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A Managerial Viewpoint

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Business Research Methods

Strategic Management Begins with Mission, Policy, Information, and Strategists

Effective business strategy is an essential requirement for an outstanding company. Of all the contrasts between the successful and the unsuccessful business, or between the corporate leader and its followers, the single, most important differentiating factor is strategy.

— J. Thomas Cannon •

Whether an organization will succeed or fail ultimately hinges upon the appropriate administration of the subjects of this book: strategic management and organizational policy. IBM, General Electric, Xerox, and Mazda all shared, in 1985, at least three common factors—success, competent strategic management, and viable organizational policy. Conversely, International Harvester, Osborne Computers, and Braniff Airlines, at the time of their decline or demise, also shared three common factors—failure, inadequate strategic management, and dysfunctional organizational policy. In the short run, any firm with a strategic advantage can survive and even prosper; but in the long run, only the organizations that practice sound strategic management and that have viable policies will continue to possess that strategic advantage and will therefore be able to survive and prosper!

Fortunately, many organizations have begun to realize the importance of strategic management and organizational policy. One book in particular, *In Search of Excellence* by Thomas J. Peters and Robert H. Waterman, Jr., has stimulated many executives to improve their organizations' strategic management practices. As never before, organizations are searching for the synergistic combination of factors that Peters and Waterman suggest are critical to corporate excellence.¹ This is no easy task, nor is strategy alone sufficient, as both their book and this one advise. There is more to strategic management than just strategy. All of the strategic management concerns must be addressed for excellence to occur. Hence *Strategic Management and Organizational Policy* addresses not only strategy formulation, but policy and strategy implementation and control as well.

*We are not managing this company for the next quarter.
We are building it for the next generation.*

— Sam Johnson, Chairman and CEO, S. C. Johnson & Son Inc. (Johnson's Wax) •

¹T. J. Peters and R. H. Waterman, Jr., *In Search of Excellence: Lessons from America's Best-Run Companies* (Harper & Row: New York, 1983).

Strategic management is the process of managing the pursuit of organizational mission while managing the relationship of the organization to its environment.

Strategic management is principally concerned with executive actions that involve

1. The determination of the organization's mission, strategic policies, and strategic objectives.
2. The formulation of a master strategy to accomplish those objectives. This strategy is most often based on a grand strategy combining basic actions and marketing considerations.
3. The formulation of policies to aid in the implementation and control of the master strategy.
4. Managing, through subordinates, the process of implementation, which translates strategic plans into action and results.
5. The practices of evaluation and control to determine whether the mission and objectives have been achieved and whether the plans and policies for reaching them are functional.

Mission is the organization's purpose, its reason for being. **Mission statements** should describe the organization's major areas of interest, its scope of intended actions, the basic market needs it intends to satisfy, and its primary values.

Strategic management stresses managing the organization's relationship with its environment as a means to mission accomplishment. Historically, organizational strategic management has revolved around basic action strategies and competitive marketing actions. Currently, more and more organizations recognize that the strategic process is much more complex; they therefore focus their efforts on virtually all key environmental and internal factors, not just on customers, suppliers, and the competition. Furthermore, strategic management recognizes that most organizations operate in increasingly volatile and often hostile environments. Strategic management must therefore be constantly concerned with managing in changing environments. Organizations such as Texas Instruments and Hewlett-Packard, often showcased in the 1970s as firms with sound strategic management, have unfortunately found in the early 1980s that their chosen strategies were not suited to the demands of their changing environments. As of early 1985, neither has yet completely appropriately responded to their environments.

Organizational policy comprises broad forms of guidance established to aid managers in determining strategic objectives and in formulating, implementing, and controlling the master strategy.

The guidance given by organizational policy ranges from very broad statements to somewhat more specific constraints that set out allowable or intended courses of action. Such guidance is necessary if the actions taken by organization members are to be consistent with the organization's mission. Policy provides a framework within which organization members can function, and within which the master strategy can be formulated, implemented, and controlled.

The master strategy is the group of strategic plans formulated to achieve the organization's strategic objectives as it manages the organization's relationships with

the major constituents of its internal and external environments affected by its actions, known as environmental stakeholders.

Strategic objectives are major, comprehensive objectives for accomplishing mission. They define mission in more specific, achievable terms.

Strategic plans are major, comprehensive, and usually long-term plans for accomplishing strategic objectives and, hence, mission.

All organizations' master strategies have four common components: societal response strategies, mission determination strategies, primary mission strategies, and mission-supportive strategies. In business, these strategies are referred to respectively as the enterprise strategy, the corporate strategy, the business strategy, and the functional strategy. The societal response strategy tells how the organization plans to relate to its external societal constituents. The mission determination strategy defines the organization's fields of endeavor and how it plans to conduct itself in those endeavors in very broad terms. The primary mission strategy indicates how the organization plans to achieve its primary mission. The mission-supportive strategies tell how the organization plans on supporting its primary mission strategy. The content of the master strategy varies principally with the mission strategists, and with the type of organization. (See Table 3.2 in Chapter 3).

Business organizations can be placed in two primary groups. The first group includes organizations that sell a single product or few products, largely in a single industry. This type of organization is known as a strategic business unit (SBU). Examples of single-SBU firms include Delta Air Lines, individual McDonald's franchises, the maker of Arrow shirts, and most accounting firms. The second group is made up of organizations that market their products in many industries and have many SBUs. General Mills, Westinghouse, IBM, General Electric, Mitsubishi, Xerox, and Sears Roebuck are examples of multiple-SBU firms.

When formulating strategy at the SBU, or business level, strategists are most concerned with developing a strategic advantage through the choice of an appropriate grand strategy.

The grand strategy is that combination of strategies that defines the driving force of the organization—that central-action character attribute to which all else should adhere—growth through price competition or quality competition, for example.

This strategy will focus on elements of the primary mission strategy, often marketing (although some organizations may emphasize other areas such as production and cost controls), and on the choice of basic corporate strategies, such as the decision to compete or find a niche, grow or stabilize, and so forth, which are part of the mission determination strategy.

Successfully competing in the marketplace is the aim of SBU strategy. Critical to the achievement of a competitive advantage are: supportive strategies in the economic functional areas of finance, operations/production, and human resources management; and supportive strategies in the managerial functional areas, such as planning, organizing, implementing, and controlling.

In multiple-SBU firms, the overall organizational master strategy focuses on a grand strategy aimed at obtaining a strategic advantage over other similar firms, usually con-

glomerates, by achieving a synergistic balance among all the SBUs. The techniques employed to achieve this balance are known as portfolio management. These emphasize corporate strategies. In addition, the master strategy at this level must examine the same fundamental issues as those portrayed in Table 3.2 (Chapter 3). That is, all major components of the master strategy must be addressed from the total organizational perspective, albeit if only from a policy viewpoint, in terms of informing major divisions of total organizational objectives and plans in those areas to which divisions would be expected to adhere, and/or negotiate for their individual differences.

In addition to strategies for corporate, SBU (business), and functional areas, the master strategy component for coping with the total organizational environment, known as the enterprise strategy, is a critical ingredient in the successful organization's master strategy. Chapter 3 discusses all of these types of strategies in much greater detail.

The wise leader considers the days that are yet to come.

▪ Persian proverb ▪

Strategic Management in the Organization

The role of strategic management in the organization can be examined through the use of a strategic management process model such as that presented in Figure 1.1 and an objectives determination and master strategy formulation model such as that presented in Figure 1.2, which provides more detailed information about the processes portrayed in the second and third steps of Figure 1.1. While Figures 1.1 and 1.2 (areas highlighted are covered in this chapter), as well as much of the accompanying narrative, portray the processes as sequential, they do not always occur as shown. Many times, objectives are established without exhaustive examination of information. Many times, objectives change after strategies have been formulated. Many times, objectives remain the same, but the strategies to achieve them are reformulated. However, most of the time, the processes shown in the figures occur sequentially at least once a year as organizations complete their annual planning process.

How these models are actually put into operation varies from organization to organization. Although specifics may vary, the strategic management process model contains the principal components of the effective organization. Numerous studies have indicated the

Figure 1.1 The Organization—a Strategic Management Process Model

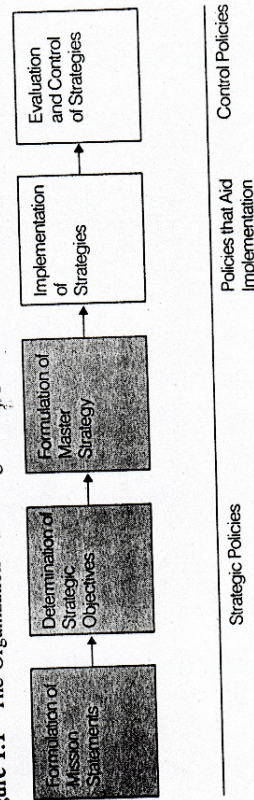
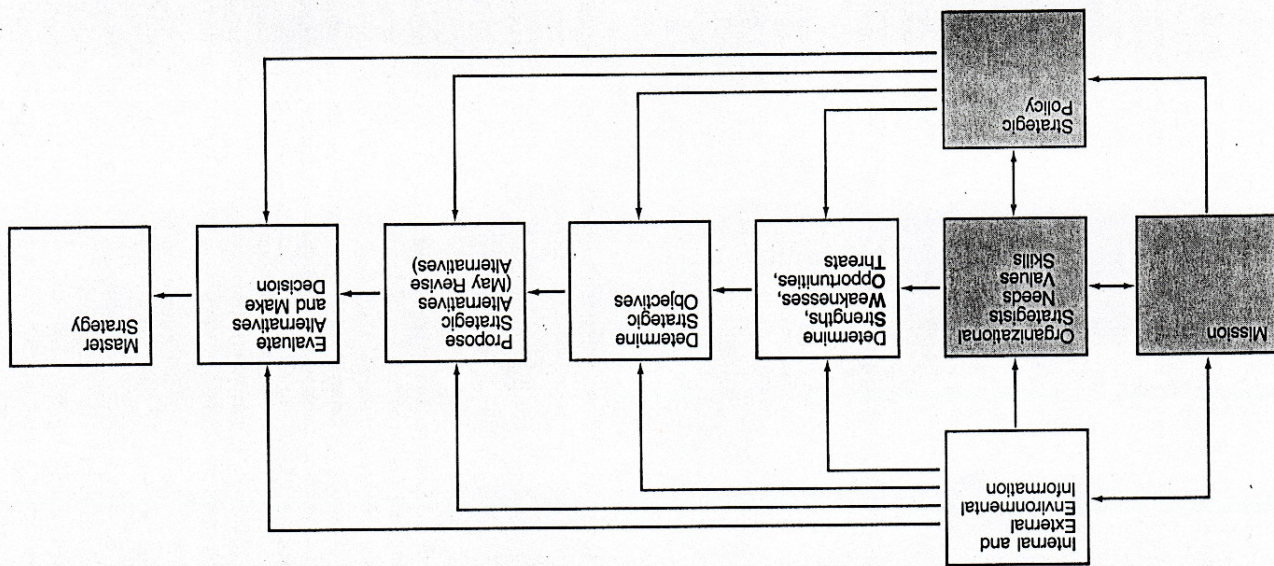


Figure 1.2 Objectives Determination and Master Strategy Formulation

Four Influential Factors That Determine Objectives and Strategies



Master Strategy Formulation

Objective Determination

SWOT

importance of this strategic management approach and the processes depicted in the figures.² Not all are supportive, but most are, and most of those that are not can be explained by methodological reasons. However, planning alone does not insure success. Implementation and control are critical. Furthermore, the size of the organization may dictate, somewhat, whether strategic planning will be appropriate or not. Essentially, there is some question as to how effective formal planning is for the smaller firm.

The contents of the model in Figure 1.1 are as follows:

1. Formulation of Mission Statements. Organizations exist to accomplish a mission. Mission is the organization's reason for existence. Successful organizations have well-defined missions and function in accordance with them.
2. Setting of Organizational Policy. Broad, general guidance must be available for the entire strategic management process: strategic policies guide the objective setting and strategy formulation processes; additional policies derived from strategy and these strategic policies guide the ensuing actions, which lead to implementation of strategy; finally, selected policies guide control actions.
3. Determination of Strategic Objectives. Strategic objectives for achieving organizational mission in a complex environment must be determined. These objectives are simply more definitive statements of what constitutes mission accomplishment.
4. Master Strategy Formulation. Successful organizations establish strategic plans for reaching strategic objectives while managing relationships in a complex environ-

²H. I. Ansoff et al., "Does Planning Pay? The Effect of Planning in Success of Acquisitions," *Long Range Planning*, December 1970, pp. 2-7; J. S. Armstrong, "The Value of Formal Planning for Strategic Decisions: Review of Empirical Research," *Strategic Management Journal*, July-September 1982, pp. 197-211; D. Burt, Jr., and P. McDonald, "CEO's Role in Corporate Growth," *Harvard Business Review*, May/June 1970, pp. 150-163; C. S. Guyne, "An Analysis of Planning in Large Texas Manufacturing Firms" (Ph.D. dissertation, Texas Technical University, 1969); H. W. Hegarty, "The Role of Strategy Formulation on Corporate Performance," *Proceedings: Midwest American Institute of Decision Sciences*, 1976; D. M. Herold, "Long Range Planning and Organizational Performance: A Cross Validation Study," *Academy of Management Journal*, March 1971, pp. 91-102; R. J. Kudla, "The Effects of Strategic Planning on Common Stock Returns," *Academy of Management Journal*, March 1980, pp. 5-20; W. M. Lindsay and L. W. Rue, "Impact of the Organization Environment on the Long Range Planning Process: A Contingency View," *Academy of Management Journal*, September 1980, pp. 385-404; Z. A. Malik, "Formal Long Range Planning and Organizational Performance: A Study" (Ph.D. dissertation, Rensselaer Polytechnic Institute, 1974); M. A. Najjar, "Planning in Small Manufacturing Companies: An Empirical Study" (Ph.D. dissertation, Ohio State University, 1966); L. C. Rhyne, "The Impact of Strategic Planning on Financial Performance" (Paper presented to the Academy of Management, August 1983); R. B. Robinson, Jr. and John A. Pearce II, "The Impact of Formalized Strategic Planning on Financial Performance in Small Organizations," *Strategic Management Journal*, July-September 1983, pp. 197-207; L. W. Rue, "Theoretical and Operational Implications of Long Range Planning on Selected Measures of Financial Performance in U.S. Industry" (Ph.D. dissertation, Georgia State University, 1973); L. W. Rue and R. M. Fulmer, "Is Long Range Planning Profitable?" *Proceedings: Academy of Management Meetings*, 1973, pp. 66-73; S. Schoeffler, R. D. Buzzell, and D. F. Heany, "Impact of Strategic Planning on Profit Performance," *Harvard Business Review*, March/April 1974, pp. 137-145; R. Stagner, "Corporate Decision Making," *Journal of Applied Psychology*, February 1969, pp. 1-13; "The New Breed of Strategic Planner," *Business Week*, September 17, 1984, pp. 62-68; P. H. Thurston, "Should Smaller Companies Make Formal Plans," *Harvard Business Review*, September/October 1983, pp. 162-188; S. S. Thune and R. T. House, "Where Long Range Planning Pays Off," *Business Horizons*, August 1970, pp. 81-87; S. C. Wheelwright, "Japan—Where Operations Really Are Strategic," *Harvard Business Review*, July/August 1981, pp. 56-66; D. R. Wood, Jr. and R. L. LaForge, "The Impact of Comprehensive Planning on Financial Performance," *Academy of Management Journal*, March 1979, pp. 81-87.

ment. In setting strategic objectives and in formulating strategy, organizational strategists examine mission, policy, and information. The evaluation of alternatives is a vital part of the strategy formulation process.

5. Implementation. Four primary critical issues are involved in implementation: how the organization is organized, having appropriate implementation systems, the proper management of human resources, and the management of organizational culture. The components and relationships among these factors are revealed in Figure 8.2 (Chapter 8). Implementation is now recognized as being very critical to the success of strategic management.
 - a. **Structuring, Organizing.** The tasks required by objectives and plans must be specifically defined, with objectives distributed to combinations of tasks known as jobs; and the authority to accomplish these tasks must be granted in order for implementation to occur satisfactorily. Jobs must also be grouped into departments. Choosing the primary macro structure can have a major impact on the success of the strategy and is a decision which must be carefully made. The structure must be appropriate to the strategy.
 - b. **Implementation Systems.** Integrated planning and control systems are necessary to insure that strategies are converted into individual and work group objectives and actions, and that results occur. Leadership, motivation, and communication systems are necessary to insure that individuals and groups know and understand their tasks and objectives, and are motivated to accomplish them. Human resource management systems are necessary to insure that human resources are properly managed from the total organizational perspective. Concerns include personnel practices such as recruitment and selection, training and development, compensation, and performance appraisal. The organization's culture must be designed to be compatible with strategy if strategy is to succeed.
 - c. **Management of Human Resources.** One of the major concerns of successfully implementing strategy is the manner in which managers motivate and lead subordinates, and how they communicate to them. Of special interest in the top management levels is the nature of compensation. Furthermore, politics and understanding of organizational behavior are fundamental requirements to arriving at successful implementation.
 - d. **Organizational Culture.** One of the most important realizations of the 1980s has been that organizational culture impacts significantly upon productivity. An organization's culture may be defined in various ways, but perhaps is most easily defined as that set of characteristics of purpose and action that separates one organization from another in a given time frame. Development of the appropriate culture is essential to organizational success. The various characteristics must be sufficiently synergistic or there will not be as effective or efficient an organization as management seeks. A vital component of the organization's culture is a series of shared values.
6. **Evaluation and Control.** Strategists must determine whether the master strategy was or will be successful and take appropriate actions based on their findings.

In quite simple terms, the contents of the model address three basic issues common to all strategic situations:

Chapter 1: Mission, Policy, Information, and Strategists

Where are we now?

1. Where do we want to be?

3. How do we get there?

The Plan of This Book

The remainder of this text examines in more detail the two processes introduced in Figures 1.1 and 1.2. In Chapters 1 and 2, the objectives determination and strategy formulation processes are reviewed. The remainder of Chapter 1 discusses mission, strategic policy, and organizational strategists and how these three factors affect the processes outlined in Figure 1.2. Chapter 2 discusses the critical role of the fourth major influential factor in master strategy formulation—strategic information. Chapter 3 continues this discussion, concentrating on the steps in setting objectives and formulating strategy and on various techniques for improving the results of these processes. Chapter 4 reviews major functional strategies and discusses the principal contents of the master strategy at the SBU level, while Chapter 5 focuses on the major content of the master strategy and on the strategy formulation process in multiple-SBU firms. Chapter 6 examines the major behavioral aspects of the objectives setting and strategy formulation processes. Chapter 7 continues the discussion of the strategic management process model, focusing on the organizational elements of implementation. Chapter 8 concludes the discussion of implementation, reviewing implementation systems, human resources management, and shared values and culture. Chapter 9 completes the material on the strategic management process with a review of how evaluation and control are carried out.

In Chapters 10 and 11, the international and nonprofit applications of the topics examined are presented. The business organization is most often used to illustrate the concepts presented in the text, but nonprofit examples are also employed.

Related comprehensive cases, grouped according to the primary components of the Strategic Management Process Model (Figure 1.1), follow the textual material and are followed by four appendices. The first appendix, "The Case Method," tells you how to approach cases and how to learn from them. The next is a strategic audit for your use in analyzing cases and actual organizations. The third is a review of how to interpret financial statements. The fourth contains key information on the economy and major news events during the period of the cases.

The following pages in this chapter and Chapter 2 examine the four factors that most strongly influence the setting of objectives. These same four factors and the strategic objectives determined from them also greatly affect strategy formulation. The role of these factors in that process is also discussed in this and the next chapter.

Purpose is the unifying principle around which human energy clusters in the organization.

—Robert R. Blake and Jane S. Mouton*

Mission

Mission, or purpose, is the organization's *raison d'être*, its reason to be. Mission is the primary consideration upon which organizational objectives, policies, and strategies are based. Classifying organizations into various typologies is useful in understanding and

predicting organizational strategy. Classification factors which might be expected to have an impact on strategy include

- The organization's size—small, medium, or large.
- Its geographic scope—local, national, or multinational.
- The number and diversity of businesses it comprises—single-SBU or multiple-SBU organization.

However, mission exerts the most basic influence on strategy composition. The most obvious segmentation of organizations according to mission uses categories of profit and nonprofit. More definitively, Peter M. Blau and W. Richard Scott have identified four major types of organizations according to the group which receives the greatest benefit from the organization's existence. This classification scheme is essentially based on mission and the classifications are not mutually exclusive; an organization may, in fact, be appropriately classified into more than one category. The typologies are³

1. The business concern, which benefits the owners (and, it might be added, the employees and most of those who transact with it)—for example, General Motors.
2. The mutual benefit association, which benefits the members themselves—for example, a union or a club.
3. The service organization, which benefits its clients—for example, United Way and the U.S. Department of Health and Human Resources.
4. The commonweal organization, which benefits society in general—for example, the U.S. Department of Defense.

One would anticipate that these differing basic missions would result in varying strategies. But these simple statements of purpose alone are insufficient to distinguish one organization's mission from another when both have the same primary beneficiary. For example, all members of the business organization classification seek profit, so profit alone cannot be an organization's complete definition of purpose. Rather, as Phillip Kotler and John A. Pearce II suggest, an organization's mission is viewed as its broadly stated definition of basic business scope and operations which distinguishes it from other organizations of similar types.⁴ The primary thrust of this mission statement is external, focuses on markets and customers, and typically notes current fields of endeavor. In addition to these characteristics, many mission statements include descriptions of additional basic concerns. Among them are such factors as product quality, location of facilities, important aspects of perceived strategic advantage, and so forth. The mission statement often reveals not only purpose but business philosophy as well.

Profit obtained by satisfying a societal need is the overriding purpose of all business organizations. Mission statements simply further identify how one business intends to achieve profit as opposed to how another similar firm might do so. These statements must be carefully worded, since they provide direction for policy, objectives, and strategy. Information Capsule 1.1 contains examples of mission statements abstracted from several

³P. M. Blau and W. R. Scott, *Formal Organizations* (New York: Chandler, 1962), pp. 250–253.

⁴Phillip Kotler, *Marketing Management: Analysis, Planning, Control* (Englewood Cliffs, N.J.: Prentice-Hall, 1980), pp. 50–54; John A. Pearce II, "The Company Mission as a Strategic Tool," *Sloan Management Review*, Spring 1982, p. 15.



"We are gathered here today, gentlemen, to make money."

Source: Drawing by Opie; © 1977 *The New Yorker Magazine, Inc.*

organizations' annual reports or philosophies. Note the diversity in the statements and also the approaches to mission taken by the "new" AT&T, and one of its former subsidiaries.

Mission statements change for numerous reasons; the appearance of opportunities or threats is a common reason. New management often introduces changes. For example, when Roy E. Winegardner was elected chief executive of Holiday Inns, he made major changes in the firm's mission. As he declared, "We are in the process of reshaping Holiday Inns into a different company . . . a hospitality company." The principal result was to limit the company's scope to food, lodging, and entertainment, moving the company out of some businesses (Trailways) and into an active casino gambling position.⁵

Note the variations, and also the similarities and common components, among the mission statements in Information Capsule 1.1. As you can see, not all mission statements address each of the issues felt to be appropriate for inclusion. The basic question these statements seek to answer is "What business are we in or do we want to be in?"

In fact, it [mission] must lie in society since business enterprise is an organ of society.

▪ Peter Drucker, 1974 ▪

⁵R. E. Winegardner, as reported in "Holiday Inns: Refining Its Focus to Food, Lodging—and More Casinos," *Business Week*, July 21, 1980, pp. 100, 104.

INFORMATION CAPSULE 1.1

Mission Statements

Zale Corporation

Our business is specialty retailing. Retailing is a people-oriented business. We recognize that our business existence and continued success are dependent upon how well we meet our responsibilities to several critically important groups of people.

Our first responsibility is to our customers. Without them we would have no reason for being. We strive to appeal to a broad spectrum of consumers, catering in a professional manner to their needs. Our concept of value to the customer includes a wide selection of quality merchandise, competitively priced and delivered with courtesy and professionalism.

Our ultimate responsibility is to our shareholders. Our goal is to earn an optimum return on invested capital through steady profit growth and prudent, aggressive asset management. The attainment of this financial goal, coupled with a record of sound management, represents our approach toward influencing the value placed upon our common stock in the market.

We feel a deep, personal responsibility to our employees. As an equal opportunity employer, we seek to create and maintain an environment where every employee is provided the opportunity to develop to his or her maximum potential. We expect to reward employees commensurate with their contribution to the success of the company.

We are committed to honesty and integrity in all relationships with suppliers of goods and services. We are demanding but fair. We evaluate our suppliers on the basis of quality, price, and service.

We recognize community involvement as an important obligation and as a viable business objective. Support of worthwhile community projects in areas where we operate generally accrues to the health and well-being of the community. This makes the community a better place for our employees to live and a better place for us to operate.

We believe in the Free Enterprise System and in the American Democratic form of government under which this superior economic system has been permitted to flourish. We feel an incumbent responsibility to insure that our business operates at a reasonable profit. Profit provides opportunity for growth and job security. We believe growth is necessary to provide opportunities on an ever increasing scale for our people. Therefore, we are dedicated to profitable growth—growth as a company and growth as individuals.

This mission statement spells out the creed by which we live.

Source: John A. Pearce II, "The Company Mission As A Strategy Tool," *Sloan Management Review*, Spring 1982, p. 16.

The "New" (Deregulated) AT&T Defining Our Business

This new AT&T is in the business of meeting customer needs, worldwide, for the electronic movement and management of information.

We will provide modern, nationwide telecommunications facilities, offering a range of services unmatched by other long distance carriers.

We will develop and manufacture equipment and systems for our own and other networks, domestically and internationally.

We will design, produce and market communications and information products, systems and services for customers whose requirements are large and complex as well as for those whose needs are relatively few and simple.

We will design and produce electronic components, computers and software systems for use within our own organization and outside it.

We do not take a narrow view of the opportunities open to us—or of the market we are in. We see that market as a global one, and we will approach the various aspects of our business—research and development, manufacturing, marketing, distribution and service—from that global perspective.

We will not try to be all things to all people, but in everything we do we intend to be the best.

Customer Satisfaction

Our overarching goal will be customer satisfaction. All that we do will have meaning and purpose only as it serves that goal. And, by continuously striving to achieve customer satisfaction, we will ensure not only that we enhance the value of our shareholders' investment but that we retain the valued attributes that have distinguished our past.

From our past we bring with us impressive strengths: highly skilled and experienced people; an acknowledged proficiency in science, technology and engineering; a deserved reputation for service excellence; an emerging professionalism in marketing; and our experience in organizing resources and managing operations and systems on a very large scale.

We bring with us, as well, a sense of responsibility to conform our policies to what we believe to be the public interest.

And, finally, we bring with us fond memories of the many people whose dedication to service quality made this company so successful in the past and whose untiring efforts went into restructuring it for the future.

Source: AT&T, *Annual Report*, 1983, p. 3.

BellSouth

In short, our mission is to secure an attractive return for shareholders, provide high-quality service to our customers, and give our employees good opportunities now and into the future.

The telecommunications business is what we know best, and it will be the focus of our efforts in these early years. For the immediate future, BellSouth's primary mission will be to provide information distribution services in the local exchange and exchange access markets through the regulated subsidiaries of Southern Bell and South Central Bell.

But to prosper in the long term, we believe BellSouth must diversify. Thus, within our regulatory and legal framework, the corporation will also aggressively seek and create promising new markets for other products and services. Likely, new ventures will draw on the company's inherent strengths from existing technology and from the knowledge and training of its employees.

Related Description of the BellSouth Business

BellSouth has a lot of good things going for it. It operates in a growth area of the country, the Sunbelt. Population in the nine-state area served by its operating companies is expected to increase by 14 million by the year 2000.

Telecommunications, which is the focus of BellSouth's business, is considered by many experts to be the growth industry for the rest of the century.

Our two operating companies—South Central Bell and Southern Bell—were among the best earning companies in the Bell System. Both have networks that are among the most technologically advanced in the nation, and they have a legacy of 100 years of excellent service behind them.

We have about 99,000 employees, two-thirds of whom have at least 10 years of service, and many have worked together in the past when South Central Bell was part of Southern Bell. They have a strong background in innovative technology, having participated in many AT&T field trials of new products and services over the past 15 years.

Source: BellSouth, *Annual Report*, 1983, pp. 6–7.

CBS

CBS Inc. is a broad-based entertainment and communications company which operates one of the country's three commercial broadcast television networks and two nationwide radio networks. In addition, CBS owns five television stations and six AM and seven FM radio stations. The Company is the world's largest producer, manufacturer and marketer of recorded music and a leading music publisher; a major publisher of magazines and books for educational, consumer and professional markets; and a major manufacturer and distributor of toys and musical instruments. CBS also operates a unit which produces theatrical feature films, and is involved through joint ventures in additional motion picture production activities and in the marketing of videocassettes and videocassettes.

Source: CBS, *Annual Report*, 1984, p. 8.

Hewlett-Packard Company

Hewlett-Packard Company is a major designer and manufacturer of precision electronic equipment for measurement, analysis and computation. The interactive capabilities of HP instruments and systems enable its customers—decision makers in business and technical fields worldwide—to gain access to essential information, put it into meaningful form and use it effectively to improve their productivity.

HP makes more than 6,400 products that have broad application in the fields of science, engineering, business, industry, medicine and education. Principal product groups include computers and computer systems, handheld calculators and computer/calculator peripheral products; test and measuring instrumentation and solid-state components; medical electronic equipment; and instrumentation for chemical analysis.

Source: Hewlett-Packard, *Annual Report*, 1983, p. 1.

Delta Air Lines

Delta Air Lines, Inc., is a major trunk air carrier providing scheduled air transportation for passengers, freight, and mail over a network of routes throughout the United States and abroad. Delta's route structure crisscrosses the entire eastern half of the nation and connects much of it with the Southwest and the Far West. In addition, Delta operates flights to Canada, Bermuda, the Bahamas, Puerto Rico, England, and Germany. Service over most of Delta's routes is highly competitive. As an air carrier, Delta is subject to federal regulation pursuant to the Federal Aviation Act of 1958, as amended, as well as many other federal, state, and foreign laws and regulations.

Source: Delta Air Lines, *Annual Report*, 1984, inside cover.

Allegheny International

Allegheny International, Inc. (AI) is a global corporation, serving worldwide markets for utilitarian consumer goods and high-technology industrial specialties. Our operations extend from the corporate headquarters in Pittsburgh, Pennsylvania, to almost 400 regional headquarters, operating locations, sales offices, and distribution points on six continents.

Source: Allegheny International Inc., *Annual Report*, 1984, inside cover.

It is critical to organizational success that this question of business engagement be answered properly. In 1975, W. T. Grant, a retail chain with almost \$2 billion in sales and 1,000 stores, went bankrupt. One of the major underlying causes of its failure was that it overlooked this basic question. One W. T. Grant executive commented that the company could not make up its mind whether it wanted to be a full-service store like JCPenney and Sears Roebuck or a discount store like K mart. The company compromised and "took a position between the two and consequently stood for nothing"⁶—and also consequently went bankrupt.

Similarly, Braniff Airlines, in 1979, decided that it wanted to be a national airline, not just a regional one. The results were disastrous. The company lost \$131 million in 1980.⁷ The president resigned and eventually the airline declared bankruptcy. As of early 1985, it has yet to successfully recover from this strategic error, despite reorganization and capital infusion. The mission statement must always reflect capabilities, but Braniff's choice of mission overlooked its managerial, aircraft, and professional flight staff capabilities. It simply did not have enough managers, enough airplanes, or enough pilots and host personnel to meet the demands of rampant growth. Nor could it obtain planes or personnel, or train personnel quickly enough, to meet these demands.⁸ Its future was predictable.

Practically as well as conceptually speaking, all organizational activity derives from its mission. Without a proper mission statement, the organization may ultimately be doomed

⁶J. G. Kendrick, as quoted in "How W. T. Grant Lost \$175 Million Last Year," *Business Week*, February 24, 1975, p. 75.

⁷Braniff Airlines, *Annual Report*, 1980, p. 4.

⁸This is the authors' personal analyses.

to failure. Most commercial banks are struggling with this very issue. They wonder if they shouldn't be financial services institutions, not "just banks."

Undertaking the definition of a company mission is one of the most easily slighted tasks in the strategic management process. . . . But the critical role of the company mission as the basis of orchestrating managerial action is repeatedly demonstrated by failing firms whose short-run actions are ultimately found to be counterproductive to their long-run purpose.

▪ John A. Pearce II ▪

Organizational Policy

The term *policy* is used here to designate broad guidance created to ensure the successful establishment of objectives and the successful formulation, implementation, and control of strategy. Most policies have a broad and major impact on the organization, but some have a more limited impact and are designed to guide decisions through the use of more specific constraints. Policies provide organization members, primarily managers, with a framework within which they can make decisions. Examples of policies include the following:

1. Only products with at least a 15 percent return on investment (ROI) will be considered as additions to existing product lines.
2. Only products with high quality will be chosen for inclusion in the product line.

Because of these policies, this firm's corporate, business, and division managers will not select products which do not provide at least this rate of return and which do not have high quality. Because the managers do not have to determine what level of ROI is appropriate or what level of product quality is sought, the policies save time and effort.

As with the term *strategy*, the usage of the term *policy* varies greatly. The student of strategic management should recognize this fact and should not allow semantic problems to interfere with organizational analysis. The term is often employed to describe what is defined—here and often elsewhere—as strategy. Or the term may be used to describe very specific rules, such as "no smoking" or "employees retire at age 65." Often, policy is considered a component of strategy. In various contexts, strategies have a way of shading into policies, and vice versa.

Regardless of what we call them, however, an organization must have major plans of action in order to accomplish its mission. The organization must also have some form of broad guidance for formulating, implementing, and controlling these plans. These components of effective organizations are labeled here as *strategy* and *policy*, respectively.

Business policy has a tendency for jargon that delineates and isolates the field from the uninitiated.

▪ Milton Leontiades ▪

You will note that Figure 1.1 identifies three major types of policies: strategic policies, policies that aid implementation, and control policies. Let us now examine the first of these—strategic policies—in more detail.

Organizational Policy at the Strategic Level

The master strategy derives from the organization's mission and from the policies which exist to provide guidance in formulating it. These policies, which are called strategic policies here, are usually created by the owners, the board of directors, the chief executive officer (CEO), top line and staff personnel, top SBU managers, or professional planners; however, other organizational members may aid in their formulation. Some organizations refer to these policies as "basic assumptions." Others designate them "primary intents." Still others refer to them as "master policies." But regardless of its designation, certain guidance must be available to the organization's strategists as they determine strategic objectives and formulate the master strategy. In the business organization, this guidance normally relates to the following issues, although exact policies vary from firm to firm:

1. The return on investment desired and other performance criteria.
2. The scope of the strategy.
3. The basic actions in which the organization may engage; competition, growth, diversification, and so on.
4. The industries to be entered.
5. The qualifications of products to be offered.
6. The organization's climate and management philosophy.
7. The geographic location of the basic actions.
8. The role of the organization in the total society.

Based on the issues above and on consideration of mission and internal and environmental information, the organization's strategists determine objectives and formulate strategies. After considering information related to internal and external environmental factors, the organization's strategists may, from time to time, redefine the basic policies which guide the formulation of strategic objectives and of the master strategy and its component strategies. For example, examination of internal factors may reveal critical inabilities which preclude diversification. Or exploration of the external environment may reveal that new industry opportunities are available. Strategic policies must remain flexible if the organization is to be successful. Conceptually, strategic policies constitute a body of statements different from strategic objectives and strategies. In practice, however, the three are often intermingled. Policies exist at every level of the organization. At the highest level, strategic policies guide the formation of strategic objectives and the master strategy. Lower-level policies should be subordinate to those at higher levels of the strategy. Information Capsule 1.2 contains the strategic policies for a highly successful firm—the Coca-Cola Company. Note that these policies contain some objectives that are so specific as occasionally to constitute a strategy.⁹

Once strategic, or master, policies are established, the organization literally lives or dies by them. Both implementation and control policies, discussed in later chapters, are based on the outcomes of these strategic policies. All three types of policies are critical. The title of this book stresses the importance of both strategic management and one of its principal components, policy. Neither can be overlooked. Since all actions will follow the

⁹Most of the early strategic management writings, which came from the Harvard School of Business, defined strategy as that "set of major policies which defined what the organization wanted to be or become."

INFORMATION CAPSULE 1.2

Coca-Cola's Strategic Policies

Our Challenge

In order to give my vision of our Company for 1990, I must first postulate what I visualize our mission to be during the 1980s. I see our *challenge* as continuing the growth in profits of our highly successful existing main businesses, and those we may choose to enter, at a rate substantially in excess of inflation, in order to give our shareholders an above average total return on their investment. The unique position of excellence that the trademark Coca-Cola has attained in the world will be protected and enhanced as a primary objective.

Our Business

I perceive us by the 1990s to continue to be or become the *leading force in the soft drink industry* in each of the countries in which it is economically feasible for us to be so. We shall continue to emphasize product quality worldwide, as well as market share improvement in growth markets. The *products of our Foods Division* will also continue to be the leading entries in those markets which they serve, particularly in the U.S. *The Wine Spectrum* will continue to be managed for significant growth with special attention paid to optimizing return on assets.*

In the U.S. we will also become a stronger factor in the *packaged consumer goods business*. I do not rule out providing appropriate *services* to this same consumer as well. It is most likely that we will be in industries in which we are not today. We will not, however, stray far from our major strengths: an impeccable and positive image with the consumer, a unique franchise system second to none; and the intimate knowledge of, and contacts with, local business conditions around the world.

In choosing new areas of business, each market we enter must have sufficient inherent real growth potential to make entry desirable. It is not our desire to battle continually for share in a stagnant market in these new areas of business. By and large, industrial markets are not our business.

Finally, we shall tirelessly investigate services that complement our product lines and that are compatible with our consumer image.

Our Consumers

Company management at all levels will be committed to *servicing* to the best of its ability our Bottlers and our consumers, as well as the retail and wholesale distribution systems through which these consumers are reached. These are our primary targets. The world is our arena in which to win marketing victories as we must.

Our Shareholders

We shall, during the next decade, remain totally committed to our shareholders and to the *protection and enhancement* of their investment and confidence in our Company, its character and style, products and image.

*In implementing our strategy, the sale of The Wine Spectrum to Joseph E. Seagram & Sons, Inc., was completed in November 1983.

Our "Bottom Line"

My financial vision is not complicated, but it will require courage and commitment to attain financial goals consistently and effect growth in real profits, most especially during uncertain and fast changing economic times.

Our strong balance sheet and financial position will be maintained so that the Company can withstand any economic windstorm, as well as enable us to take advantage of expansion opportunities which complement our existing business and that offer acceptable earnings growth and return on investment.

It is our desire to continue to pay ever-increasing dividends to our shareholders. This will be done as a result of rapidly increasing annual earnings while of necessity reducing our dividend pay-out ratio, in order to reinvest a greater percentage of our earnings to help sustain the growth rate which we must have. We shall consider divesting assets when they no longer generate acceptable returns and earnings growth. *Increasing annual earnings per share and effecting increased return on equity* are still the name of the game—but not to the extent that our longer term viability is threatened.

Our People

Finally, let me comment on this vision as it affects our "life style"—or business behavior—as a viable international business entity. I have previously referred to the *courage and commitment* that will be indispensable as we move through the 1980s. To this I wish to add *integrity and fairness*, and insist that the combination of these four ethics be permeated from top to bottom throughout our organization so that our behavior will produce leaders, good managers, and—most importantly—entrepreneurs. It is my desire that we take initiatives as opposed to being only reactive and that we *encourage intelligent individual risk-taking*.

As a true international company with a multicultural and multinational employee complement, we must foster the "international family" concept which has been a part of our tradition. All employees will have equal opportunities to grow, develop and advance within the Company. Their progress will depend only on their abilities, ambition and achievements.

Our Wisdom

When we arrive at the 1990s, my vision is to be able to say with confidence that all of us in our own way displayed:

- The ability to see the *long-term consequences* of current actions;
- The willingness to sacrifice, if necessary, short-term gains for *longer-term benefits*;
- The sensitivity to *anticipate and adapt to change*—change in consumer life styles, change in consumer tastes and change in consumer needs;
- The commitment to manage our enterprise in such a way that we will always *be considered a welcomed and important part of the business community* in each and every country in which we do business; and
- The capacity to *control what is controllable* and the wisdom not to bother what is not.

Source: Roberto C. Goizueta, Chairman, Board of Directors and Chief Executive Officer, The Coca-Cola Company, in a 1983 update of a March 4, 1981, endorsement by the Board of Directors, "Strategies for the 1980s."

guidance provided in policy, proper policy formulation is critical to organizational success. W. T. Grant had very few policies, and most of those it did have were inappropriate. It went bankrupt. Firms such as Martin Marietta and K mart have highly functional policies based on mission and information. Such policies allow firms to survive and prosper.

Most battles are won—or lost—before they are engaged, by men who take no part in them; by their strategists.

▪ K. von Clausewitz ▪

The Organizational Strategists

In concept, organizational strategists, those involved in general management, include the owners, the board of directors, the CEO, and the top corporate and SBU line and staff officers, including professional planners. However, the evidence suggests that in reality an organization's strategic decision processes are dominated by an entrepreneurial chief executive, a coalition of high-ranking corporate or SBU officers, or other strategists. For example, top-level line managers are becoming more and more involved in the strategic process as "intrapreneurship" increases in U.S. corporations. Some professional planners in certain organizations also determine strategy. The strategic decisions of all of these strategists are affected by their needs, values, and skills. Each of these may in turn be substantially affected in their strategic decisions by the inputs from corporate professional planners. Before we examine the roles of the dominant strategists noted above, let us review the impact of boards of directors on strategic management.¹⁰

The Board of Directors and Strategic Management

Management does 90 percent to 95 percent of the talking. Outside board members, who are not part of the management, sit there and listen; then they go to lunch, and then go home and open the envelopes that contain their fees. . . . It is well known and accepted that only those men and women who can "get along" are elected to the board and stay on it.

▪ Harold S. Geneen, Former President, ITT, 1984 ▪

Research reveals that the board of directors has historically performed few of the classic functions conceptualized for it, such as strategic decision making. While the board may have passively approved the organization's objectives and strategies, normally it has had very little impact on their formulation and has not scrutinized them in very great detail. Furthermore, the evidence indicates that most board members have been ill-prepared to make such decisions. However, during the 1970s, failures of several major boards to take appropriate actions combined with lawsuits and proxy actions by disgruntled stockholders and citizens' groups resulted in the board's becoming much more professional, diverse, and responsive, at least in major corporations.

¹⁰H. Mintzberg, "Strategy Making in Three Modes," *California Management Review*, Winter 1973, pp. 45–46, identified three primary strategists: the CEO, the coalition, and the planning department. Recent evidence suggests that planning departments have lost much of their power and are now principally advisory in nature. See "The New Breed of Strategic Planner," *Business Week*, September 17, 1984, pp. 62–66.

The role of the board of directors, while historically not well understood and not followed operationally as outlined conceptually, has in recent years become of major concern to corporations. The result has been an emphasis on increasing the board's role in making strategic decisions, monitoring executive performance and compensation, assuring the soundness of budgeting, and determining the soundness of policies. The number of outside directors has significantly increased, and a definite trend toward use of professional board members has become apparent. While the actions of boards naturally vary from firm to firm, we can anticipate continued efforts by boards to take a more active part in the organization's strategic process.

The coalitions which may develop on the board are very important, since the board must finally approve the chosen strategies. Research reveals that top management often controls the board rather than vice versa, as is normally conceptualized.¹¹ The behavioral aspects of the strategic decision process are examined in detail in Chapter 6, with special attention given to the coalition process. Let us now examine in more conceptual terms how each of the major groups of strategists may influence the strategic management process.

The principal function of the strategists in determining objectives and formulating strategy is to consider mission, strategic policies, and information and then determine objectives which best match the needs of the organization, given the information available about strengths, weaknesses, opportunities, and threats. Then the strategists look at these same three factors in determining plans to reach the desired objectives. How the major types of strategists—the entrepreneurial CEO, the coalition, and the top-line managers—go about their tasks may vary, however.

The Chief Executive Officer as Strategist

The CEO clearly dominates strategy formulation in practically all smaller firms, in most medium-sized firms, and in many, if not most, large firms. Within multiple-SBU com-

¹¹K. R. Andrews, "Replaying the Board's Role in Formulating Strategy," *Harvard Business Review*, May/June 1981, pp. 18–20, 24–25; K. R. Andrews, "Corporate Strategy as a Vital Function of the Board," *Harvard Business Review*, November/December 1981, p. 175; W. W. Womack, "The Board's Most Important Function," *Harvard Business Review*, September/October 1979, pp. 52–62; "The Board: It's Obsolete Unless Overhauled," *Business Week*, May 22, 1971, pp. 50–58; W. Boulton, "The Evolving Board: A Look at the Board's Changing Roles and Information Needs," *Academy of Management Review*, October 1978, pp. 827–836; M. Chandler, "It's Time to Clean up the Boardroom," *Harvard Business Review*, September/October 1975, pp. 73–82; N. C. Churchill, V. Lewis, and C. Ramsay, "Changing Strategic Requirements of Boards of Directors as Companies Develop and Grow," (Paper presented to the Strategic Management Society Conference, Paris, October 1983); W. D. Clendenin, "Company Presidents Look at the Board of Directors," *California Management Review*, Spring 1972, pp. 60–66; "End of the Director's Rubber Stamp," *Business Week*, September 10, 1979, pp. 72–77; S. M. Feltton, Jr., "Case of the Board and the Strategic Process," *Harvard Business Review*, July/August 1979, pp. 19–22; P. B. Firstenberg and B. G. Malkiel, "Why Corporate Boards Need Independent Directors," *Management Review*, April 1980, pp. 26–28; J. A. Groobey, "Making the Board of Directors More Effective," *California Management Review*, Spring 1974, pp. 25–34; J. W. Henke, Jr., "Making the Board of Directors' Involvement in Corporate Strategy Work" (Paper presented to the Strategic Management Society Conference, Paris, October 1983); S. L. Jacobs, "A Well-Chosen Outside Board Gives Owners Peace of Mind," *The Wall Street Journal*, January 21, 1985, p. 25; M. Launstein, "Preserving the Importance of the Board," *Harvard Business Review*, July/August 1977, pp. 36–47; M. S. Miztruchi, "Who Controls Whom? An Examination of the Relation Between Management and Board of Directors in Large American Corporations," *Academy of Management Review*, July 1983, pp. 426–435; J. Montgomery, "New Direction: Citizens and Southern Shakeup Underscores Evaluation of Boards," *The Wall Street Journal*, March 21, 1978; R. Mueller, *New Directions for Directors* (Lexington, Mass.: Lexington Books, 1978).

panies, total organization strategies are determined by corporate CEOs or other strategists, with the SBU corporate strategies being determined by SBU CEOs or other strategists. CEOs who affect strategy may be either owner/entrepreneurs or professional managers who take risks and who seek the power that such positions and decisions involve.

Almost all U.S. corporations were begun or made successful by entrepreneurially oriented owner/managers: Sears (Richard W. Sears), Xerox (Joseph Wilson), Eastern Airlines (Captain Eddie Rickenbacker), Jim Walters Corporation (Jim Walters), Eckerd Drugs (Jack Eckerd), the Coca-Cola Company (John Woodruff), Ford Motor Company (Henry Ford), Mary Kay Cosmetics (Mary Kay), Wendy's (R. David Thomas), George E. Johnson Company (George E. Johnson), Marriott Corporation (J. Willard Marriott), and McDonald's (Ray Kroc), to name a few. Many firms, including some of those just mentioned, have also been tremendously affected in their strategic courses of action by professional managers who took risks and acted as entrepreneurs—General Motors (Alfred P. Sloan), the Coca-Cola Company (J. Paul Austin), Miller Brewing Company (John A. Murphy), and Radio Shack (Charles Tandy), for example.

Look around your town or city. How many businesses are there run by a CEO or a family dominated by one person? Almost all businesses are headed by one person, aren't they? These managers are the backbone of the system of free enterprise, which rewards the investor, the innovator, and the risk taker.

In recent years, substantial concern has been expressed that this entrepreneurial motivation is missing from large, dominant corporations. Indeed, this concern appears to be well founded; and as a result, the ability of U.S. firms to compete in the international arena has been significantly reduced. This is especially true with respect to competing with Japanese firms, which actively seek to further the success of their organizations in the long run, not the short run. Consequently, many firms are now sponsoring entrepreneurship programs where managers run divisions as if they were their own businesses, thus becoming "intrapreneurs."¹²

As you progress through this text, the importance of taking the strategic management viewpoint will be further emphasized. U.S. firms do seem to have realized their overemphasis on the short term and do seem to be responding to the challenge of international competition. One of the biggest keys to success in international competition is to correlate the strategist's compensation to long-term successes and not to short-term successes such as those indicated by current profits and ROI. Information Capsule 1.3 discusses Japanese management systems and how they stress the strategic view.

Coalitions as Strategists

The business organization, whether a single- or multiple-SBU type, is a formal authority system composed of subsystems. Within this system and within these subsystems, informal social systems develop. These informal relationships often play a major role in strategy formulation.

Studies of the objectives-setting and strategy formulation processes have revealed that one or more powerful informal groups of top managers may emerge within the formal

¹²For example, in the "Productivity" issue of *Business Week* see the article entitled "Managers Who Are No Longer Entrepreneurs," June 30, 1980, pp. 74–75.

INFORMATION CAPSULE 1.3

Japanese Management and the Strategic View

Examining the Japanese success story shows that several factors have contributed to the enormous strides the Japanese have made economically in the last 15 years. Careful examination of the evidence reveals that the following five factors have especially contributed to this success:

1. *Cooperation between Government and Business.* Japan's government steers firms in the proper strategic direction, toward areas in which potential profits appear highest. Tax incentives, subsidies, import quotas, and R&D funding are used to this end.
2. *Cooperation between Labor and Business.* The confrontation which characterizes the U.S. labor/business interaction is largely absent in Japan.
3. *Management Style.* Employee participation in decision making, recognition of employees' performance and human needs, and employee job security are key ingredients in the Japanese management style which have clearly contributed to Japanese successes. These considerations are typically absent in U.S. managerial actions, but are increasingly being adopted as U.S. firms seek to become more competitive.
4. *Management Development and Education.* Japanese managers continually receive training on how to manage, especially interpersonal relationships. U.S. companies, in contrast, invest relatively little in such endeavors.
5. *Management Systems—Strategic and Quantitative.* Japanese managers take the strategic view. Their marketing actions, production actions, and personnel actions reflect a concern for the long-run viability of the firm. For example, they may stress market share more than profits; but in the long run, market share will lead to profits. This contrasts with U.S. management objectives, which often emphasize short-run results, such as annual profit. Because Japanese managers know their firms will be competitive in ten years, and that they will still be employed by the same firm, they are willing to sacrifice now for that future success.

Statistical analysis is employed at every stage of the production or service process to measure the quality of inputs, to make certain that the process is as it should be, and to measure the quality of outputs. This emphasis on statistics and quality control was suggested by an American consultant, William Deming of Washington, D.C., a prophet not recognized, until recently, in his own land. The Japanese success story has, however, brought recognition to his work.

planning group. These informal groups, referred to as coalitions, may, in fact, establish an organization's objectives and strategies, depending on the nature of the entrepreneurial leadership characteristics of the organization's formal leader, and the ability of one coalition to dominate the others.

Bargaining often determines organizational objectives, strategies, and policies. Members of the dominant coalition negotiate strategic matters among themselves, with other

powerful individuals, or with other coalitions which may develop inside or outside the organization. At the center of this bargaining process is the conflict which exists between, on the one hand, the manager's desire to accomplish his or her particular subunit's objectives and to protect its interests (and his or her own) and, on the other hand, the requirement of the organization to accomplish organizational objectives. Because managers must seek to improve subunit performance in organizations with scarce resources, they must compete with other managers for those resources. But total competition would be detrimental to the firm; thus, bargaining and tradeoffs in strategy and policy matters occur. The result is often suboptimization and failure to accomplish the mission. Nonetheless, negotiated solutions are often necessary and often efficient and effective. (It is interesting to note that coalitions play a very prominent role in the government and other nonprofit organizations.)

While many of the ideas presented here oppose the traditional view of the all-powerful chief executive officer, significant empirical support substantiates them. The evidence is reviewed in more detail in Chapter 6.

Other Strategists

The "other strategists" group is comprised of two principle subgroups: top-line management and professional planners. Occasionally, outside influences, such as strategic management consultants or various board members, may also be active participants in strategic decision making. Most typically, however, top-line managers of both business and functional areas are becoming more and more involved in the strategic process.

Top-Line Managers. Influenced by many factors (recessions and changing management philosophies for example), organizations and their top managers (Chief Executive Officers, CEOs and Chief Operating Officers, COOs) have begun to realize the importance of involving those who are closest to the problem or opportunity in its solution. These same individuals are also those who are most likely to have to implement strategic decisions. One of the changes occurring in management philosophy is to delegate the decision making to the closest link to the situation. Another change is to eliminate many staff and middle-management positions in the organization (even those between upper levels of management) to make the organization "lean and mean." There is also a trend to involve the implementers in the process.

Thus, we see more and more top-line managers actively engaged in strategic decision making. For example, the plant manager has much more input into strategic decisions than he or she did five years ago. Operations are of much greater strategic concern than they were in the late 1970s and early 1980s. Furthermore, those who have both profit and loss responsibility within the organization have become "intrepeneurs" in that they have gained control over their divisions as if these were their own businesses.¹³ These and other related trends are noted throughout this text. Now let us examine the role of professional planners in strategy formulation, both as staff advisors and occasionally as actual decision makers.

¹³ "The New Breed of Strategic Planner," *Business Week*, September 17, 1984, pp. 62-68.

Planning Departments—Professional Planners as Strategists. When the duties associated with strategy formulation become too extensive for the CEO to accomplish alone, he or she normally delegates many of these duties to a planning committee of top managers or, in larger organizations, to a professional planning department. The role of the professional planning unit usually involves collecting and analyzing data and making them available, and generating and evaluating alternatives. Professional planners and planning units exist most commonly in larger business organizations. The size of these planning units vary from the planner and his or her secretary to a staff of fifty or more in the largest corporations. The professional planner should be the manager and designer of the strategy formulation system. The planner influences top and lower levels of management in their planning efforts. He or she provides information, establishes planning rules, and consults on and integrates the various plans submitted. The planner's role in most firms is not so much that of a planner but rather that of a planning coordinator and information provider—a monitor, a controller, and a critic of subsystem plans and the planning process.

Another dimension of the planning function involves the professional futurist. While strategists might be concerned with five-year forecasts, futurists peer twenty years or more into the future to attempt to define major economic, social, governmental, and technological trends. One of their primary functions appears to be to ask discerning, "what-if" questions about the outputs of traditional forecasting techniques. For example, population forecasts using traditional extrapolative techniques overlook the impact of possible changes in birth control practices. The futurist's duty is to query, "What if the use of birth control devices increases or decreases by x percent?" Even more dramatic questions that could impact on an organization can be asked by futurists, such as: "What if the government of a certain country is overthrown by leftists (or by rightists)?" or "What if there is another Arab oil embargo?"¹⁴ Although a futurist's primary role is to question, he or she must also draw some implications from the suggested answers. Not all organizations would benefit from a futurist's predictions; but for many, it would be folly to ignore the areas in which the futurist deals.

Finally, from time to time, the professional planning department may in fact decide future courses of action for the organization. The power to do so results from its knowledge of and skill in strategy formulation and from its control of the information needed to make strategic decisions. Note that this role often leads to conflict with line managers.

The Future of the Professional Planner. The evidence indicates that organizational environments are becoming more variable and more volatile with each passing year. Businesses' major environmental concerns—society, government, technology, competition, labor, the economy, suppliers, creditors, customers, the industry, the international environment, and natural resource availabilities—are increasingly unpredictable. As a result, organizations may depend more on professional strategists to provide information on these changes. Computer simulations will become necessities because, as the environment becomes more turbulent, the need to ask "what-if" questions becomes even greater. The time horizon of the objectives and strategies may be compressed, but objectives and strategies must nonetheless be formulated. In fact, numerous alternative contingency strategies will be developed to cope with numerous possible situations. Many firms are

¹⁴L. R. Galeese, "The Soothsayers: More Companies Use 'Futurists' to Discern What Is Lying Ahead," *The Wall Street Journal*, March 31, 1975, pp. 1, 8.

currently generating multiple strategies, each designed to be employed given a certain set of circumstances.

I hardly need to point out that it is more difficult and demanding to be a successful business manager today, in our international environment, than ever before. Nevertheless, a basic component of management's job is to adapt effectively.

▪ James E. Lee, then President, Gulf Oil Corporation ▪

Summary

Failing to plan is planning to fail.

▪ Robert M. Fulmer ▪

This chapter examined the basic concepts of strategic management, organizational policy, and the master strategy, and introduced two models which form the basis for this chapter and for the remainder of the text. Strategic management emphasizes the relationship of the organization to its environment as it attempts to accomplish its mission. Strategic management differs from traditional policy and strategy concerns, because these areas are primarily concerned only with a narrow vision of mission accomplishment, with virtually no attention given to the total environment. The strategic management process begins with mission, which leads to the formulation of strategic objectives. Subsequently, a master strategy is determined to accomplish those objectives. Intermediate planning, organizing, and implementation and operational planning occur to carry out the master strategy. Finally, evaluation takes place to see if the mission was accomplished. Organizational policy guides the entire process from the setting of objectives to evaluation and control.

The objectives-setting and strategy formulation processes depend upon four factors. One factor is the organizational strategists. There are three primary groups of strategists—the chief executive, the coalition, and top-level line managers. These strategists view the other factors—mission, strategic policy, and internal and external environmental information—and then determine strategic objectives and organizational strengths, weaknesses, opportunities, and threats (SWOT). Next they generate alternative strategies to achieve strategic objectives, and finally they choose a master strategy from among these alternatives. They may be advised by professional planners in these endeavors.

Key Terms and Concepts

Key terms and concepts with which you should be familiar include: strategic management, organizational policy, master strategy, the principal concerns of strategic management, the single-SBU organization, the multiple-SBU organization, the enterprise strategy, the corporate strategy, the business strategy, the supportive strategies, the major parts of the strategic management process model, the major parts in the objectives-setting and strategy formulation model, mission statements, the four types of mission according to benefit, the three major types of organizational policy, the common strategic policies, the historical and evolving role of the board of directors in strategic management, the three major types of strategists, and the role of the professional planner.

Discussion Questions

1. What is the major concern of strategic management? How does strategic management differ from traditional approaches to strategy and policy?
2. Locate two recent issues of *Business Week* and examine the "Corporate Strategies" section of each. Determine if the main topic discussed in each issue was really a strategic topic. Explain your reasoning.
3. Apply the strategic management process model to a profit and a not-for-profit organization with which you are familiar. What differences are there? What similarities?
4. Now apply the objectives-setting and strategy formulation model to any organization for which you can gather the information necessary to complete this model.
5. Explain how the strategists use information, mission, and policy in setting objectives and in formulating strategy.
6. What impacts on objectives setting and strategy formulation might result from the control of these processes by each of the three major types of strategists?
7. Where does Coca-Cola's 1985 decision to change Coke's formula fit in its strategic policies?

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