

BUSINESS POLICY:

**Administrative,
Strategic, and
Constituency Issues**

Second Edition

**Curtis E. Tate, Jr.
Marilyn L. Taylor
Frank S. Hoy**

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BUSINESS PUBLICATIONS, INC.
Plano, Texas 75075

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Acquisitions Editor: John R. Weimeister
Developmental Editor: Rhonda K. Harris
Project Editor: Jane Lightell
Production Manager: Bette Ittersagen
Compositor: Bi-Comp, Inc.
Typeface: 10/12 Caledonia
Printer: Arcata Graphics/Halliday

ISBN 0-256-06215-3

Library of Congress Catalog Card No. 87-73027

Printed in the United States of America

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

Preface

The study of *business policy* and *strategic management* can be a challenging experience. Using cases in this study provides opportunities for integration of materials learned in previous courses, for learning and practicing analytical skills, and for an exposure to a wide variety of business activities. This course may be a first and, often, only opportunity for formal training in business policy and strategic management. The concepts are intriguing and the field's rapid development exciting.

This course is a “capstone”; that is, it ties together the various areas in the business curriculum. The text (Chapters 1–6) is organized to give the reader the necessary skills and information to approach analysis of the cases effectively. The first five chapters provide a conceptual foundation for the cases that follow. Chapter 6 deals with case analysis and discussion techniques, providing guidance for case preparation, class participation, and case report writing.

The introductory chapters (1–6) should be read before attempting analysis of any of the cases. As the various cases are analyzed, the material from the chapters relevant to the case may be reviewed.

We have revised the text chapters considerably from the first edition. The changes partially reflect suggestions from faculty and students who have used the book, but are mostly a response to the evolving field of strategic management. Among the topics that we thought needed additional attention are mission statements and goal setting, strategy implementation, and the impact of constituents on strategic

management. Readers of the first edition will find minor modifications in the “Case Analysis and Presentation” chapter (Chapter 5 in the first edition, Chapter 6 in this edition).

In this revised edition, approximately 85 percent of the case material is new. This new material was collected in a different manner. Persons recognized for their skills in quality case research and case writing were invited to prepare an exclusive case for inclusion in this book. The authors made a special effort to include cases not found in other policy and strategic management texts.

The organizational structure of the case material has been reformulated. Early in the collection of the case materials, the authors became aware that the cases would fit into topical modules. Thus, the cases were assembled into 12 such modules.

The case organizational structure topics used in the first edition have been restructured into a grid pattern. The grid is used to introduce the case section.

You will find that the cases contain a diversity of managerial information accompanied by supporting data.

ACKNOWLEDGMENTS

Completion of this book has been accomplished with the support and assistance of many people. The association of the coauthors in this endeavor has been a meaningful experience for each of us. We are grateful for the contributions by many of our academic mentors, as well as the many practitioners who have added to our base of knowledge.

We are grateful to those who performed the case research and prepared the case material with an accompanying teaching note. Surely, we would be remiss if we failed to acknowledge the many contributions of the North American Case Research Association, the Midwest Case Writer’s Association, and the Eastern Case Association, and their memberships. We appreciate Robbie Boggs’s cover design and useful comments from Oakland University.

A number of persons provided secretarial assistance in the development of the manuscript. They are: Billie Najour, Sharon Cheeley, Karen Turner, and Melanie Blakeman. Editorial assistance was provided by: John Lough, Marie Rock, and Elena Whitehead. Development of graphic material was done by Lynn Manzione.

We are grateful for the support we received from our spouses: Mary Jim Tate, Bob Taylor, and Patricia Hoy.

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Introduction

What is business policy and why should you take a course in this subject before you receive a degree in business administration? The policy course lifts you from the operational applications you have studied in prior classes and places you in the role of the general manager. In doing so, this course asks more of you than to memorize and give feedback. You are required to project yourself into a situation that some real manager at some real time faced when decisions had to be made and organizational resources had to be committed. This is a course, then, that asks you to think. It demands that you make decisions and develop strategic plans under conditions of uncertainty, with few parameters and no absolutes. Many students find this course frustrating, yet it is one of the most powerful tools we have for teaching you the reality of organizational management.

At most institutions, the business policy course serves three purposes. First, it is the *capstone* of the curriculum in business administration. By that we mean that it places the final touch on your education. Without the course in policy, your preparation for a managerial career will not be complete. Second, the policy class enables you at last to *integrate* all the functional material to which you were exposed in previous courses. Experience has shown that students often absorb knowledge in courses in marketing, economics, finance, and so on as though the pieces of information were independent from one another. In the policy course, you will be asked to draw from these disciplines and apply what you learned from a variety of sources to a single case.

Finally, the policy course offers you the opportunity to learn *substantive* material. Ideas and concepts are presented that you did not learn in earlier courses. These include such subjects as the role of the general manager, methods of decision making at top levels of organizations, mechanisms for formulating strategic plans, and others.

THE BUSINESS POLICY COURSE

Business policy, as a course and as a field of study, has passed through an evolutionary process since the American Assembly of Collegiate Schools of Business¹ cast it into a significant and permanent role in school of business curriculum. The business policy course was originally conceived as an integrative course for the undergraduate business major. Since that time, business policy has developed as a separate discipline within the broader field of business administration. The extent of emphasis varies from school to school. Some schools have only one course, while others have several such as strategic planning, environmental analysis, and industry analysis for strategic planning. The business policy course has maintained a prominent role in the curriculum.

Policy as an Integrative Course

At the graduate and undergraduate levels, the course is integrative and intended to broaden the students' horizons. At the undergraduate level, policy is generally scheduled during the last quarter or semester. The rationale for this position in the curriculum is that the course's purpose is to provide a series of integrative experiences. The integrative experiences often consist of cases each of which involve several functional areas or disciplines. Such cases may require taking on the role of the chief executive officer or another general manager position. In some institutions there is a heavy reliance on simulations or computerized games. In other institutions there is greater reliance on conceptual material.

Business policy is equally important in the graduate business program. The differentiating factor is that the graduate courses tend to use more sophisticated tools for case analysis, and the cases tend to involve issues of greater complexity.

¹ The American Assembly of Collegiate Schools of Businesses (AACSB) is the national accrediting agency for schools of business. AACSB reviews curriculums, facilities, and faculty of accredited schools on a regular basis and on request by schools that desire accreditation. In addition, AACSB, from time to time, revises curricular requirements after extensive study by task force committees. In 1959, the Ford Foundation funded a study that indicated that curriculums in schools of business resulted in students understanding content from the various disciplines (accounting, finance, marketing, etc.) only in isolation. This study gave impetus to the requirement that schools of business initiate an integrating course.

Purposes of This Course

One purpose of this business policy course is to provide practice in decision making.² The course prepares the user to be a facilitator of decision making and to seek simplification, conservation of time, and greater consistency in the decision-making process. This text provides opportunities to (a) make and evaluate decisions within the existing strategic framework and (b) evaluate and modify the strategic framework itself.

Throughout this text, the concept is stressed that in policy formulation and implementation, consideration must be given to all pertinent functional areas. For example, what effect will the decision under consideration have on the firm's financial status, marketing activities, personnel operations, accounting, engineering department, risk management, manufacturing operation (production), corporate planning (economics), and procurement section?

In this course, you will also be exposed to content areas specific to the field of business policy or strategic management. You will learn about mission statements, organizational goal setting, techniques of strategy formulation and implementation, and the influences of organizational constituents on the entire process.

This text is not designed to prepare you to step immediately into a strategic management position in a major corporation. Few students will be faced with such an opportunity on completion of this course. To qualify for general management responsibilities, you can anticipate the need to acquire significant and meaningful experience as well as additional education. One quarter or semester of business policy is not adequate to provide you all the knowledge and experience required to manage large complex organizations. You will gain in this course, however, a better understanding of the demands on the general manager. You will learn how all members of an organization affect and are in turn affected by corporate policies and strategies, thus enabling you to make a greater contribution to your organization in whatever initial assignment you accept.

PREPARATION FOR THE POLICY COURSE

In considering the cases in this text, your concern is how you as a senior executive would best approach the issues. For example, not only must you give consideration to the formulation of policy and strategy (the focus of Chapters 2 and 3), but also to implementation (the focus of Chapter 4). It is critical to anticipate the reception any

² *Business policy* is used here to refer to the course that has various titles, including "Problems of General Management," "Administrative Policy," and "Strategic Management."

EXHIBIT 1 Information Checklist

Accounting	_____	Budgets	_____
Economics	_____	a. Operating	_____
Engineering	_____	b. Cash flow	_____
Environment	_____	c. Capital	_____
Ecology	_____	Management	_____
Finance	_____	Marketing	_____
Government regulation	_____	Production	_____
Information system	_____	Personnel	_____
Risk management and insurance	_____	Organization	_____

individual executive decision may receive. If a decision is rejected by the affected personnel, it is not likely to be implemented.

The most important prerequisite for business policy is to have completed the core curriculum in business administration. It is difficult for you to integrate knowledge that you have not acquired. Generally, students are most likely to be prepared to take the policy class during the final semester or quarter before graduation.

Additionally, many students suffer from what may be called a societal information deficit. In the classroom, students often demonstrate a lack of awareness of their surroundings, of history, of current events, and so on. To successfully complete business policy, you must have the information at your command that will enable you to respond intelligently to assignments. When the course concludes, you should be able to interpret the economic environment in which you must function.

Policy and Information

As you begin to analyze the cases, you will define the information you will need to facilitate the decision process. The checklist in Exhibit 1 suggests some categories of information that may be needed. Refer to the checklist and review those areas in which you may need some conceptual reinforcement. Some useful references are found at the end of this Introduction.

You have observed by now how the departments within a school of business parallel functional departments in corporations. Business policy, by its very nature, affects all of the functional areas, either individually or collectively. In the formulation of business policy, it is important for the policymaker to be sensitive to the relationship between a particular policy's implementation and the functional areas of the firm.

DEFINITIONS

In this section, we differentiate between the terms *policy* and *strategy* as they will be used in this text.

There are numerous definitions of the term *business policy*.³ For this book, an appropriate definition for policy is a guide to action in areas of repetitive activity. Unless an event or activity occurs with significant frequency, there is no justification for the establishment of a policy. Policy is for people; policies are directed toward people and their actions. Because of the actions people take, policies may involve money, things, or people. Policies may be established for a variety of purposes. One firm may have a policy of selling for cash. Another may encourage credit sales. One firm may hire students directly out of college and use extensive resources training the recruits. Another firm may prefer to hire only people with several years of experience.

In addition, policies may be either limited or global in effect. In this text, we differentiate between the limited and the more global by referring to the first as policies and the last as strategy. Strategy involves the long-term objectives of the firm and the means or set of functional policies by which it intends to get there. More succinctly,

Strategy is most usefully thought of as its [a firm's] key operating policies in each functional area of the business and how it seeks to interrelate the functions. This strategy may be implicit or explicit—one always exists in one form or another.⁴

Strategic management involves continuous appraisal of the firm's environment and modification of the firm's objectives and policies to take advantage of opportunities in that environment. In the words of two other theorists, strategy is "the basic characteristics of the match an organization achieves with its environments"⁵ and strategic management is the "process of continuously adapting to changes in the firm's environment."⁶

The following quote captures the differentiation between policy and strategy:

It seems wise here to emphasize the distinction between the formulation of policies and procedures and their implementation. The formulation of policies and procedures can be defined as either strategic or tactical. Strategic decisions are concerned with the long-term health of the

³ Milton Leontiades, "The Confusing Words of Business Policy," *Academy of Management Review* 7, no. 1 (1982), p. 45.

⁴ Michael Porter, *Competitive Strategy* (New York: The Free Press, 1980), p. 63.

⁵ C. W. Hofer and D. E. Schendel, *Strategy Formulation: Analytical Concepts* (New York: West Publishing, 1978), p. 4.

⁶ D. E. Schendel and C. W. Hofer, *Strategic Management: A New View of Business Policy and Planning* (Boston: Little, Brown, 1979).

enterprise. Tactical decisions deal more with the day-to-day activities necessary for efficient and smooth operations. But decisions, either tactical or strategic, usually require implementation by an allocation or reallocation of resources—funds, equipment, or personnel.⁷

The tactical decisions referred to are what we call policies. We use *strategy* to refer to the global orientation of the firm. Thus, the term *business strategy* is global while *business policy* is more constrained.

OVERVIEW OF THE BOOK

You will discover that in this text the term *strategy* occurs more frequently than *policy*. We find that by the time students are ready for the capstone course, they have been well grounded in policymaking, or tactical decisions, in the functional disciplines. In Chapter 1, we examine in greater depth the concepts that are reencompassed by the strategic management process. You will see that this process occurs at four levels in complex organizations: enterprise, corporate, business unit, and operational (or functional). Most of your attention in prior courses has been directed toward operational or functional levels of analysis. You have learned about policies and tactical decisions in accounting, finance, marketing, and so on.

We have already emphasized the importance of these functional areas, and you can expect to apply what you learned to the cases you will analyze for this course. The primary level of analysis for this text is the *strategic business unit* (SBU), focusing on its relationship with its environment. We explain in Chapter 1 that your perspective in most cases will be that of the *general manager*, that is, the chief executive responsible for policy development and strategic management of an organization or a major, relatively autonomous unit within a larger organization. You will be learning about strategies that enable SBUs to cope within competitive industries.

This text does not exclude public-sector organizations. Chapter 1 explains how business policy and strategic management apply in the public sector. You have undoubtedly noticed that public-sector organizations, such as colleges and universities, struggle in environments that may be every bit as competitive as those of private enterprise.

Chapter 2 is devoted to mission statements and goal setting. Strategies represent courses of action, implying some desired outcomes toward which resources are being mobilized. Policies cover routine activities and must be written within a framework that determines

⁷ Alfred D. Chandler, *Strategy and Structure* (Cambridge, Mass.: MIT Press, 1962), p. 11.