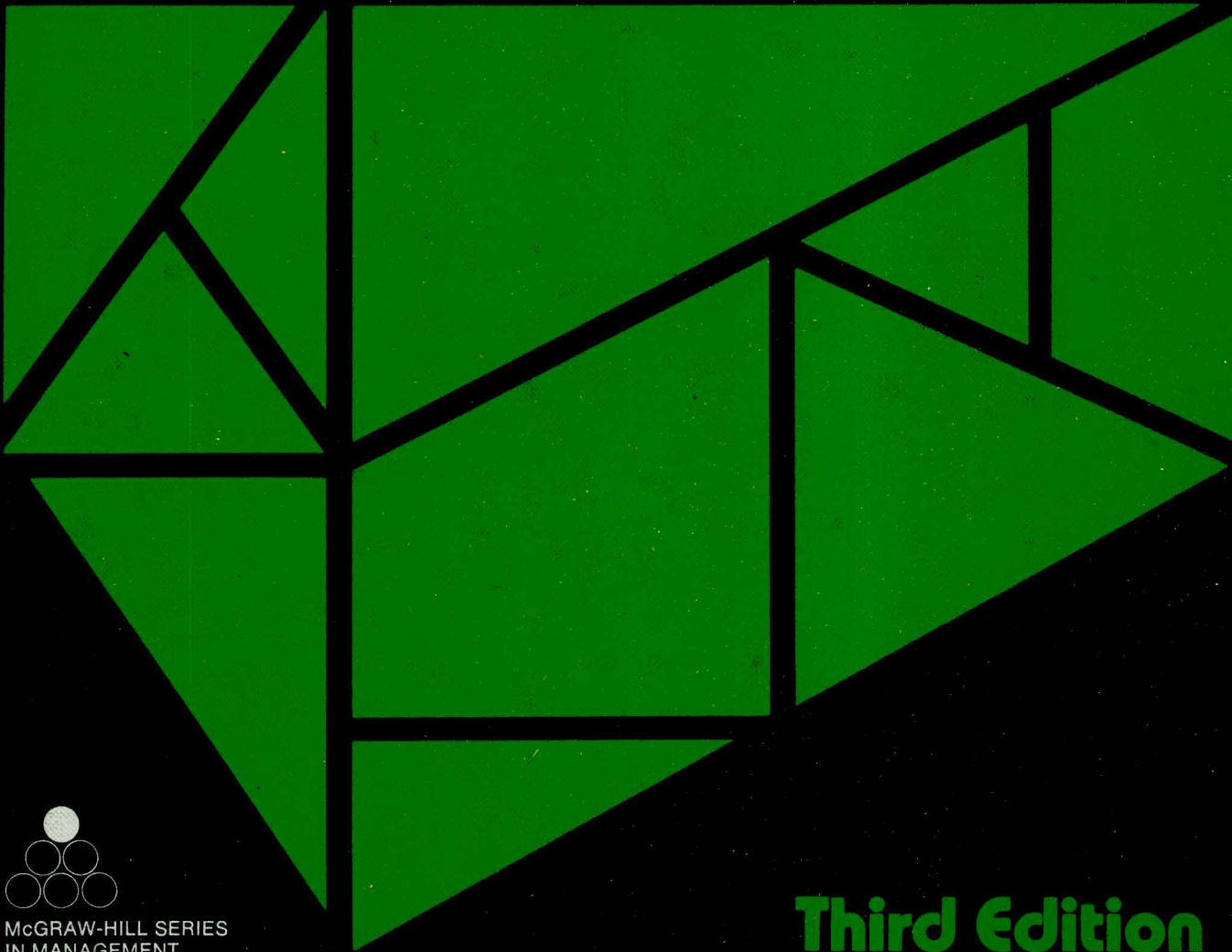


WILLIAM F. GLUECK

Business Policy and Strategic Management



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IN MANAGEMENT

Third Edition

Business Policy and Strategic Management

Third Edition

William F. Glueck

The University of Georgia

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BUSINESS POLICY AND STRATEGIC MANAGEMENT

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Preface

The third edition of this text, like the previous editions, is designed to meet the needs of students of business policy and strategic management. It contains three parts: text, readings, and cases. The *text* attempts to summarize the state of the art of business policy and strategic management. It would be impossible to give all the references available; no doubt I have overlooked some important ones. But I have tried to review the work of most theorists, practitioners, and researchers in the field.

The third edition has the following additions and changes to the *text* portion:

1. The text has been thoroughly rewritten and updated. It is less cluttered than the second edition.
2. The propositions have been integrated into the summaries. The summaries are more comprehensive.
3. The discussion and the model contrast the single-product/service-line firm with the multiple-product/service-line firm which is organized into multiple strategic business units.
4. An appendix which summarizes briefly financial ratio analysis has been added to Chapter 4. Many users of the text indicated that this material would be useful in conjunction with the rest of the book.
5. More material has been added to describe formal planning systems and corporate planning departments in view of their increased use.
6. More material on multinational/international strategies has been added at the request of the present users. This is true of the readings and case section, too. But the addition is moderate so that those not preferring this will not be inconvenienced.

The *readings* section of the book has been completely reoriented and dramatically improved.

1. Instead of using already published pieces, I invited experts to write original essays on topics of their expertise and of use to the reader.
2. The readings use the terminology of the text. So confusion of terminology is eliminated.
3. The essays are of two types:
 - a. They discuss a facet of business policy not well covered in the literature at present. For example, Kreiken discusses vertical integration strategy.
 - b. They present points of view that differ from that of the author as presented in the text. For example, Archie B. Carroll makes a forceful case for social responsibility as a corporate objective. Or they present different points of view to 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.

The case section of the book is changed and greatly improved.

1. First, there are more cases. This edition includes 29 cases, 3 more than in the second edition.
2. All but three are completely new or completely rewritten. This makes the course more interesting and helps the instructor deal with the "solutions are in the fraternity files" problem.
3. The cases are up to date. Only a few do not contain 1978 data.
4. The note to the case method is improved. The appendix to Chapter 4 on financial analysis should help the user do a better job analyzing financial aspects of the cases.
5. The balance of cases reflects the interests of the users: 17 of the 29 cases deal with manufacturing firms; 6 cover service industries; 3 describe not-for-profit enterprises. The cases cover settings all over North America. There are 3 cases about overseas settings such as Europe and Latin America.
6. Two cases, AMMCO and Four Winds Marina, are available in film.
7. Two cases, St. John's Hospital and Hawaii Best, have parts available in the Instructor's Manual for longitudinal realistic analysis.
8. The variety of authors of cases has been increased.
9. Industry comparisons. The book contains three industry notes and several cases within an industry. The instructor can use all or parts of the industry during one term. I have consciously chosen different strategic positions within an industry for presentation. For example, Avon, the largest firm, and Mary Kay, a relatively new competitor, are contrasted. Holiday Inns, a leading "main line" lodging firm, can be contrasted with a budget chain (Day's Inns) and an independent motel firm (Brown's Congress Inn).

As we face the challenges of the 1980s, it is even more important for managers to plan the strategies of their enterprises for our civilization's survival. This is to hope that this book contributed something to this objective.

This book is the product of many people. I am most grateful to all the contributing authors for their useful material. I am especially thankful to Professor Jan Kreiken of Technische Hogeschool Twente, The Netherlands. In addition to the essay he wrote for Chapter 5 and the contribution to Chapter 3, he has read the entire manuscript and made many useful contributions and comments. Jan has been an especially helpful colleague in so many ways.

I also would like to thank those who reviewed the book. They include: Collin Bushway, Virginia Commonwealth University; Douglas C. Darran, University of South Carolina; Keith Davis, Arizona State University; Joel M. Fuerst, Illinois State University; Lawrence Jauch, Southern Illinois University; Bernard D. Perkins, University of South Dakota; S. Benjamin Prasad, Ohio University; Claude I. Shell, Eastern Michigan University; and Leete A. Thompson, California State University.

The challenging work environment at the University of Georgia has helped complete this book. This challenge is a consequence of colleague relationships, especially with William Boulton, Archie Carroll, William Greenwood, Frank Hoy, Asterios Kefalas, Curtis Tate, and the Management Policy and Systems doctoral

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students. It is also due to the administrative leadership of Richard Huseman, Chairman, Department of Management, and William Flewelling, Jr., Dean of the College of Business Administration.

I also wish to thank Jean Hanebury, my administrative assistant. Jean provided the work support, editorial advice, and facilitation to keep the book on time. She also contributed in numerous ways to the completion of the book.

Finally, I wish to thank my sons, Bill, Jr., and David, to whom this book is dedicated, for providing me with the support and motivation for all I do.

William F. Glueck

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Text and Readings

An Invitation to Strategic Management

1

OBJECTIVES

- 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

- 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?

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]¹

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. Finally, there are *cases*. The cases are descriptions of businesses and of other organizations. The cases provide the reader with an opportunity to analyze the strategic management of real organizations and prescribe improvements for them. They look at all aspects of the company that seem important to understanding the business as a whole. More will be said about case analysis in a note at the beginning of the case section of the 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

¹Reference 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.

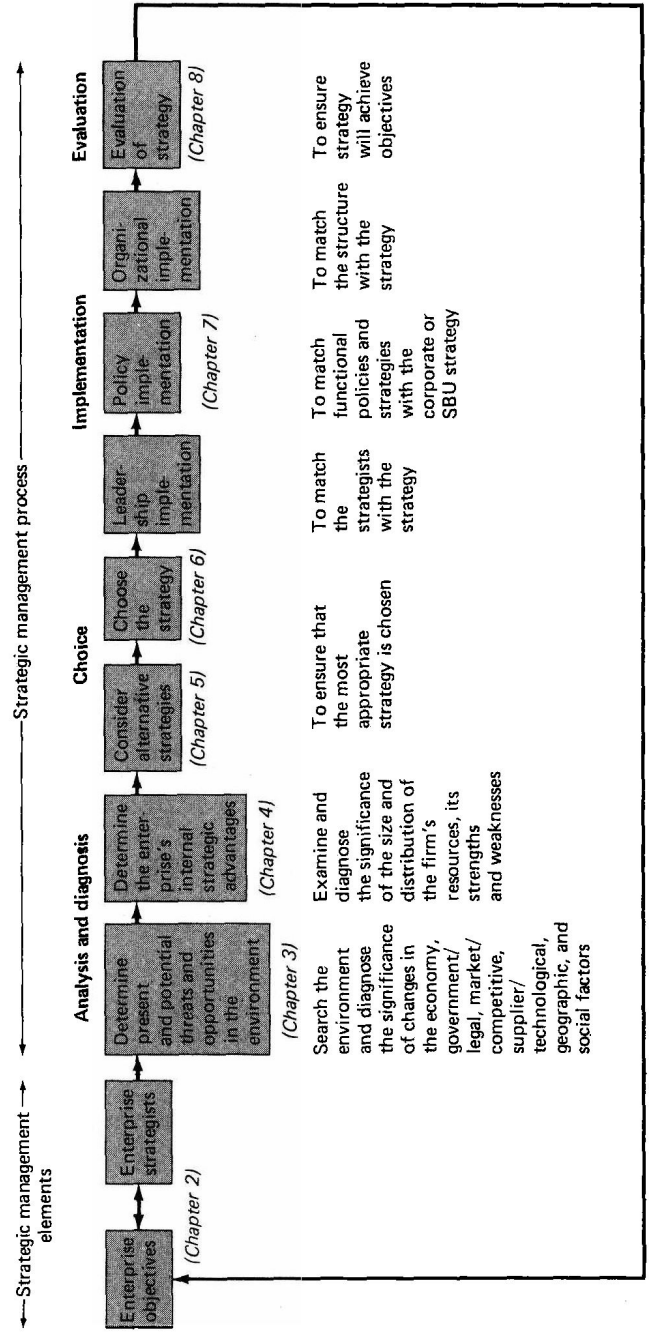
"First-generation planning" means that the firm chooses the most probable appraisal and diagnosis of the future environment and of its own strengths and weaknesses. From this, it evolves the best strategy for this match of the environment and the firm.

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.

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.

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.

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.

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).

