how the CEO at Corning Glass is trying to change that company's culture, what makes a manager an effective strategic leader, the problems of keeping the entrepreneurial spirit alive, and the importance of strategic leadership. The final article, by Ram Charan, gives an overview of the whole strategic management process and points to ways of avoiding some of the pitfalls of strategy review and strategic planning.

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Readings in Strategic Management

The general manager and strategy

General Managers: Who They Are, What They Do, and Why Some Are More Effective than Others

• "What Effective General Managers Really Do," John P. Kotter

The General Manager as Entrepreneur and Chief Strategist

The Corporate Entrepreneur

• "Harry Merlo at Louisiana-Pacific," Eric Larson

Small Business Entrepreneurs

- "Turning a Seedy Junkyard into a Respectable Supermarket for Used Auto Parts," John Curley
- "Booking Entertainers for the Small-Time Show Business Circuit," Bill Richards
- "Syndicating Comic Strips, Feature Columns, and Crossword Puzzles in the Newspaper Industry," Daniel Machalaba

The Nonprofit Entrepreneur

"How an Entrepreneur Made a Success of Chicago's Lyric Opera,"
 Meg Cox

The Foreign Entrepreneur

• "Building a Business Empire in Korea: The Entrepreneurial Style of Chung Ju-Yung," Urban C. Lehner

The Price of Unsuccessful Entrepreneurship

"Jerald Maxwell's Failure and Personal Crisis," Lawrence Ingrassia

The first article in this book is "What Effective General Managers Really Do" by John P. Kotter. In this *Harvard Business Review* article, Kotter draws on a study of 15 successful managers at nine corporations to describe the gap that exists between the conventional wisdom on management and what general managers actually do. The actual performance of general managers "looks less systematic, more informal, less reflective, more reactive, less well organized, and more frivolous than a student of strategic planning system would ever expect."

A series of seven short articles illustrates the role, risks, and rewards of the entrepreneurial general manager. The first article in the series spotlights a corporate entrepreneur with a controversial but effective management style; the next three articles describe how three small-business entrepreneurs ferreted out unusual market niches and created very successful enterprises. The next two articles examine the creative approach of a not-for-profit entrepreneur and a foreign entrepreneur's strategic approach to building a large business empire. The last article describes the personal crisis and psychic costs endured by a once-successful entrepreneur whose business fortunes took an unexpected turn for the worse.

What this article is about: General managers do not function in a crisply defined environment, or direct through formally delineated organizational channels, or systematically set and follow formal plans. In other words, they do not fit the stereotype. This article gives you real insight into what the job of the general manager is all about.

What effective general managers really do*

John P. Kotter

John P. Kotter is professor of organizational behavior at the Harvard Business School. This article is adapted from his book *The General Managers* (New York: Free Press, 1982).

Here is a description of a reasonably typical day in the life of a successful executive. The individual in this case is Michael Richardson, the president of an investment management firm.

- A.M. 7:35 He arrives at work after a short commute, unpacks his briefcase, gets some coffee, and begins a "to do" list for the day.
 - 7:40 Jerry Bradshaw, a subordinate, arrives at his office, which is right next to Richardson's. One of Bradshaw's duties is to act as an assistant to Richardson.
 - 7:45 Bradshaw and Richardson converse about a number of topics. Richardson shows Bradshaw some pictures he recently took at his summer home.
 - 8:00 Bradshaw and Richardson talk about a schedule and priorities for the day. In the process, they touch on a dozen different subjects and issues relating to customers and other subordinates.
 - 8:20 Frank Wilson, another subordinate, drops in. He asks a few questions about a personnel problem and then joins in the ongoing discussion. The discussion is straightforward, rapid, and occasionally punctuated with humor.

^{*} Reprinted by permission of the Harvard Business Review. "What Effective General Managers Really Do" by John P. Kotter. (November-December 1982). Copyright © 1982 by the President and Fellows of Harvard College; all rights reserved.

- 8:30 Fred Holly, the chairman of the firm and Richardson's "boss," stops in and joins in the conversation. He asks about an appointment scheduled for 11 o'clock and brings up a few other topics as well.
- 8:40 Richardson leaves to get more coffee. Bradshaw, Holly, and Wilson continue their conversation.
- 8:42 Richardson comes back. A subordinate of a subordinate stops in and says hello. The others leave.
- 8:43 Bradshaw drops off a report, hands Richardson instructions that go with it, and leaves.
- 8:45 Joan Swanson, Richardson's secretary, arrives. They discuss her new apartment and arrangements for a meeting later in the morning.
- 8:49 Richardson gets a phone call from a subordinate who is returning a call from the day before. They talk primarily about the subject of the report Richardson just received.
- 8:55 He leaves his office and goes to a regular morning meeting that one of his subordinates runs. There are about 30 people there. Richardson reads during the meeting.
- 9:09 The meeting is over. Richardson stops one of the people there and talks to him briefly.
- 9:15 He walks over to the office of one of his subordinates, who is corporate counsel. His boss, Holly, is there too. They discuss a phone call the lawyer just received. While standing, the three talk about possible responses to a problem. As before, the exchange is quick and includes some humor.
- 9:30 Richardson goes back to his office for a meeting with the vice chairman of another firm (a potential customer and supplier). One other person, a liaison with that firm and a subordinate's subordinate, also attends the meeting. The discussion is cordial. It covers many topics, from their products to U.S. foreign relations.
- 9:50 The visitor and the subordinate's subordinate leave. Richardson opens the adjoining door to Bradshaw's office and asks a question.
- 9:52 Richardson's secretary comes in with five items of business.
- 9:55 Bradshaw drops in, asks a question about a customer, and then leaves.
- 9:58 Frank Wilson and one of his people arrive. He gives Richardson a memo, and then the three talk about the important legal problem. Wilson does not like a decision that Richardson has tentatively made and urges him to reconsider. The discussion goes back and forth for 20 minutes until they agree on the next action and schedule it for 9 o'clock the next day.
- 10:35 They leave. Richardson looks over papers on his desk, then picks one up and calls Holly's secretary regarding the minutes

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- of the last board meeting. He asks her to made a few corrections.
- 10:41 His secretary comes in with a card for a friend who is sick. He writes a note to go with the card.
- 10:50 He gets a brief phone call, then goes back to the papers on his desk.
- 11:03 His boss stops in. Before Richardson and Holly can begin to talk, Richardson gets another call. After the call, he tells his secretary that someone didn't get a letter he sent and asks her to send another.
- 11:05 Holly brings up a couple of issues, and then Bradshaw comes in. The three start talking about Jerry Phillips, who has become a difficult problem. Bradshaw leads the conversation, telling the others what he has done during the last few days regarding this issue. Richardson and Holly ask questions. After a while, Richardson begins to take notes. The exchange, as before, is rapid and straightforward. They try to define the problem and outline possible alternative next steps. Richardson lets the discussion roam away from and back to the topic again and again. Finally, they agree on a next step.
- P.M. 12:00 Richardson orders lunch for himself and Bradshaw. Bradshaw comes in and goes over a dozen items. Wilson stops by to say that he has already followed up on their earlier conversation.
 - 12:10 A staff person stops by with some calculations Richardson had requested. He thanks her and has a brief, amicable conversation.
 - 12:20 Lunch arrives. Richardson and Bradshaw go into the conference room to eat. Over lunch they pursue business and nonbusiness subjects. They laugh often at each other's humor. They end the lunch talking about a potential major customer.
 - 1:15 Back in Richardson's office, they continue the discussion about the customers. Bradshaw gets a pad, and they go over in detail a presentation to the customer. Then Bradshaw leaves.
 - 1:40 Working at his desk, Richardson looks over a new marketing brochure.
 - 1:50 Bradshaw comes in again; he and Richardson go over another dozen details regarding the presentation to the potential customer. Bradshaw leaves.
 - 1:55 Jerry Thomas comes in. He is a subordinate of Richardson, and he has scheduled for the afternoon some key performance appraisals, which he and Richardson will hold in Richardson's office. They talk briefly about how they will handle each appraisal.

- 2:00 Fred Jacobs (a subordinate of Thomas) joins Richardson and Thomas. Thomas runs the meeting. He goes over Jacobs's bonus for the year and the reason for it. Then the three of them talk about Jacobs's role in the upcoming year. They generally agree and Jacobs leaves.
- 2:30 Jane Kimble comes in. The appraisal follows the same format as for Fred Jacobs. Richardson asks a lot of questions and praises Kimble at times. The meeting ends on a friendly note of agreement.
- 3:00 George Houston comes in; the appraisal format is repeated again.
- 3:30 When Houston leaves, Richardson and Thomas talk briefly about how well they have accomplished their objectives in the meetings. Then they talk briefly about some of Thomas's other subordinates. Thomas leaves.
- 3:45 Richardson gets a short phone call. His secretary and Bradshaw come in with a list of requests.
- 3:50 Richardson receives a call from Jerry Phillips. He gets his notes from the 11 o'clock meeting about Phillips. They go back and forth on the phone talking about lost business, unhappy subordinates, who did what to whom, and what should be done now. It is a long, circular, and sometimes emotional conversation. Near the end, Phillips is agreeing with Richardson on the next step and thanking him.
- 4:55 Bradshaw, Wilson, and Holly all step in. Each is following up on different issues that were discussed earlier in the day. Richardson briefly tells them of his conversation with Phillips. Bradshaw and Holly leave.
- 5:10 Richardson and Wilson have a light conversation about three or four items.
- 5:20 Jerry Thomas stops in. He describes a new personnel problem and the three of them discuss it. More and more humor starts coming into the conversation. They agree on an action to take.
- 5:30 Richardson begins to pack his briefcase. Five people briefly stop by, one or two at a time.
- 5:45 He leaves the office.

In at least a dozen ways, Richardson's day is typical for a general manager. The daily behavior of the successful GMs I have studied generally conforms to these patterns (see accompanying box for a description of the study):

1. They spend most of their time with others. The average GM spends only 25 percent of his working time alone, and this is spent largely at home, on airplanes, or while commuting. Few spend less than 70 percent of their time with others, and some spend up to 90 percent of their work time this way.