

# MANAGEMENT POLICY AND STRATEGY

---

Text, Readings, and Cases

SECOND EDITION

---

GEORGE A. STEINER  
JOHN B. MINER  
EDMUND R. GRAY

*2nd*

E D I T I O N

---

# Management Policy and Strategy

TEXT,  
READINGS, AND  
CASES

George A. Steiner

*University of California, Los Angeles*

John B. Miner

*Georgia State University*

Edmund R. Gray

*Louisiana State University*

Macmillan Publishing Co., Inc.  
NEW YORK

Collier Macmillan Publishers  
LONDON

---

Copyright © 1982, Macmillan Publishing Co., Inc.

Printed in the United States of America

All rights reserved. No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or any information storage and retrieval system, without permission in writing from the Publisher.

Earlier edition copyright © 1977 by Macmillan Publishing Co., Inc. The text portion of this book has been published separately, with minor alterations, under the complete title *Management Policy and Strategy*, copyright © 1977 and 1982 by Macmillan Publishing Co., Inc.

Macmillan Publishing Co., Inc.  
866 Third Avenue, New York, New York 10022

Collier Macmillan Canada, Inc.

Library of Congress Cataloging in Publication Data  
Main entry under title:  
Management policy and strategy.

Text portion issued also separately with minor alterations as: Management policy and strategy / George A. Steiner, John B. Miner, Edmund R. Gray.

Bibliography: p.

Includes indexes.

1. Management. 2. Management—Addresses, essays, lectures. 3. Management—Case studies. I. Steiner, George Albert, (date). II. Miner, John B.

III. Gray, Edmund R.

HD31.M2933 1982 658.4 81-8247

ISBN 0-02-416800-9 AACR2

Printing: 1 2 3 4 5 6 7 8 Year: 2 3 4 5 6 7 8 9

*To  
scholars who have  
been engaged in research in  
organizational strategy*

# Preface

---

Schools of business typically offer a capstone course concerned with “business policy.” Our book is for use in such a course, but its content and structure are somewhat different from those of traditional texts.

The rationale for this volume is that a sufficient body of knowledge has now been developed directly in the field of organizational policy and strategy to justify compiling it and providing it to students as background for their study of actual business situations. In years past the tendency has been to review either the management process literature or the functional areas of business, such as marketing and finance, as a preliminary to the analysis of cases, business games, experiences in real organizations, and the like. We believe it is much more important to focus directly on policy and strategy formation and implementation. Furthermore, we believe enough now is known from theory, research, and practical experience to justify such a focus. This is not to say that a knowledge of management process and business functions is unimportant but only that these topics are covered elsewhere in the business curriculum. The subject matter of this book is seldom covered—and not in the depth provided here.

The book supports several developments that we detect in the teaching of policy courses. Discussions with many instructors of policy courses, together with an examination of books used, reveal some significant new trends and needs: a focus on top management and the total organization rather than upon functional areas; stress on strategic management in contrast with operational management; the use of top management strategy as a new integrating concept of analysis; introduction into classroom discussion of basic research on the identification, evaluation, and implementation of strategy; expansion of analysis beyond the business sector to include the not-for-profit sector; the addition of materials concerning business ethics, morality, and social responsibility; and the use of descriptive materials to complement cases.

We believe that these requirements in policy courses can be achieved best by a study of real life cases amplified by selected readings and knowledge of the best research and description of organizational policy and strategy. The structure of our presentation is based on the identification, evaluation, and implementation of top management policy and strategy. Other aspects of the policy and strategy area are also covered, such as the role of the chief executive officer in policy and strategy decision making, the place of strategic planning in this process, the ways in which environment affects policy and strategy, and major theories and practices associated with formulating and implementing strategy.

In Chapter 1 we explain in detail the parts of the book. We also present what we consider the principal objectives of a policy course. The book is designed for both graduate and undergraduate courses, although we anticipate more rapid coverage and

the use of more supplementary materials at the graduate level. The book should also have appeal to practicing managers. Although management's selection of operationally successful policy and strategy is more a matter of art and wisdom than of skill in using decision-making tools and specific pieces of knowledge, we believe that research findings in this field have powerful pragmatic applications. Many of these are included in this book, and we hope, therefore, that line managers and staff specialists in all organizations will find valuable uses for the volume.

The study of organizational policy and strategy in universities is receiving a new emphasis. We predict that in the future policy/strategy studies will be increasingly emphasized and that there will emerge a new discipline for the field. A major purpose in writing this book is to stimulate and strengthen such a development.

We are deeply indebted to the many scholars and practitioners who have written about policy and strategy. Many of them and their written works are recognized in this book and to them this book is dedicated.

We wish to thank the following for their helpful comments based on experience with the First Edition:

Thomas V. Atwater, Eastern Washington University  
J. M. Bertotti, University of South Florida  
B. G. Bizzell, Stephen F. Austin State University  
Richard J. Butler, Rochester Institute of Technology  
Curtis W. Cook, Southern Illinois University/Edwardsville  
Robert I. Corless, Plymouth State College  
D. James Day, University of Pittsburgh  
Robert J. Ellis, Boston College  
John B. Gayle, Florida Institute of Technology  
Peter M. Ginter, University of Arkansas  
Paul J. Gordon, Indiana University  
Peter Goulet, University of Northern Iowa  
Paul V. Grambsch, University of Minnesota  
Robert E. Harrison, Northeast Louisiana University  
O. J. Krasner, Pepperdine University  
Martin K. Marsh, Humboldt State University  
Edward V. Sedgwick, University of California, Los Angeles  
Albert K. Steigerwalt, Central Michigan University  
Abraham Stein, Hofstra University

We also wish to thank Laura Anderson, Mary Blanton, and Barbara Miner for their help with all phases of manuscript preparation.

G. A. S.  
J. B. M.  
E. R. G.

# Contents

---

## PART I

### The Nature and Importance of Business Policy/Strategy

<b>Chapter 1</b>	
INTRODUCTION	3
<b>Chapter 2</b>	
THE NATURE OF POLICY/STRATEGY	17
<b>Chapter 3</b>	
THE CENTRAL ROLE OF POLICY/STRATEGY IN ORGANIZATIONS	29
READINGS	
1 Sun and ARCO: How Contrasting Strategies Made Different Companies	42
2 Corporate Growth Strategies. WILLIAM D. GUTH	54

## PART II

### Key Overall Forces in Policy/Strategy Formulation and Implementation

<b>Chapter 4</b>	
THE CHANGING ORGANIZATIONAL ENVIRONMENT	65
<b>Chapter 5</b>	
CORPORATE SOCIAL RESPONSIBILITIES AND RESPONSES TO THEM	79
<b>Chapter 6</b>	
MANAGERIAL AND ORGANIZATIONAL STYLES	93
READINGS	
3 Managing Our Way to Economic Decline. ROBERT H. HAYES AND WILLIAM J. ABERNATHY	113

<b>4</b>	<b>Operations vs. Strategy: Trading Tomorrow for Today. ROBERT L. BANKS AND STEVEN C. WHEELWRIGHT</b>	<b>131</b>
<b>5</b>	<b>Planning for Corporate Social Programs: Problems and Guidelines. EDMUND R. GRAY</b>	<b>145</b>
<b>6</b>	<b>Myth of the Well-Educated Manager. J. STERLING LIVINGSTON</b>	<b>153</b>

### **PART III**

## **Formulating Business Policy/Strategy**

<b>Chapter 7</b>	<b>SYSTEMATIC PLANNING IN STRATEGIC MANAGEMENT</b>	<b>171</b>
<b>Chapter 8</b>	<b>IDENTIFYING POLICIES AND STRATEGIES TO EVALUATE</b>	<b>197</b>
<b>Chapter 9</b>	<b>EVALUATING AND CHOOSING AMONG POLICY/STRATEGY ALTERNATIVES</b>	<b>227</b>
<b>Chapter 10</b>	<b>INDIVIDUALS IN POLICY/STRATEGY FORMATION</b>	<b>247</b>
<b>Chapter 11</b>	<b>GROUP ASPECTS OF POLICY/STRATEGY FORMATION</b>	<b>263</b>
<b>Chapter 12</b>	<b>ALTERNATIVE APPROACHES TO DECISION MAKING</b>	<b>283</b>

### **READINGS**

<b>7</b>	<b>Environmental Scanning and Strategic Planning. IAN H. WILSON</b>	<b>299</b>
<b>8</b>	<b>How Competitive Forces Shape Strategy. MICHAEL E. PORTER</b>	<b>304</b>
<b>9</b>	<b>Managing Strategic Change. JAMES BRIAN QUINN</b>	<b>317</b>
<b>10</b>	<b>Shaping the Master Strategy of Your Firm. WILLIAM H. NEWMAN</b>	<b>338</b>
<b>11</b>	<b>Survival Strategies in a Hostile Environment. WILLIAM K. HALL</b>	<b>355</b>
<b>12</b>	<b>Turnaround Strategies. CHARLES W. HOFER</b>	<b>373</b>
<b>13</b>	<b>Creativity Techniques: Toward Improvement of the Decision Process. IRVIN SUMMERS AND DAVID E. WHITE</b>	<b>392</b>

### **PART IV**

## **Implementing Policy/Strategy**

<b>Chapter 13</b>	<b>ORGANIZATIONAL STRUCTURES AND PROCESSES FOR IMPLEMENTING POLICIES AND STRATEGIES</b>	<b>405</b>
-------------------	---	------------



**Chapter 14****FORMAL SYSTEMS FOR IMPLEMENTING POLICIES  
AND STRATEGIES**

421

**Chapter 15****THE ROLE OF PEOPLE IN IMPLEMENTATION**

437

**READINGS**

- 14** Choosing Strategies for Change. JOHN P. KOTTER AND LEONARD A. SCHLESINGER

450

- 15** Bridging the Gulf in Organizational Performance. JOHN B. MINER

463

- 16** Matching Corporate Culture and Business Strategy. HOWARD SCHWARTZ AND STANLEY M. DAVIS

475

**PART V****Policy/Strategy in Varied Contexts****Chapter 16****ENTREPRENEURSHIP**

497

**Chapter 17****SPECIAL ASPECTS OF POLICY/STRATEGY IN NOT-FOR-PROFIT  
ORGANIZATIONS**

515

**Chapter 18****CONTINGENCY THEORY OF POLICY/STRATEGY**

529

**READINGS**

- 17** The Rise and Fall of Ten Venture Groups. DAN T. DUNN

542

- 18** Candid Reflections of a Businessman in Washington. W. MICHAEL BLUMENTHAL

555

- 19** A Politician-Turned-Executive Surveys Both Worlds. DONALD RUMSFELD

568

**CASE EVALUATION READINGS**

- A** How to Evaluate a Firm. ROBERT D. BUCHELE

575

- B** How to Read a Financial Report. MERRILL LYNCH, PIERCE, FENNER, AND SMITH

594

**CASES****A Strategic Management**

- 1** Polaroid Corporation JANET SHEAHAN

641

- 2** The Best Pizza in Town! *Honest* ED D. ROACH AND JACK D. EURE, JR.

660

3	Custombilt Construction Co. (A) ROBERT N. WHITE	671
4	Custombilt Construction Co. (B) ROBERT N. WHITE	684
5	Metropolis City Museum of Art PATRICK H. ELA	690
6	St. Mark Memorial Hospital W. HARVEY HEGARTY	694
7	Marshall Field and Company: A Decision to Remain Independent K. FATEHI-SEDEH AND WILLIAM CRESS	704
<b>B</b>	<b>Formulating Strategy</b>	
8	Illini GEORGE A. STEINER	719
9	Omicron Corporation EDWIN A. MURRAY, JR.	726
10	The Mead Corporation: Strategic Planning FRANCIS J. AGUILAR	765
11	Anheuser-Busch Companies, Inc. DOUGLAS J. WORKMAN, NEIL H. SNYDER, RICH BONAVENTURA, JOHN CARY, SCOTT MCMASTERS, AND KAREN COOK	791
12	Gerber Products Company B. L. KEDIA, EDMUND R. GRAY, AND D. E. EZELL	817
13	American Motors: Into the '80s KEN BUBENZER	835
14	Two Contrasting Strategies A. The Mattel Debacle: How It Took Shape ROBERT A. ROSENBLATT	851
	B. Hewlett-Packard: Where Slower Growth Is Smarter Manage- ment <i>Business Week</i>	856
15	The Warren Federal Savings and Loan Association HAROLD D. FLETCHER, WILLIAM W. MCCARTNEY, AND PHILIP M. VAN AUKEN	861
16	The Standard Oil Company (Ohio) NEIL H. SNYDER	874
17	Amtrak KEN BUBENZER	919
<b>C</b>	<b>Strategy Implementation</b>	
18	United Technology, Inc. GEORGE A. STEINER	935
19	Hewlett-Packard: A 1975-1978 Review ROGER M. ATHERTON AND DENNIS M. CRITES	942
20	Lincoln Electric Company A. D. SHARPLIN	958
21	Goodyear's European Strategy NEIL HOOD AND STEPHEN YOUNG	981
22	Cascadia College: Implementing a Student Retention Program LARRY D. ALEXANDER	990
23	Louisiana National Bank and the Eden Park Loan Office EDMUND R. GRAY, DAVID J. ORTINAU, AND WILLIAM SLAUGHTER	1005
<b>D</b>	<b>Social Dimensions of Strategy</b>	
24	Campaign GM GEORGE A. STEINER	1012
25	Chrysler Corporation Bailout GEORGE A. STEINER	1019
26	Hooker Chemical and the Love Canal TIMOTHY S. MESCON AND GEORGE S. VOZIKIS	1025
27	The Hampton Roads Energy Company H. LANDIS GABEL AND BEVERLY S. SENG	1032

<b>28</b>	<b>How I Lost Our Great Debate About Corporate Ethics</b>	
	<b>EBERHARD FABER</b>	<b>1070</b>
<b>29</b>	<b>Corporate America Confronts the Apartheid System</b>	
	<b>MARJORIE CHAN</b>	<b>1078</b>
<b>30</b>	<b>Nestlé Under Fire for Hying Infant Formula</b>	
	<b>MARJORIE CHAN</b>	<b>1090</b>
<b>31</b>	<b>Executive Liability in the Food Industry</b>	
	<b>DANNY L. WORRELL</b>	<b>1105</b>
<b>REFERENCES</b>		<b>1108</b>
<b>AUTHOR INDEX</b>		<b>1135</b>
<b>SUBJECT INDEX</b>		<b>1146</b>

P A R T

# I

---

## The Nature and Importance of Business Policy/Strategy



---

# Introduction

Most schools of business in the United States, as well as those in other countries of the world, have a capstone course in their curriculum that is concerned with “business policy.” This book is designed for such a course. The nature of the business policy course, the changes taking place in the concept of such courses, and the objectives of the policy course, as well as the structure of the book are discussed in this introductory chapter.

## THE BUSINESS POLICY COURSE

The impetus to the widespread introduction of business policy courses into school of business curriculums came in 1959 with reports sponsored by the Ford Foundation and the Carnegie Corporation of New York. Both reports were evaluations of course content in schools of business and both made recommendations about curriculum revisions that were designed to strengthen programs of study. The Gordon and Howell report [1959:206–207]\* sponsored by the Ford Foundation, made the following recommendation:

The capstone of the core curriculum should be a course in “business policy” which will give students an opportunity to pull together what they have learned in the separate business fields and utilize this knowledge in the analysis of complex business problems. The business policy course can offer the student something he (or she†) will find nowhere else in the curriculum: consideration of business problems which are not prejudged as being marketing problems, finance problems, etc.; emphasis on the development of skill in identifying, analyzing, and solving problems in a situation which is as close as the classroom can ever be to the real business world; opportunity to consider problems which draw on a wide range of substantive areas in business; opportunity to consider the external, nonmarket implications of problems at the same time that internal decisions must be made; situations which enable the student to exercise qualities of judgment and of mind which were not explicitly called for in any prior course. Questions of social responsibility and

\* References, shown in square brackets, will be found in the bibliography at the end of the book.

† Whenever *he* or *she* is used to refer to a person we mean either *he* or *she*. This is done without prejudice and only to avoid the awkwardness of saying each time he or she, his or her, or he/she.

of personal attitudes can be brought in as a regular aspect of this kind of problem-solving practice. Without the responsibility of having to transmit some specific body of knowledge, the business policy course can concentrate on integrating what already has been acquired and on developing further the student's skill in using that knowledge. The course can range over the entire curriculum and beyond [Gordon and Howell, 1959, pp. 206-207].

This point of view was also taken by the Pierson report [1959] sponsored by the Carnegie Corporation of New York. In 1969 the American Assembly of Collegiate Schools of Business included in its revised statement of curriculum standards for accreditation the provision that "study of administrative processes under conditions of uncertainty including integrating analyses and policy determination at the overall management level," be required of all students in business and administration programs.

Business policy courses have evolved in different directions but, generally, they can be characterized as capstone integrative courses much as Gordon and Howell recommended in their report. When details of course content and teaching methods are examined, however, there is a great diversity.

One common characteristic of many policy courses is a heavy reliance on business cases as subjects of study. Through the use of cases covering all aspects of management, students apply the skills they have learned, come to understand better the attitudes of managers, and pick up knowledge about management that derives from the case. The use of this method has a long tradition extending back to 1908 when the Harvard Business School first announced its intention of using cases in its classroom discussions [Copeland, in McNair, 1954].

## NEW TRENDS IN POLICY COURSES

In recent years several trends in business policy courses are noticeable. First, the focus is on top management and the total organization, rather than on functional areas. Second, the core synthesizing concept of study is strategic management. Third, research findings about these two aspects of the area are introduced into policy course work. Fourth, policy issues and cases have been added for organizations in the nonbusiness sector. Fifth, although separate case books have long been available concerning business social responsibilities and business ethics, the traditional policy course did not cover such subjects. The trend now is to introduce such cases in the policy course. Each of these trends will be examined now in greater detail.

### **The View from the Top**

The central view of this book is the role of the chief executive officer (CEO) of an organization as he looks at his total organization. The CEO is not necessarily singular but can be plural in the case of joint top executive authority in "offices of the president." The CEO can be plural, also, in the sense that different top executives may have types of plenary power over an organization under certain circumstances. So, in the present frame of reference, a CEO can be a top manager of an organization and not necessarily

the *one* person who has that title. However, for ease of presentation the discussion here does adopt the singular mode.

The view of the top manager is unique. No one else in an organization has the same perspective. He alone is responsible for relating his organization to a changing environment. He alone is responsible for assuring the proper balance among various competing subsystems in his organization. He alone is responsible for determining the total thrust of the organization and for assuring that performance matches his design. Additional unique responsibilities of the CEO will be set forth in later chapters.

It is significant to note here that just as the role of the CEO is unique so is his way of thinking. Not all CEOs, of course, think alike, but there is a special way of thinking associated with the functioning of the top executive. It concentrates on the total enterprise rather than parts of it. Forrester [1964:60] has correctly pointed out that an understanding of the functioning of a total business system does not merely extend the phenomena of simpler situations. "Entirely new phenomena take place." CEOs think in these terms. There are two types of management in an organization—strategic management that exists at the very top and all other management, which might be called operational management. The thought processes, the attitudes, the perspective, the frames of reference, the methods of analysis, and the skills differ between the two.

To illustrate differences in perspective, consider the specialist versus the general top level manager. The specialist is an expert on a particular subject because his life has been devoted to mastering that subject. On other subjects he generally is no more informed than the average person. Specialists' thought patterns differ depending upon their specialties, but each specialist establishes standards for rationality drawn from his discipline and each seeks to decide matters in those terms. The standards may be equity, justice, and legal precedence (*stare decisis*) for the lawyer; cost reduction with acceptable quality for the engineer; quantitative solutions that optimize output for the operations research specialist; or profit maximization for the economist. The general top manager thinks in different terms. He must consider all relevant specialist criteria and then decide, based on what is in the best interests of his organization as he sees those interests. What that means depends upon the organization, the problem, the philosophies of the manager, and pressures placed upon him.

In looking at the entirety of an organization, the top manager also approaches decision making differently than major division line managers. A major division line manager considers himself to be a part of a larger organization. But within the larger organization he thinks differently than the CEO at central headquarters. Indeed, the two may be and often are in conflict. For example, the divisional manager may desire a capital allocation to meet needs that the CEO may not grant because of other higher level priorities of the total organization. Such conflicts are natural and understandable.

CEO's also think differently than functional departmental managers. Again, managers of such departments certainly consider themselves "team members" of a larger organization. But, again, their thought patterns are much different than those of top executives responsible for a total enterprise. For instance, sales managers tend to place greatest emphasis on increasing sales, market share, and reputation with customers. This emphasis, if unchecked, may be at the expense of profits. Financial executives, on the other hand



tend to think in terms of profit, liquidity, low risk, and high return on investment. This viewpoint, if not balanced, may stifle growth and reduce risk taking and initiative. Research and development scientists may concentrate on new technical breakthroughs, top quality products, and research that interests them. This attitude, too, may result in costly research with limited applicability to the organization. Other functional departments have different driving motivations. All must be related to and integrated in the larger organization of which they are a part, and that is done by the CEO and his closely associated line managers and staff.

The student might ask at this point: "Why should I study the work and thinking of the top level managers of organizations? I will never get there." There are a number of answers to this legitimate question. To begin with, most business students will find their careers in organizations, especially large business organizations. Whether they become staff experts or general functional managers, the more they know about the top management of organizations the better they will be able to contribute. Also, the more they know about the top, the less frustrated they are likely to be in dealing with it. Although the focus is on top management, the analysis of cases, which will be discussed later, requires a perspective and methodological approach that students will find helpful in entering the world of organizations no matter at what level and job. For the student as well as the layman interested in policy, the study of top management can be stimulating in itself. We are dealing here with an extremely important talent in organizations, which in one way or another has a very significant impact on our lives, individually and as a society. Finally, who knows which student will eventually wind up at the top of an organization? The policy course may help many to get there and to do a better job when they arrive.

### **Strategic Management, Strategy, and Strategic Planning**

Strategic management is the phrase currently in use to identify top corporate policy/strategy formulation and its implementation in private and public organizations. In a real sense this is what this book is all about. Policy/strategy formulation is a responsibility that top management has always had. Why then the new words to describe it?

The emphasis on strategic management distinguishes it from operational management. This reflects the growing significance of environmental impacts on organizations and the need for top managers to react appropriately to them. As Organ [1971:74] has observed, ". . . there is a growing suspicion that the more relevant criterion of organizational effectiveness is not, as it used to be, that of efficiency, but rather that of adaptability to changes in the environment." Although strategic management emphasizes adaptation to the environment, external and internal, it does not neglect tactical management of internal affairs. Both are important; however, the emphasis has shifted significantly from older concepts of the managerial job.

Strategy is the central and unique core of strategic management. Strategy refers to the formulation of basic organizational missions, purposes, and objectives; policies and program strategies to achieve them; and the methods needed to assure that strategies are implemented to achieve organizational ends. A more detailed examination of the meaning of strategy and policy will be given in Chapter 2, but the reader is asked to