

Determining Strategic Objectives and Formulating the Master Strategy

The thing to do with the future is not to forecast it, but to create it. The objective of planning should be to design a desirable future and to invent ways to bring it about.

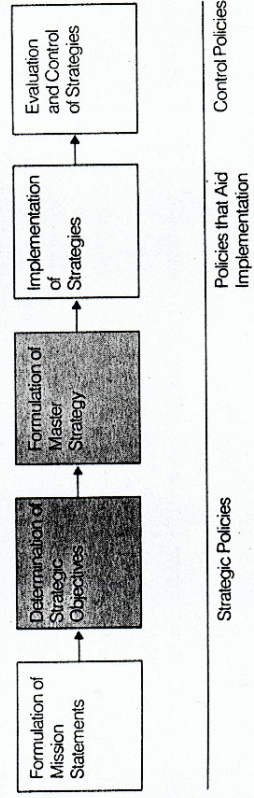
• Russell Ackoff •

This chapter continues to examine, primarily from a conceptual perspective, the major issues involved in a situation that requires strategy formulation:

1. Where are we? (current performance; SWOT)
2. Where do we want to be? (future objectives; forecasted SWOT)
3. How do we get there? (master strategy; forecasted SWOT)

The chapter focuses on the processes involved in determining strategic objectives and in formulating the master strategy and discusses the corporate strategy in particular. In the first half of the chapter, the discussions include: the objective determination process; objectives as integrative mechanisms; and management by objectives, results, and rewards (MBORR), a management planning and control system as well as a management philosophy. Most of the second half of the chapter examines the master strategy, especially corporate strategy alternatives. Finally, some of the important characteristics of all plans are noted. Figures 3.1 and 3.2 show what subjects are presented in the chapter.

Figure 3.1 The Organization—a Strategic Management Process Model



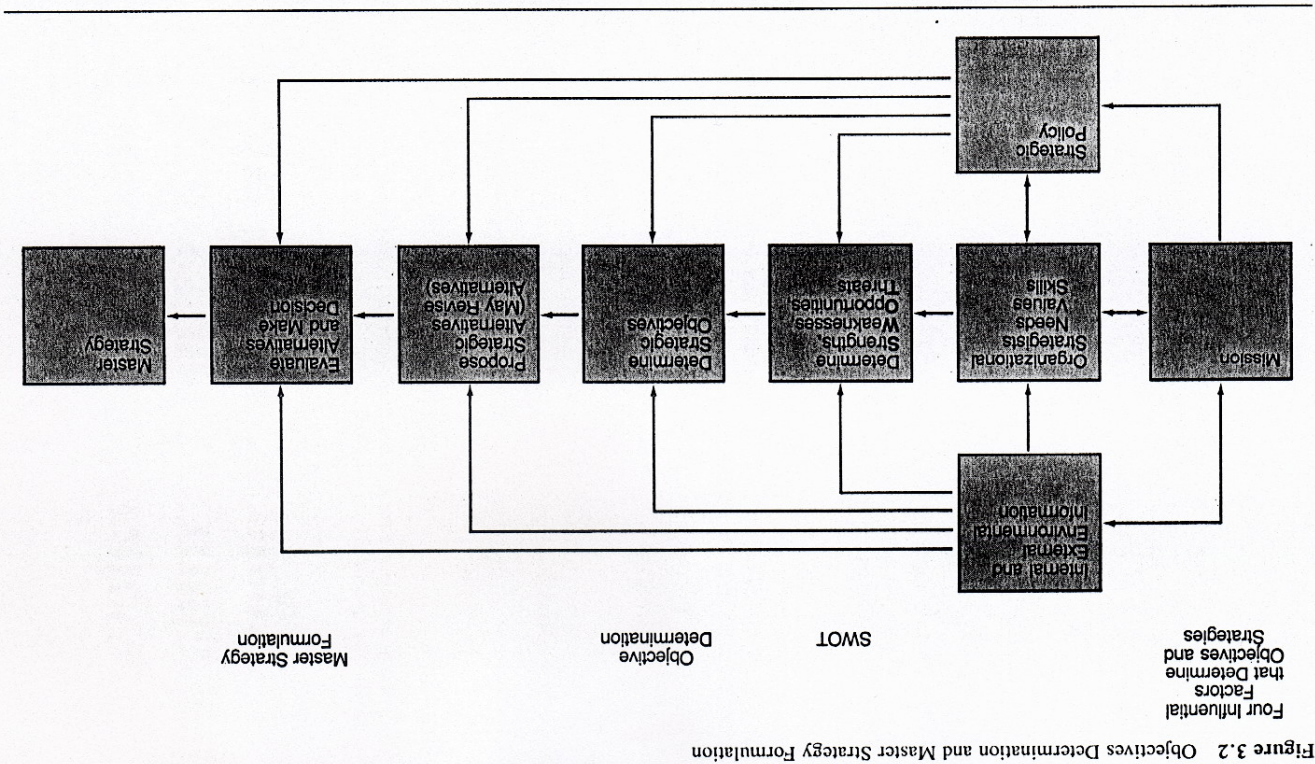


Figure 3.3 Some Typical Business Objectives

Possible Attributes	Possible Indices	Targets and Time Frame		
		Year One	Year Two	Year Three
Growth	\$ sales Unit sales	\$100 mil x units	120 mil 1.10 x units	140 mil 1.20 x units
Efficiency	\$ profits Profits/sales	10 mil .10	12 mil .10	15 mil .11
Utilization of resources	ROI	.15	.15	.16
Contribution to owners	ROE	.25	.26	.27
Contribution to customers	Dividends	\$1.00/share	\$1.10/share	\$1.30/share
Contributions to employees	Eps	\$2.00/share	\$2.40/share	\$2.80/share
Contributions to society	Price Quality Reliability	Equal to or better than competition	Equal to or better than competition	Equal to or better than competition
	Wage rate	\$3.50/hour	\$3.75/hour	\$4.00/hour
	Employment stability	< 5% turnover	< 4% turnover	< 4% turnover
	Taxes paid	\$10 mil	\$12 mil	\$16 mil
	Scholarships awarded	\$100,000	\$120,000	\$120,000
	Etc.			

Source: C. W. Hofer, "A Conceptual Scheme for Formulating a Total Business Strategy," Dover, MA: Case Teacher's Association, #BP-0040, p. 2. Copyright 1976 by C. W. Hofer. Reproduced by permission.

"Would you tell me, please, which way I ought to go from here?" said Alice.
"That depends a good deal on where you want to get to," said the Cheshire cat.

▪ Lewis Carroll, Alice's Adventures in Wonderland ▪

Determining Strategic Objectives

To fulfill the promise of the mission statement, strategic objectives—the results intended—must be identified. Without objectives, the organization is assured of eventual failure. Objectives, which depend on mission, policy, the strategists, information, and SWOT, state "where we want to be."

The Objective-Setting Process

All objectives possess four components:

1. The attribute sought.
2. An index for measuring progress toward the attribute.
3. A target to be achieved or hurdle to be overcome.
4. A time frame within which the target or hurdle is to be achieved.¹

Figure 3.3 portrays these components for several typical objectives. Typical strategic business objectives include concerns for the impacts of operations on both the organiza-

¹C. W. Hofer and D. Schendel, *Strategy Formulation: Analytical Concepts* (St. Paul, Minn.: West, 1978), pp. 20–22.

INFORMATION CAPSULE 3.1

Hewlett-Packard's Strategic Objectives

The following is a brief description of the Hewlett-Packard objectives in 1985:^a

1. Profit Objective: To achieve sufficient profit to finance company growth and to provide resources we need to achieve our other corporate objectives.
2. Customer Objective: To provide products and services of the greatest possible value to our customers, thereby gaining and holding their respect and loyalty.
3. Fields of Interest Objective: To enter new fields only when the ideas we have, together with our technical, manufacturing, and marketing skills, assure that we can make a needed and profitable contribution to the field.
4. Growth Objective: To let growth be limited only by our profits and our ability to develop and produce technical products that satisfy real customer needs.
5. Our People Objective: To help Hewlett-Packard people share in the company's success, which they make possible; to provide job security based on their performance; to recognize individual achievements; and to help them gain a sense of satisfaction and accomplishment from their work.
6. Management Objective: To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives.
7. Citizenship Objective: To honor our obligations to society by being an economic, intellectual, and social asset to each nation and each community in which we operate.

^aAs depicted in internal corporate documents and described to J. W. Vinzce by Hewlett-Packard personnel in 1985.

Source: Hewlett-Packard Company, Inc., 1983 Statement of Objectives.

tion and the external environment. But looking at Figure 3.3, you can see that fundamental internal concerns of the organization include the attributes of efficiency (profits, profits in relation to sales), growth (sales), utilization of resources (return on investment, ROI), contribution to owners (earnings per share), and contribution to employees (wages, employee development). Externally, the organization must be concerned with contribution to customers (quality, price) and contribution to society (taxes paid, corporate citizenship). It has also been observed that contribution to other major stakeholders—those on whom the actions of the organization have a direct impact—is also of vital concern. Similar objectives exist for nonbusiness organizations, but not in profit terms.

Objectives steer the organization in the direction its mission has pointed out, as Information Capsule 3.1 illustrates. As has often been said, "If you don't know where you are going, any road will get you there." Without objectives, "there" is usually "nowhere"! The Cheshire cat was right. First you must decide where you are going, then you can decide what road to take. Objectives provide direction and motivation. The objective-setting process also provides valuable communication within and among organizational subunits.

Levels of Objectives

There are three major levels of planning within the organization: strategic, intermediate, and operational. Hence, there are three major levels of objectives and plans, although the compression of time horizons rapidly results in only two levels: strategic and operational.

The objectives toward which strategic plans are directed should be specific. For example, a firm might set objectives of a 15-percent return on investment, a 20-percent penetration of the product market, a 10-percent increase in sales per year, and so forth. However, at the strategic planning stage, the plans need not be stated so specifically; in fact, these plans are usually broadly stated. But as planning progresses through the next two stages, intermediate and operational, the plans set out more specifically how objectives will be accomplished. Intermediate plans translate strategy into more specific courses of action for major organizational subsystems. Operational plans translate intermediate plans into very specific courses of action for lower-level subsystems and for individuals. Usually, the planning process includes a series of increasingly complex and detailed subobjectives, subplans, subpolicies, and so forth, until objectives and actions are parceled to individual workers. Again, as with most management terminology, there are no generally accepted definitions which describe the various levels of plans established to accomplish the master strategy. Differences in terminology should be allowed for in the examination of strategy and in the practice of strategic management.

Organizational Objectives as Integration Mechanisms—MBORR

Let us now examine a program for establishing effective objectives and then consider types of objectives that organizations establish. The program is called management by objectives, results, and rewards—MBORR—with emphasis on the need for specific objectives. Vague objectives, at the very least, lead to misinterpretation and a lack of accountability for performance. It is precisely to deal with such problems that MBORR-type programs were established. MBORR as used here embodies specific objective-setting programs and does not focus on the more behavioral concepts of subordinate development often associated with such programs.

MBORR: Concepts and Implications for Strategy

Management by objectives, results, and rewards is a management planning, control, motivation, communication, and subordinate development system. This type of program in its various forms—MBO, management by objectives; MBR, management by results; and MBC, management by compensation; as well as MBORR—is probably the most frequently discussed management practice in the last 30 years. Few can agree on specific contents, but most would agree that four common dimensions should be considered:

1. Establishment of objectives.
2. Employee participation.
3. Evaluation and control of performance.
4. Rewards for results.

The normal MBORR process involves the establishment of specific objectives by top management in all performance areas. These objectives are then communicated to the

next lower level of management, which may or may not have participated in their development. At each level, objectives may then be distributed to the appropriate managers for their acceptance or rejection. Or these managers may submit to their superiors proposals which state their commitments to the accomplishment of the objectives. What evolves is a negotiation meeting between a manager and his or her superior manager involving give and take with respect to the subordinate's objectives. Once agreement is reached, the process shifts to the next lower level of management and continues until objective distribution reaches the supervisory level. The process usually terminates at this level, since first-line positions often cannot properly utilize this technique.

MBORR-type techniques were first introduced to the public as MBR by Peter Drucker, who had observed the method's successful functioning at General Motors. Since that time, countless studies and reviews of its effectiveness and ineffectiveness have been reported, variations in its methodology suggested, and corrective actions for its weaknesses proposed. George Odiorne popularized the concept as MBO. J. Higgins has added the RR to emphasize the importance of measuring results and rewarding them.² Just a few of the major findings regarding MBORR-type programs are listed below. Positive results include the following:

1. Performance—both quantity and quality—are improved.
 2. Communications and understanding are improved.
 3. Job satisfaction is improved.
 4. Individual growth is enhanced.
 5. Role prescription is clarified.
- Negative results include the following:
1. Managers may become more critical.
 2. Managers may use MBORR objectives as a "whip."
 3. Establishing objectives entails all sorts of problems: scale-unit bias may exist, objectives may be set too high or too low, may not be accepted, may be inflexible, or may be difficult to set for nonquantifiable areas.
 4. The process may be too short-run-oriented.
 5. The process seems to lose its effect over time.
 6. Monetary rewards are sometimes insufficient and hence fail to maintain performance.
 7. The process often takes too much time.
 8. Group dynamics are usually not taken into consideration.
 9. There are physical and mental limitations for the individual.
 10. Goals established become maximums even where they could be exceeded.

The negative results reported here far outnumber the positive effects, and at least 20 more could have been listed. However, studies of the technique's effectiveness have been performed in widely varying situations, causing results to vary. More importantly, many have reported that the technique's implementation, not the technique itself, was the problem. It

appears that when an appropriate implementation procedure is followed and top management is involved and concerned, MBORR is effective.

Latham and Yukl, in reviewing published and unpublished field research, report that, whether or not MBORR-type programs were specifically used, the setting of objectives led to superior performance.³ Some have suggested that specific objectives are not necessary in every situation, and indeed M. B. McCaskey's "directional planning," which does not require objective setting, may be sufficient for certain limited situations.⁴ In general, though, John Mee's "Principle of the Objective" is relevant: "Before initiating any course of action the objectives must be clearly determined, understood and stated."⁵ In summary, without specific objectives, the strategy eventually fails to elicit performance.

The Objectives Established

Objectives are needed in every area where performance and results directly and vitally affect the survival and prosperity of the business.

■ Peter Drucker ■

Organizations establish many types of objectives. Some are specific, some are not. Many organizations set no specific objectives; some establish only a limited number; others establish objectives for many areas of operating performance. The following section reports on three research studies which deal with the nature of business objectives.

Les Rue, reporting on a survey of 400 predominantly large firms in several major industries, found that most firms have multiple, quantitative, written objective statements. He found that more firms established earnings and sales objectives than return objectives and that many organizations established capital growth, market share, and sales/earnings objectives. Rue also examined financial analyses associated with the objectives established and found that profit (the income statement) was of primary concern but that most firms were also concerned with balance sheet and cash flow analysis.⁶

J. W. Dobbie, in an examination of 50 large California-based firms (all with over \$100 million in annual sales), found that the firms tended to express objectives according to the type of strategy they employed. His strategy classifications included: personal (the aims of the chief executive); opportunity; geographic expansion; financial growth; and business (for planning or diversified firms). The types of objectives examined were: various return methods; growth in sales or earnings; and pro forma financial statements or resource control. Dobbie observed that managerial style and the position of the planning unit within the organizational structure affected the type of objectives chosen. While Dobbie's sample size limits generalization, his study at least suggests that as complexity of operations and

³G. P. Latham and G. A. Yukl, "A Review of Research on the Application of Goal Setting in Organizations," *Academy of Management Journal*, December 1975, pp. 827-832.

⁴M. B. McCaskey, "A Contingency Approach to Planning: Planning with Goals and Planning without Goals," *Academy of Management Journal*, June 1974, pp. 281-291.

⁵J. Mee, "The Principle of the Objective," in "Management Philosophy for Professional Executives," *Business Horizons*, December 1956, pp. 5-11.

⁶L. W. Rue, "Tools and Techniques of Long Range Planning," *Long Range Planning*, October 1974, pp. 61-65.

²J. M. Higgins, *Human Relations Concepts and Skills* (New York: Random House, 1982), Chapter 13.

philosophy of "total excellence," not just financial excellence, may in fact be most appropriate. Intuitively, that philosophy is sensible.⁹ Certainly, one key to successful planning is the process of establishing specific objectives at each succeeding level of the organization. Objectives tie the organization together.

Prioritizing Objectives

One of the most perplexing problems confronting the strategic manager is the prioritizing of objectives. Many seem important, and in the hectic day-to-day crisis-management environment, it's easy to forget that the swamp still needs draining. Even during the cyclical or periodic planning process, the task of establishing priorities for objectives is not an easy one. There exist certain natural conflicts among objectives. For example, in observing the objectives in Figure 3.3, one would expect that contributions to society and employees might be in conflict financially with returns to owners (short-term at least), and perhaps customers. Conflicts also often arise between corporate and business, or business and functional, objectives. There are almost always conflicts between certain strategic and operational objectives. And the problem of prioritizing is further compounded when one realizes that objectives are normally to some degree interdependent, and often reciprocally causal. Also, there are power centers that demand attention to their objectives in every organization. Finally, one's personal objectives may in fact be in conflict with appropriate organizational priorities. How then does the strategist determine which objectives are most important?

First, there are few proven decision rules for determining appropriate priorities. Instead, certain rules of thumb guide many managers. To begin, managers may simply react to problems as they arise, establishing the solution to the most current issue as having the major priority. Granted, this does not seem the proper action for a strategic planner, but it happens. And in fact, sometimes it's necessary to be flexible and recognize that something very current is very critical and strategic and needs to take priority. Indeed, one must recognize that major decisions are not as infrequently made on the spur of the moment, in a reactive mode, as one would like to think. For, even though we would like strategists to initiate action and be proactive, many times they need to react to situations. Thus, general managers also respond to crises as they evolve. For example, when Bendix attempted the takeover of Martin Marietta, it was imperative for the CEO of Martin to be reactive, to launch an immediate defense of the company and seek to satisfy those objectives that were dominant at the moment. Normally, urgency, and the order in which problems attract the attention of the strategist, should not determine the order in which objectives are prioritized.

More desirable is a rational approach to the prioritizing of objectives. Certainly in the periodic strategic planning process, participants have the opportunity to critically evaluate and weigh alternative objectives and assign them levels of priority. The preponderance of evidence suggests a participative approach involving the key managers affected—here, strategists. The utilization of simple ranking, paired-comparisons ranking, nonparametric statistics, or any other generally organized fashion of ranking objectives, when supported by appropriate information, and as long as implementers are participants, would seem to

⁹T. J. Peters and R. H. Waterman, Jr., *In Search of Excellence*, Harper and Row: New York, 1983, p. 103.

Table 3.1 Range of Corporate Goals for 82 Firms

Category	Number	Percent ^a
Profitability	73	89
Growth	67	82
Market share	54	66
Social responsibility	53	65
Employee welfare	51	62
Product quality and service	49	60
Research and development	44	54
Diversification	42	51
Efficiency	41	50
Financial stability	40	49
Resource conservation	32	39
Management development	29	35
Multinational enterprise	24	29
Consolidation	14	17
Miscellaneous other goals	15	18

^aAdds to more than 100 percent because most companies have more than one goal.

Source: Y. K. Shetty, "New Look at Corporate Goals," *California Management Review*, Winter 1979, p. 73. © 1979 by the Regents of the University of California. Reprinted from the *California Management Review*, Volume XXII, no. 2, p. 73, by permission of the Regents.

experience in strategy formulation increase, the number of objectives and their diversity also increase.⁷

Y. K. Shetty, in a study of 82 companies, found a wide range of corporate objectives, as indicated in Table 3.1. Most companies had five or six goals. However, one company had only one objective, while another had 18. As the table indicates, economic objectives dominated corporate concerns. Shetty found that objectives varied by industry; for example, social responsibility was the second most frequently cited objective in the chemicals and drugs group of companies, but the fifth most frequently cited objective in the electrical and electronics group. Finally, Shetty concluded that as organizations grow, their environments tend to become more turbulent; and as they become more responsive to stakeholders outside the immediate economic constituency, their objectives change.⁸

As you can see from these studies, objectives employed by organizations in their strategies are dominated by, but not limited to, economic objectives. Other types of objectives include employee development and social responsibility. And while it is apparent that most business organizations are today primarily concerned with mission objectives, other issues are expected to become increasingly important as society (and government) continue to demand more of business. Interestingly, Thomas J. Peters and Robert H. Waterman, Jr., found early in their research that organizations with only financial goals were not as financially successful as companies whose goals were concerned with broader issues and values. And while no other research we've found to date discusses similar relationships, the comments of Peters and Waterman are certainly worth noting and suggest that an overall

⁷J. W. Dobbie, "Guides to a Foundation for Strategic Planning in Large Firms" (Paper presented to the 34th Annual Meeting of the Academy of Management, Seattle, Washington, August 1974).

⁸Y. K. Shetty, "New Look at Corporate Goals," *California Management Review*, Winter 1979, pp. 71–79.

move the organization in the right direction. Often, several objectives will be viewed as equally important, and accomplishment of all of these will be anticipated.

Every enterprise needs a central purpose expressed in terms of the services it will render to society. And it needs a basic concept of how it will create these services. Since it will be competing with other enterprises for resources, it must have some distinctive advantages—in its services or in its methods of creating them. Moreover, since it will inevitably cooperate with other firms, it must have the means for maintaining viable coalitions with them. In addition, there are the elements of change, growth, and adaptation. Master strategy is a company's basic plan for dealing with these factors.

▪ William H. Newman ▪

The Master Strategy

Once strategic objectives have been determined and prioritized, organizational strategists formulate the master strategy. Strategists tell "how we get to where we want to be."

The term *strategy* derives from the ancient Greek word for general, *strategos*. Until the nineteenth century, the term related to the plans of action used by a military force in battle. More recently, *strategy* has taken on new meanings and is frequently used to refer to the endeavors of various organizations, primarily business organizations, to anticipate, respond to, and generally survive in their environments. As mentioned in Chapter 1, the term *strategy* is defined differently in the various organizational contexts in which it may be encountered; however, there is general agreement that a strategy is a major organizational plan of action to reach a major organizational objective.

An Overview of Strategy

Historically, most organizations have concentrated their strategic efforts on the development of either of two primary strategies (or sometimes both in combination): a focal basic action strategy, such as internal growth, conglomerate diversification, or retrenchment; and/or a focal marketing strategy. They have viewed strategy largely as simply requiring some basic action, perhaps internal growth, towards which the organizations would direct their remaining efforts. And/or, they have focused on some element of the marketing strategy, such as a high-quality product. This focal basic action strategy or marketing strategy, or combination of the two, has come to be known as the "grand strategy." (This grand strategy is discussed in more detail near the end of this chapter.) And while most organizations have established a grand strategy, they have not typically formulated a true, all-encompassing master strategy. But that is changing. For example, as the importance of managing environmental relationships became evident, more firms, both single- and multiple-SBU organizations, incorporated enterprise strategies into their master strategies. (In contrast, most nonbusiness organizations have historically lacked objectives and strategies, until recently, as Chapter 1 reveals.)

Most firms have yet to appreciate fully the importance to strategic success of functional strategies, although the events of the late 1970s taught most business firms the need to pay greater attention to these strategies. For example, finance strategies have become critical in periods of high interest rates and tight money. Operations strategies are also receiving

substantive attention in many industries (such as electronics and automobile manufacturing) in order to meet foreign competition (especially from the Japanese). In fact, American manufacturing firms are undergoing tremendous changes with the increased utilization of computers, robots, zero-inventory approaches, quality circles, and other techniques.¹⁰ Finally, human resources management (along with all of the management skills) have become vital to the reindustrialization efforts of U.S. and Canadian business in both manufacturing and service industries.

Typical of master strategy statements based largely on the corporate and business strategy components is the Heublein experience. In 1965, Heublein's stated only three strategic objectives:

1. To make Smirnoff the number-one liquor brand in the world.
2. To continue a sales growth of 10 percent a year through internal growth, acquisition, or both.
3. To maintain a return on equity above 15 percent.

The essence of its strategic plans of action to accomplish these objectives involved the following elements:

1. Substantive advertising.
2. Certain types of distribution.
3. Careful selection of products and acquisitions with high cash flows (to allow substantive advertising).

In these statements, Heublein succinctly captured what it perceived its objectives to be and how these objectives would be accomplished. Note that Heublein did not embellish its master strategy with any considerations not associated directly with its focal basic action or focal competitive activity.¹¹ There has, of course, been renewed interest in competitive strategies, as the works of Michael Porter (discussed in Chapters 2 and 4) and others in the field, have become more widely known.

In contrast to the Heublein example, firms such as IBM, GM, and Xerox take a broader approach to master strategy formulation. Their master strategies contain concerns for all of the elements of enterprise, corporate, business, and functional strategies. Annually, these firms review their master strategies as SBUs and support functions (for example, production facilities) establish objectives and plans for the year. This process occurs within the framework of corporate policies established for strategy formulation, since certain corporate strategy considerations, such as diversification and divestment (when necessary), are constraints to business and functional strategies. Strategic issues may be managed separately.

In summary, the master strategy is an umbrella beneath which specific strategies for coping with society, with the business choice decision, with competition, and with func-

¹⁰J. Nakane and R. W. Hall, "Management Specs for Stockless Production," *Harvard Business Review*, May-June, 1983, pp. 84-91; S. C. Wheelwright and R. H. Hayes, "Competing through Manufacturing," *Harvard Business Review*, January/February, 1984, pp. 99-109. "The Revival of Productivity," *Business Week*, February 13, 1984, pp. 92-100.

¹¹G. A. Smith, Jr., C. Roland Christensen and N. A. Berg, *Policy Formulation and Administration* (Homewood, Ill.: Irwin, 1968).

Table 3.2 The Master Strategy for Business

Enterprise Strategy (Societal Response)

Strategies to ensure that the firm acts properly as a corporate citizen.

Corporate Strategy (Mission Determination); (What many call "The Grand Strategy")

Strategies to determine what business or businesses the firm is in or should be in and how the business or businesses should be conducted.

1. Is there some business in which the organization has a natural strategic advantage or an innate interest?
2. Does the company want to compete or find a niche?
3. Does the company want or need to grow, stabilize, engage in investment reduction, or turn around company fortunes?

Basic action strategies available to single-SBU or multiple-SBU corporations (relate to questions 2 and 3 above):

- A. Competing or finding a niche
- B. Concentration or multiple products
- C. Growth
 1. Intensive, integrative, or diversified
 2. Regional, national, or international
 3. Internal, by acquisition, by merger, by joint venture
 4. Speed
- D. Stabilization
- E. Investment reduction
 1. Retrenchment
 2. Divestment (for multiple-SBU firms only)
 3. Selected asset reduction
 4. Cost cutting
 5. Liquidation
 6. Selling out
 7. Profit extraction
- F. Turnaround
- G. Takeover Defense
- H. Combination

tional operations may be found. One vital principle underlying the master strategy concept is the belief that strategy must "fit" the environment. (See Table 3.2.)

We must plan for the future, because people who stay in the present will remain in the past.

▪ Abraham Lincoln ▪

Whether or not they are consciously determined, all organizations have master strategies. Many business firms and other organizations can be quite successful in the short run without consciously formulating strategic objectives or plans to reach those objectives. Almost never, however, is any firm successful in the long run without first determining what it wants to be (mission and objectives) and how it plans to achieve that vision (strategy and policies).

Table 3.2 continued

Business (SBU) Strategy (Primary Mission; Focus of many "Grand Strategies")

Competitive strategies.

Economic functional strategies

A. Marketing

1. Target market
2. Product
3. Promotion
4. Distribution
5. Price

Functional Strategy (Mission-Supportive; Focus of some "Grand Strategies")

Strategies that support other strategies.

A. Economic functional strategies

1. Operations—production or service generation
2. Finance
3. Personnel/human resources management
4. Information systems
5. R&D, market research
6. Other significant areas

B. Management-functional strategies

1. Planning
2. Organizing
3. Implementing
4. Controlling
5. Staffing
6. Leading
7. Motivating
8. Communicating
9. Decision making
10. Representing
11. Integrating

C. Strategic issues strategies

1. Known contingencies (energy)
2. Surprises (competitor changes strategy; major economic changes; etc.)

Levels of Strategy

As we saw in Chapter 1, organizations have four major components in their master strategies. The terms this book has used for the levels of strategy for business—enterprise, corporate, business, and functional—were first used by Dan Schendel and Charles Hofer.¹² (See also Table 3.2.) These levels are described in this text as follows:

- Enterprise—the societal response strategy; how the organization relates to society.
- Corporate—the mission determination strategy; criteria for defining the organization's fields of endeavor; and how it will fundamentally conduct itself.

¹²D. E. Schendel and C. W. Hofer, eds., *Strategic Management: A New View of Business Policy and Planning* (Boston: Little/Brown, 1979), pp. 11–14.

less, many corporate social policies are not as specific in content as they should be, and many firms have been noticeably deficient in planning to meet external societal pressures. To formulate appropriate corporate social strategies and policy, business should apply the same sort of rigorous analysis required of other anticipated corporate interactions affecting the accomplishment of organizational goals. For, while social pressures change, so do other elements in the corporate environment. Change must be accepted and adapted to; otherwise, the costs to the firm will be high, both in terms of immediate measurable dollars and of those nebulous factors that eventually will affect profits, such as image, morale, and productivity.

With proper planning and control, corporate social problems can be realistically and satisfactorily solved. Business leaders must consider value orientations other than those economic values traditionally held, and emphasize a responsive approach to societal demands and ethical considerations. Most importantly, business must remember that the consequence of social power is social responsibility.

Corporate Strategy

Corporate strategy focuses on two questions: "What business(es) are we in or should we be in?" and "How shall we fundamentally conduct that business(es)?" The answer to the first question is derived directly from mission, and is in fact often identical to it. A correct answer to this question is critical, because being in the wrong business is usually fatal. The railroads, for example, decided at the turn of the century to stay out of the automobile industry, and later to stay out of the air travel industry. To their ultimate misfortune, they saw themselves as being in the railroad business, not the transportation business. Sears, on the other hand, has seen itself as being a provider of consumer services, not just a durable goods retailer. And, partly because of improved consumer marketing and partly because of this perspective, Sears is consequently finding itself on a prosperous road to financial success.¹³ (See Figure 3.4.)

Because basic actions position a firm in an industry or across industries, the answer to the second question is also critical. A poorly positioned firm has little or no chance of long-term success. For example, at one time GE's SBU alignment included a computer division but GE's decision to compete head on with IBM was unsound, and it eventually sold this SBU. (Interestingly, GE has since reentered a portion of the computer market because it needs this capacity for its other products.)¹⁴

The answers to the two questions above depend in turn on the firm's answers to the three basic questions listed below. The first question concerns what business or businesses the firm will enter. The second and third concern how the firm will engage in its business or businesses—what its action strategies will be.

1. Is there some business in which the organization has a natural strategic advantage or an innate interest?
2. Does the company want to compete or find a niche?

¹³"Sears' Sizzling New Vitality," *Time*, August 20, 1984, pp. 82-90.

¹⁴"The Opposites: GE Grows While Westinghouse Shrinks," *Business Week*, January 31, 1977, pp. 60-66; "General Electric: The Financial Wizards Switch Back to Technology," *Business Week*, March 16, 1981, pp. 110-114.

- Business—the primary mission strategy; how the organization will achieve its mission within a chosen field of endeavor.
- Functional—the mission-supportive strategy; how the organization will support its primary mission strategy.

The main difference between the way Schendel and Hofer use these terms and the way the authors of this text uses them is that, while they include marketing under functional strategies, we include it in business strategies.

Enterprise Strategy

Organizations need an enterprise strategy to cope with their largely uncontrollable external governmental and societal environment. This strategy does not deal with product/market concerns per se, but rather with the broader issues of corporate citizenship, thus integrating the organization with society.

As Chapter 2 pointed out, the events of the 1960s and 1970s taught business leaders an important lesson—business is an open system. It has transactions not only with customers, suppliers, creditors, and unions but also with society, government, and members of pressure groups such as environmental groups and minority-interest organizations. And, contrary to the opinions of some, business does not act solely in accordance with its own self-interests in search of profit, but also considers the demands of other systems. It must consider them if it is to accomplish its mission in the long run. Business today faces many severe problems as a result of these demands, but it is learning to cope with them. Meeting these challenges is the function of the enterprise strategy.

Social power requires social response.

▪ Keith Davis and Robert L. Blomstrom ▪

One of the major problems facing business is its inability to define exactly what constitutes corporate social responsibility. Numerous pressure groups, such as the NAACP, the Sierra Club, the state and federal governments, and Ralph Nader's Raiders, have made varying demands on the organization. Many times these demands are contradictory, trapping the organization in a dilemma: To whom does it respond? Clearly, it must respond to the law and will also likely respond to those who can exert the most pressure upon it or who have defined their demands the most explicitly. Still, business cannot react to all of the demands with which it is confronted, nor should it.

Society's major demands have been fairly well-defined—at least legally. The law requires business to: protect the natural physical environment, provide equal employment opportunity, treat the consumer fairly, maintain satisfactory relations with government, and operate in an ethical manner. In addition, business—and the nation as a whole—has shouldered the important responsibility of maximizing energy conservation. But ironically, many individuals are now more concerned that business renew its efforts to produce goods and services at a profit, and more specifically to increase productivity and provide jobs. Interestingly, the demands on business seem to have come full circle.

While not all contingencies can be anticipated, business usually has sufficient warning of pressing social issues to be able to develop more than "do-good" statements. Nonetheless,

- Does the company want or need to grow, stabilize, engage in investment reduction, defend against a takeover attempt, or turn around company fortunes?

How a firm's corporate strategy is affected specifically by its answers to these three questions varies with many factors. The following paragraphs provide some insights into these specifics.

Clearly, whether a firm has a single business or whether it is a multiple-SBU organization has a major bearing on the details of strategy. The single-SBU organization is primarily caught up in competition—the business strategy—and is much less concerned with many of the available basic actions strategies than are multiple-SBU firms. Many firms engage in only one business and have no intention of leaving that field of enterprise. But, for many, that should not be their intention. Similarly, how the organization conducts its business often follows a set pattern; but for many, following a set pattern is not the best course.

1. Natural Strategic Advantage or Innate Interest

Many companies enter a field of endeavor because a perceived customer need exists that no one is satisfying. The founder of Federal Express, Frederick W. Smith, saw the need for overnight package deliveries between major cities. He believed that a fleet of small jet airplanes could do what no other mail service could. And he was right. Other examples of natural strategic advantages include Fuddrucker's movement into the high-priced gourmet hamburger field, the sale of various forms of technology to developing countries, and the gas mileage advantage that Japanese cars had over U.S.-manufactured autos during the 1970s.

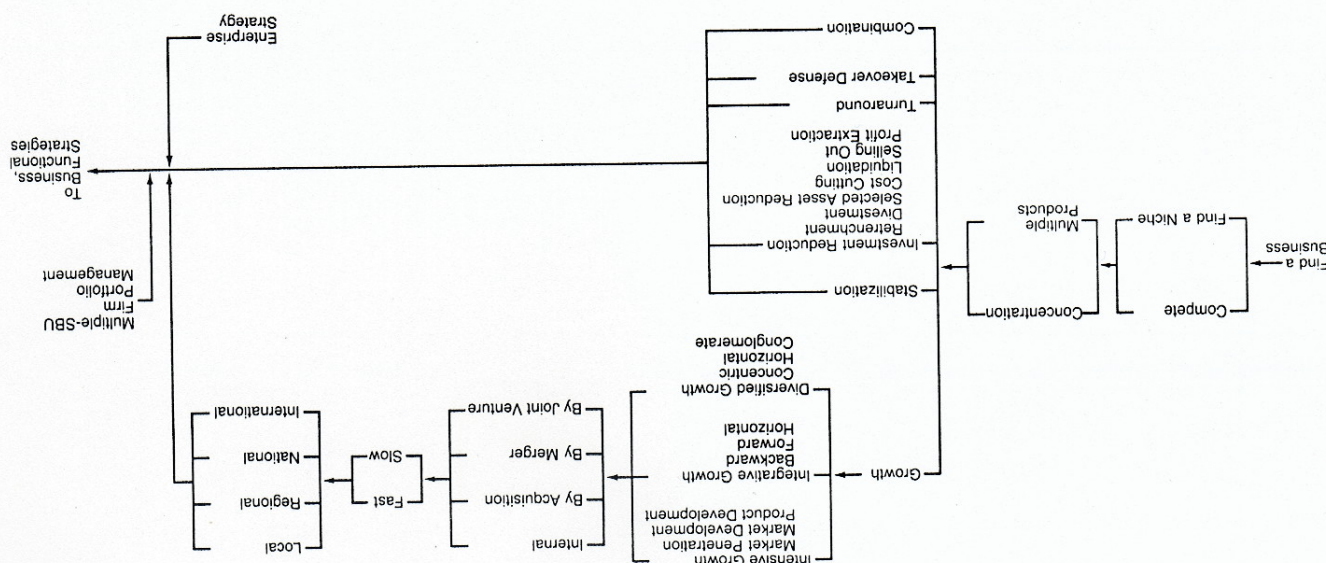
Many businesses, on the other hand, are formed simply because the owner or top manager wanted to be in that business: or in the case of small businesses, because of the founder's area of expertise. For example, many people start restaurants because they have always wanted to own one, or service stations because they are good mechanics. Similarly, the top manager of a larger organization may move the firm into new ventures simply because of a personal desire to own a publishing house, a foundry, a restaurant chain, etc.

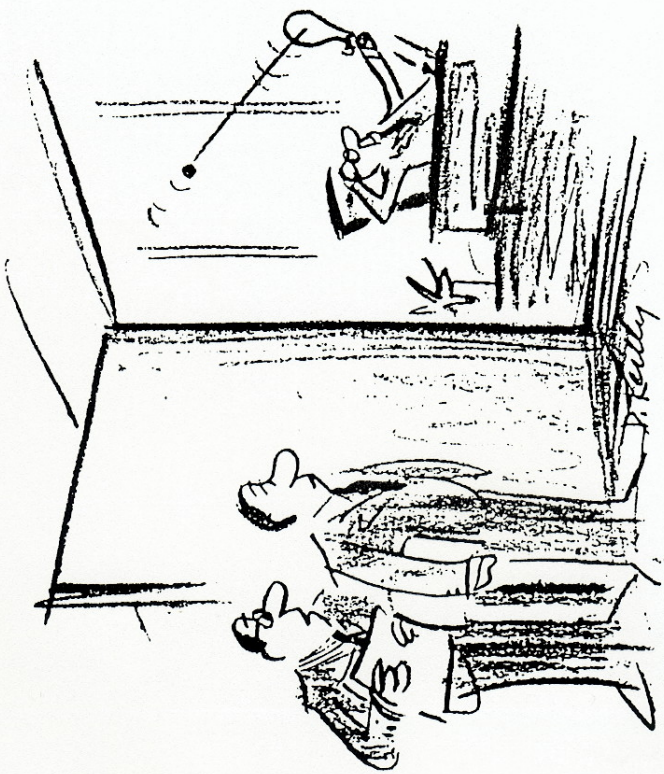
2. Competition or Niche

Organizations, whether single-SBU or multiple-SBU, must decide whether to compete directly with others or to find a niche. Of course, all businesses always compete with other businesses (or nonprofits) in some way. The question is whether the firm chooses to compete head-on with other firms in the same business or to seek a niche—a market that no other firm has chosen to enter directly. Most businesses do compete head-on with others; for example, Sears, J. C. Penney, and Montgomery Ward historically have competed directly with each other. On the other hand, Gibsons, a loosely federated group of discount stores franchised to several different ownership groups, seeks primarily to locate in small towns where there is no competition. It does not usually choose to compete head-on with K mart or other discount stores. Another firm that employs a niche strategy is Armstrong Rubber Company, which seeks markets the dominant firms ignore.¹⁵ Nordstrom's (or Nor-

¹⁵G. Breckenfeld, "The Niche Pickers at Armstrong Rubber," *Fortune*, September 6, 1982, pp. 100-105.

Figure 3.4 Basic Action Strategies





"Don't laugh—he was doing that the day he figured out how to scoop up Trans-American Romex, Inc."

Source: Drawing by D. Reilly: © 1979 *The New Yorker Magazine, Inc.*

ties, as it is affectionately known to its customers) has a unique way of niching its market in an apparel: it provides excellent service at high prices.¹⁶ And few of its clientele balk. In Nordstrom's has been so successful in the northwestern United States that it's now expanding to California. Finally, in the highly competitive semiconductor industry, only firms with distinct niches have been able to raise venture capital in recent years.¹⁷

However, niches are not always secure; successful niche-finding strategies tend to provoke competition. Such was the case after sales of the Excalibur specialty car (a replica of a 1933 Mercedes Phaeton, priced in 1985 at about \$50,000) showed that there was a market for high-quality, high-priced, unusual cars; a half-dozen or so competitors jumped into the same market. Occupying a niche can involve other disadvantages; Wendy's had the high-priced hamburger niche all to itself but found that its high prices made it vulnerable to chicken and seafood competitors.

¹⁶ P. A. Bellew, "Nordstrom Strategy of Coddling Shoppers Facing Challenge in California Expansion," *The Wall Street Journal*, May 10, 1984, p. 37.

¹⁷R. A. Schaffer, "Start-Up Semiconductor Firms That Have Niches, Find Funds," *The Wall Street Journal*, September 21, 1984, p. 33.

Still, niche strategies are a good way for the smaller firm—the firm with fewer financial resources—to make a good return on its investment. For example, one plastic extrusion firm which makes plastic trash bags and refrigerator containers distributes its products only in the southeastern United States and has primarily established a market based on its prices being lower than those of national brands. (This form of niche strategy involves a geographic niche rather than a product-related one.) The firm considered going national but decided against it. As the production manager related, “If we went national, the big boys would notice us and could wipe us out if our market share got too big. Right now, they consider us to be a minor nuisance. But if we began to get too big, then they might consider us a threat and take action to eliminate us.”

3. Concentration or Multiple Products/Businesses

Concentration is the focusing of the organization on one product, in essentially one market, using primarily one type of technology.¹⁸ It is by far the most frequently encountered grand strategy, as most businesses are concentrated in one field. ("Kentucky Fried Chicken only does one thing," and therefore they "do it right.") There are obvious reasons for choosing a concentration strategy. First, most entrepreneurs begin this way because it is in their field of innate interest and/or expertise. Second, there is less risk, at least in terms of resources, for starting up an enterprise. In addition, the competition can be more readily identified and more carefully analyzed. And, as the firm grows, the expertise required to manage it properly remains essentially the same. Such a firm's competitive advantage comes from employing a highly developed focal marketing strategy. The contents of this strategy vary, but most frequently include product quality and/or price, sensitivity to the demands of the customer or client, and some element of recognition in the marketplace. Firms using a concentration strategy would, at the next level of choices in Figure 3.4, choose those strategies which would allow them to grow, but only through this one product or service.

However, there are problems associated with this strategy as well. Concentration exposes the organization to the vagaries of the marketplace, the economy, and to changes in technology. After all, people tire of products, (even computer games, as AT&T has discovered). Furthermore, growth reaches its peak once the market is saturated: investment opportunities are fewer; and long-term profit potentials decline as new entrants emerge in the industry (watch out KFC, here come: Bo Jangle's, Brown's, Popeyes, and a host of others). Thus, firms may choose to pursue the types of growth that result in multiple products in the next basic action choice stage.

4. Growth, Stabilization, Investment Reduction, Takeover Defense, Turnaround, or Combination

Once the firm has decided whether to compete or find a niche and whether to be concentrated in one product area or pursue multiple products—whether the answer applies to a particular SBU or to several—the next major issues are whether the firm wants to grow, stabilize, reduce investment, protect against a takeover, turn around company fortunes, or

¹⁸ J. A. Pearce II, "Selecting Among Alternative Grand Strategies," *California Management Review*, Spring 1982, pp. 23-31.

pursue a combination of these goals. At the corporate level for multiple-SBU firms, answering these questions is the crux of the corporate strategy. The primary techniques used are known as portfolio techniques and are explored further in Chapter 5. At the single-SBU level, these critical decisions depend on a multitude of SWOT factors.

Growth. Growth involves four primary considerations: type of growth—intensive, integrative, or diversified; where it will be geographically focused—at the regional, national, or international level; how it will take place—internally or through acquisition, merger, or joint venture; and how fast it will take place.

Types of Growth.¹⁹ The choice of type of growth—intensive, integrative, or diversified—is critical. Intensive growth is appropriate for the firm that has not fully exploited the existing opportunities in its current products and markets. There are three types of intensive growth—market penetration, market development, and product development.

Market penetration consists of seeking increased sales for present products through a more aggressive marketing effort. Market penetration is characteristic of the mature industry with homogeneous products. When Phillip Morris acquired the Miller Brewing Company in 1970, Miller management immediately employed a market penetration strategy. It significantly expanded the advertising budget and changed advertising themes. The now-famous “Miller time” ads depicted Miller beer as the drink of he-men. The results have been almost unbelievably successful.

Market development involves taking existing products into new markets. When Disney created Disney World, it was, as many commentators noted, creating a Disneyland East; it was taking its product, Disneyland, to a new market, the East Coast. When the Miller Brewing Company successfully introduced the 7-ounce container (others had tried but failed), it was taking its product to new markets—primarily to women who preferred a smaller container and were less likely to drink a lot of beer at one time than were men. Thus, the market development strategy is especially important to firms whose products, while sound, have not reached all markets.

Product development consists of developing improved products for current markets. When you see Colgate toothpaste in a pump, you are witnessing this strategy in action. Product development is extremely important to maturing products because of the need to extend the product life cycle. The Datsun 240Z became the 260Z which became the 280Z which became the 280ZX which has become the 300 ZX (“awesome,” “driven,” and a “major motion”). Why? Because of competition in a maturing industry—the high-performance sports car industry.

The second type of growth, integrative growth, can move in three directions—backward, forward, and horizontally. In backward integration, the organization attempts to acquire control over its suppliers. Sears has historically followed a pattern of acquiring its suppliers—for example, J. C. Higgins. A business typically follows this acquisition strategy for the purpose of reducing costs and making the firm’s sales and distribution functions more cost competitive, or more responsive to the needs of the acquiring company. This strategy is particularly important to the firm in a mature industry in which price becomes a major strategic weapon.

¹⁹Philip Kotler, *Marketing Management* (Englewood Cliffs, N.J.: Prentice-Hall, 1980), pp. 48–53.

In forward integration, the firm attempts to acquire control of its distributors. When Royal Crown purchased Arby’s in 1976 (a conglomerate diversification effort), one of its first acts was to arrange for long-term markets for Royal Crown Cola through its wholly owned Arby’s locations, thus assuring the company of increased distribution for its products. As IBM established its consumer retail stores in 1984, it too was seeking to assure control of distribution for its current and future computer-related products. Interestingly, the major oil companies began a program of divesting their forward integration instruments—service stations—in the late 1970s, apparently because of the low profit margins involved in distribution of their products.

When a firm attempts to acquire its competition, it is practicing horizontal integrative growth. For instance, both Humana and Hospital Corporation of America have acquired several hundred hospitals each as they seek to dominate the health care industry.²⁰

The final major type of growth is diversified growth. Diversification becomes an important alternative when an organization has “all of its eggs in one basket” and has the internally generated expertise and the extra cash flow to expand into other areas. Diversification can be used to smooth out corporate revenues; this strategy is desirable for highly seasonal businesses—for example, areas that specialize in providing recreational snow skiing, such as Vail, Colorado. Diversification is also advisable where current businesses or products are in mature or decline stages of the product life cycle and revenues will ultimately be threatened. Diversification may also be desirable when external opportunities are significant. Information Capsule 3.2 indicates just how important diversification can be.

There are three types of diversification—concentric, horizontal, and conglomerate. With concentric diversification, the business seeks to add new products that are technologically related to current products. These products will normally be marketed to new customers. When Texas Instruments added personal computers to its product lines, it was practicing concentric diversification. When Levi Strauss added women’s clothing to its men’s line, it, too, was practicing concentric diversification.

Horizontal diversification also involves adding new products to the firm’s product line, but these products are not technologically related to existing ones and are aimed at current customers. Over the years, AMF has added pleasure boats, bicycles, snow skis, and other athletic equipment to its original offerings in order to provide new products for its current customers.

Conglomerate diversification involves both new products or businesses and new customers. The firm usually enters into conglomerate diversification to offset some deficiency, but it may also pursue this strategy to take advantage of a significant opportunity. Technically, of course, once a firm enters into more than one business, it ceases to be a single-business firm. Organizations such as InterNorth, GE, EXXON, and Beatrice are conglomerate companies.

Where to Grow. Most firms start in a particular geographic region, may then move to a national sales effort, and may even eventually attempt to repeat domestic successes in foreign countries. Naturally, geographic growth is highly desirable because it increases total market size. But, of course, not all firms can be national. King’s, a regional restaur-

²⁰*Industry Surveys*, Standard & Poor’s, p. H.

INFORMATION CAPSULE 3.2

Expanding the World of Hallmark

When you think of greeting cards, you probably think of Hallmark, because the \$1.5-billion company has 40 percent of the greeting card market. But it is not without competition; American and Gibson greeting card companies (numbers two and three respectively in industry sales) are constantly pressuring for increased market share of their own. Consequently, Hallmark's new executive vice-president, Irvine O. Hockaday, Jr., with the blessings of CEO Donald J. Hall, is steering the company down the road to diversification. Since assuming his new role in 1983, Hockaday has made three major acquisitions, two of them outside the "social expression" business that Hallmark has dominated since it was founded in 1910 by Joyce C. Hall.

Hockaday first negotiated the acquisition of Binney & Smith Inc., maker of Crayola Crayons for \$203 million; and then a joint buyout, with Pincus and Company, of Chicago-based SFN, a publishings and broadcasting company, for about \$470 million. His lone industry-related purchase was his third acquisition, a British greeting card firm, W. N. Sharpe Holdings, which Hallmark acquired for \$52 million. Hockaday studies the market carefully for opportunities which might occur, looking for signs that a buyout would be acceptable to targets. He is fond of saying that "Chance favors the prepared mind."

It would appear that Hockaday's two nonsocial expression acquisitions, while diversifying the firm's sales by 10 percent, is not the end, but just the beginning of Hallmark's diversification efforts. Hockaday suggests that Hallmark's next move may be into financial services, and that he foresees the day soon when 40 percent of Hallmark's earnings will come from nontraditional revenue sources.

Sources: "Irv Hockaday Is Leaving his Mark on Hallmark: Diversity," *Business Week*, November 12, 1984, pp. 73-74.

rant chain prominent in the northeastern United States, has stated that it does not believe it should go national and attempt to compete with other major chains. It intends not to grow, at least not geographically. But for most firms, geographic growth and success go hand in hand. What is imperative is that such growth not come too quickly. International growth, in particular, involves many difficulties. It is not simply an extension of domestic efforts, but requires an understanding of numerous complex cultural, logistical, social, economic and political differences.

How to Grow. The organization can grow in four basic ways—internally, by acquisition, by merger, or by joint venture. Internal growth offers many advantages; one of the most important of them is continuity of management style. Internal growth also has its limitations. It takes much longer to become larger and more diverse through internal growth than through the three external forms of growth. Nonetheless, many firms have grown to substantial size primarily through internal growth—the Coca-Cola Company, Radio Shack (Tandy), the Anheuser Busch Brewing Company, and Trans World Airlines, for example. On the other hand, firms such as PepsiCo, Allegheny Industries, Trans America, and First Northern Bank have grown externally, primarily through acquisition.

Recently, Coca-Cola has become more acquisition-oriented in an effort to become less dependent upon one major industry, the soft drink industry. Its 1981 acquisition of Columbia Pictures was a major step toward that end.

Typically, businesses begin as single-SBU firms, commonly with one product. As they grow, normally internally, and if they are successful, they begin to look for growth into new markets; new products; or areas of supply, distribution, or competition. At this point growth often ceases to be internal and is stimulated primarily through external sources. Nonetheless, innovation carries many firms for many years before external growth strategies are required. Innovation is a vital grand strategy for numerous organizations including American Airlines, Apple Computer, Campbell Soup, Intel, 3M, GE, Merck, and Phillip Morris.²¹

Both acquisition and merger involve combining organizations; they differ mainly in the nature of the remaining organization. In acquisition, one firm retains its identity as the dominant firm, while the other becomes subordinate in authority to that dominant firm. For example, when Heublein acquired Kentucky Fried Chicken, top management at KFC began to report to Heublein top management. Typically, acquisitions occur for the purpose of diversification. In mergers, however, a new organizational entity emerges. When Nabisco and Standard Brands merged, a new entity, Nabisco Brands, resulted. A new management structure was formed, with members of top management of both organizations taking various positions in the new management hierarchy.

Joint ventures are temporary partnerships formed for one specific purpose. For example, Blount Brothers Construction Company joined with the French construction firm Bouygues to land one of the biggest single construction projects in history—the University of Riyadh's new campus in Saudi Arabia. In all likelihood, neither firm could have obtained the contract alone, much less have completed the project. Entering the joint venture allowed both firms to overcome these problems.²² Historically, firms outside the United States and Canada have utilized the joint venture much more than firms from these two countries; but in recent years, even U.S. and Canadian firms have made increasing use of this mechanism.

Speed of Growth. One of the greatest mistakes a firm can make is to grow beyond its capacities. Such a mistake was one of the major causes of the downfall of the W. T. Grant Company. It takes time to develop the managers and management systems necessary to cope with the problems of increasing size. W. T. Grant simply did not foster this development. Different problems are encountered at various stages of growth and with various types of growth. Organizations must manage their way through these problems before further growth is advisable.

Stabilization. Some organizations are satisfied not to grow (or to grow very little). Many owners of smaller businesses, such as restaurants, insurance agencies, small manufacturers, and so forth, are satisfied to make only a certain amount of profit and do not wish to grow beyond a certain size. Understandably, the president of a large bank with a 46-percent market share in a major, highly competitive metropolitan area told author J. Higgins, he would be quite happy just to maintain that market share.

²¹ S. P. Sherman, "Eight Big Masters of Innovation," *Fortune*, October 15, 1984, pp. 66-84.

²² Blount: Building More than Buildings to Broaden Its Base," *Business Week*, April 23, 1979, pp. 108-110.

While stabilization provides an opportunity to "catch one's breath" between growth periods or during turnaround periods, it leaves the organization open to competition as a long-term strategy.

Investment Reduction. Firms may choose to follow a program of investment reduction, which simply means reducing the amount of capital investment in the organization or a specific SBU. This move may be necessitated by financial difficulties or, as in the case of profit extraction, may be an intentional program of removing assets from a successful business to create cash flow for other parts of the business or for distribution to owners. Several types of investment reduction exist.

Retrenchment is a major, across-the-board effort to reduce cash outflows in order to reduce the scope and size of the business, to lessen the exposure of the firm to risk, to concentrate on what the company does well in order to become more profitable, or simply to survive. It is generally viewed as a temporary measure. One company recently forced to retrench substantially in order to survive is International Harvester. Two others, Kroger Food Stores and Control Data, have recently undergone retrenchment in order to ensure satisfactory profitability.²³

At the corporate level in multiple-SBU firms, divestment—selling or liquidating individual SBUs—is the primary means of retrenchment. Often firms acquire businesses that do not continue to provide sufficient ROI. When products fail to meet the goals established by the organization to help it accomplish its mission, then these products should be eliminated, perhaps sold to others. Again, this process is known as divesting. Occasionally, losses must be taken; but long-term losses that might result from failure to divest must be estimated and balanced against short-term losses from divestment. For instance, after its disastrous bankruptcy in the early 1970s, Equity Funding eventually became Orion Capital, with only two of the six original major SBUs remaining.²⁴ The company thus survived and even became profitable largely by eliminating unprofitable SBUs.

At the single-SBU level, selected asset reduction is the type of investment reduction that most often occurs. For example, a firm might decide not to build a new plant, thus limiting the number of markets it can serve. Another common form of asset reduction is the decision not to give raises. Cost cutting is also often emphasized; for example, a manufacturer might cut costs by moving corporate headquarters from its plush rental facility back into the plant. Such a move might allow more markets to be served.

The next two options, liquidation and selling out, represent the ultimate in investment reduction, since the amount of investment is reduced to zero. At the single-SBU level, these options signify the ultimate disaster; but for the multiple-SBU firm, the cash received from these processes can be used to purchase other, more desirable SBUs.

Profit extraction is a strategy commonly followed by multiple-SBU firms for business subunits that are in profitable, usually mature industries in which growth is either not possible or is not desirable for some reason. By reducing investment and extracting profits, the firm can utilize cash flows for the benefit of other SBUs. Typically, the SBU from which profits are heavily extracted will be sold to another organization. Commonly, an

entrepreneur might also follow the profit extraction strategy prior to selling the firm to an acquiring organization.

Takeover Defenses. A number of takeover defense strategies exist. In 1984 a very popular one was to add a provision to the corporate charter known as the "fair price" provision, which required that all stockholders receive the same price for stock in a takeover. This defense prevented takeover attempts from occurring in tiers, typically with the first purchase at lower prices. Many firms also have provisions in their charters that require very high levels of stockholder approval of takeovers; 80 percent is a common figure. Other firms rely on very large stockholders to prevent their being taken over. Still others attempt to buy back voting stock for more control, or to stagger board of director terms, thus making it difficult for dissident stockholders to gain control of the board. Some companies attempt to issue new stock. Others, such as Martin Marietta, employ what is known as the "PAC-Man defense"—attempting to acquire the company that is attempting to acquire you. Yet another tactic is to provide special voting requirements when certain levels of "unfriendly" stock purchases have occurred. Many firms defend themselves by closely guarding their cash positions, reinvesting quickly to avoid having large amounts of cash on hand; diversification is a sound way of using this cash. Many seek the help of third parties—"friendly" individuals or companies with large amounts of cash who will in fact control the company. (This might be known as the "lesser-of-two-evils" approach.) Some seek high levels of debt. Most experts provide advice on how to determine a company's vulnerability and how then to prepare a defense. In case their defenses fail, however, most managements prepare "golden parachutes" for themselves. Finally, Congress is soon likely to intervene in this arena.²⁵

Turnaround. Turnaround strategies refer to efforts to reverse company fortunes when the firm has encountered a period of poor sales, poor revenues, or losses. A turnaround strategy usually involves some type of investment reduction, an attempt to stabilize, followed by a growth strategy of some type. CBS, for example, under Chairman Tom Wyman, has turned its earnings around substantially, partly through cost effectiveness and a new management style, and also perhaps through diversification.²⁶ One study by Vasudevan Ramanujam suggests that contextual factors play an important role in the success of turnaround strategies. The firm may not succeed at turnaround unless, for example, its industry fortunes change. Another study, by Dan Schendel and A. C. Patton, suggests that some firms are better at implementing strategies than others, although a number of complex additional variables are noted. One final study by Donald C. Hambrick and Steven Schecter suggests that for certain types of firms, successful turnaround is a function more of cost control than marketing strategy.²⁷ In sum, we have some

²³ J. A. Unruh, A. V. Bruno, and J. Leidecker, "Orchestrating Your Own Takeover," *Journal of Business Strategy*, Fall 1983, pp. 87–93; "Girding for the Proxy Wars," *Business Week*, April 16, 1984, pp. 46–47; P. W. Bernstein, "Taking on Takeovers," *Fortune*, September 3, 1984, p. 96; M. A. Siegel, "How to Foil Greenmail," *Fortune*, January 21, 1985, pp. 157–158.

²⁴ "Tom Wyman's CBS: Is the Turnaround Here to Stay," *Business Week*, December 24, 1984, pp. 46–47.

²⁵ D. Schendel and A. C. Patton, "Strategic Responses to Technological Threats," *Business Horizons*, February 1976, pp. 61–69; V. Ramanujam, "An Empirical Examination of Contextual Influences on Corporate Turnaround" (Paper presented to the Academy of Management, Boston, August 1984); D. C. Hambrick and S. Schecter, "Turnaround Strategies for Mature Industrial Product Business Units," *Academy of Management Journal*, June 1983, pp. 231–248.

²⁶ J. B. Solomon, "Aggressive a Century, Kroger Is Retrenching to Stem Fall in Profits," *The Wall Street Journal*, May 31, 1984, pp. 1, 20; "Control Data Starts a Painful Retrenchment," *Business Week*, October 22, 1984, pp. 94–96.

²⁷ "Orion Capital: A Shady Ancestry Shapes an Insurer's Future," *Business Week*, July 1, 1980, pp. 102–106; "Orion Capital: Born Again," *Financial World*, July 1, 1979, pp. 26–27.

clues as to what leads to successful turnaround, but as yet are uncertain as to specific strategies for specific situations.

Combination. Not all the strategies are mutually exclusive. Firms, either at the SBU or corporate level, normally employ a combination of the basic actions described above as they pursue their missions. By examining Figure 3.4, you will see that several can occur simultaneously.

Business Strategy

Once the organization has determined its strategy for coping with its environment—its enterprise strategy—and once the organization has determined what businesses it wants to be in and how it will conduct each business—its corporate strategy—then it must determine how it will compete within each business—its business strategy. This strategy, in both profit-seeking and not-for-profit organizations, can be termed the primary mission strategy. In business, we could also entitle it the mission competitive strategy, because a single business's major concern is to develop a strategic advantage which allows the firm to beat the competition in the marketplace. This strategy is discussed in considerable detail in Chapter 4.

Functional Strategy

Organizations perform certain functions critical to the successful accomplishment of all other strategies. They are designated *functional strategies*. There are two major types of functional strategies. The economic functional strategies include those concerned with marketing, operations, finance, personnel, information, research and development, and others. The management functional strategies include those related to planning, organizing, implementing, controlling, staffing, leading, motivating, communicating, and decision making. In addition, functional strategies include a third, but important type, the strategic issues strategies. With the exception of marketing, which is here considered part of the primary mission strategy, these functional strategies are labeled as mission-supportive strategies. Functional strategies support enterprise, corporate, business, and other functional strategies. These strategies, too, are discussed in more detail in Chapter 4.

The Grand Strategy

A number of authorities in strategic management have employed the term *grand strategy*. Although subtle differences exist in the various definitions, they are usually similarly operationalized by their authors in terms of the basic action strategies enumerated in this chapter. In a representative definition, John A. Pearce II described the grand strategy as "the comprehensive, general plan of major actions by which a firm intends to achieve its long-term objectives within its dynamic environment." Pearce suggests that 12 such major strategies exist: concentric diversification, conglomerate diversification, product development, market development, concentration on current activities, joint ventures, horizontal integration, vertical integration, innovation, retrenchment, liquidation, and divestiture.²⁸

²⁸J. A. Pearce II, "Selecting Among Alternative Grand Strategies," *California Management Review*, Spring 1982, pp. 23–31.

What Pearce is suggesting here is that these appear to be the 12 most commonly utilized basic action strategies, but even more, that these strategies drive the remainder of the firm's master strategy (our words, not his). Others, such as Charles Hofer and Dan Schendel, have identified "generic (basic action) strategies" which they suggest should be used in various stages of the product life cycle depending on the firm's relative competitive position. Their six strategies are share-increasing, growth, profit, market concentration or asset reduction, turnaround, or liquidation or divestment.²⁹

As the definition of grand strategy in Chapter 1 indicates, it is our belief that grand strategies include more than basic action strategies. They may include marketing or other economic functional strategies; for the large conglomerate, they may include portfolio strategies. What constitutes that driving force of the organization—that characteristic to which all else must adhere is the primary issue. For example, Porter has developed three generic strategies: cost leadership, differentiation, and focus (discussed in more detail in Chapter 4). These strategies are marketing strategies.³⁰ At the business level, what very often drives the organization is the marketing strategy.

Given this more inclusive perspective, the above-referenced strategies are but a few grand strategies currently under study in the field of strategic management. The next chapter examines a number of these as identified in various studies of firms and industries in specific types of situations. It is apparent that grand strategies exist and that they drive the supportive efforts of the organization. For example, Beatrice Foods has chosen the path of conglomerate diversification. That single grand strategy drives all else that it does as a company (not necessarily, however, what its individual strategic business units do). As many as 20 acquisitions and/or divestments have occurred in a single year as Beatrice attempts to improve its profits by improving its portfolio.

This observation is not limited to anecdotal evidence. Michael A. Hitt, R. Duane Ireland, and K. A. Palia, in examining relationships in 93 industrial firms, found that depending on the type of (basic action) grand strategy employed by the firm, various of seven different economic functional areas (marketing, finance, etc.) are more critical, more focused on than are others.³¹

Because of the large number of such strategies and their combinations, the limited research evidence to support various contentions, and the infancy of the research, it would seem best at this point simply to recognize their existence and the way in which they affect the remainder of the organization. In addition, individual, industry-based, research-supported grand strategies, such as those discussed in the next chapter, might also be viable considerations in formulating strategies in similar situations. Beyond that, one must be quite careful in placing too much faith in unverified recommendations. An organization must always choose among the basic action strategies and/or marketing strategies, making one the most central thrust of the master strategy, and hence, the grand strategy. But exactly which one is most appropriate to choose is as yet an unknown in most circumstances.

²⁹C. W. Hofer and D. Schendel, *Strategy Formulation: Analytical Concepts*, (St. Paul, Minn.: West, 1978), pp. 104, 162–177.

³⁰M. E. Porter, *Competitive Strategy* (New York: Free Press, 1980), Chapters 1 and 2.

³¹M. A. Hitt, R. D. Ireland, and K. A. Palia, "Industrial Firms' Grand Strategy and Functional Importance: Moderating Effects of Technology and Uncertainty," *Academy of Management Journal*, 1982, Vol. 25, No. 2, pp. 265–298.

Preemptive Strategies

Ian MacMillan has proposed that preemptive strategies are appropriate mechanisms for firms wishing to secure advantages over competitors. A preemptive action is defined as "a major move by a focal business ahead of moves by its adversaries, which allows it to secure an advantageous position from which it is difficult to dislodge because of the advantages it has captured by being the first mover." He offers a common example of such a move in the firm that expands capacity far ahead of industry demand, anticipating the gaining of market share through discouraging competitors from expanding.³² Preemptive moves are based on the strategists' assumptions about the marketplace. If these assumptions are inaccurate, then the preemptive moves may leave strategists vulnerable. MacMillan provides the characteristics of an ideal preemptive move:³³

- "It should be possible to rapidly occupy 'prime' positions, at any advantageous point, along the entire industry chain.
- "Once the move is made, it should be difficult for most of the adversaries to follow into these positions.
- "Conditions should exist that slow down the response rate of any competitors who can respond.
- "It should be relatively easy for the preempting business to reverse its move, if it so desires."

He feels that there are two basic classes of preemptive opportunities which a firm should seek:³⁴

- "Those opportunities that exploit rival weaknesses or its lack of commitment."
- "Those opportunities that exploit rival strengths or its strong commitments."

In terms of exploiting a rival's weaknesses, MacMillan suggests the following:³⁵

- "Reshape the industry infrastructure—that which is necessary to ensure a smooth flow from raw materials to finished goods."
- "Occupy prime positions—geographically, key accounts, distributors, service organizations, suppliers, government contracts."
- "Secure critical skills—secure these across all functions."
- "Preempt a psychological position—develop an appeal to the customer that is hard for competitors to overcome."

In terms of exploiting a rival's strengths, MacMillan suggests the following:

- "Cannibalize competitive advantages—make moves that force the opponent to have to cannibalize current advantages in order to respond. An opponent is not likely to do this."

- "Damage the opponent's image, company tradition, or strategy."
- "Threaten a major investment—for example in the competitor's production capacity, distribution system, or supply system."

- "Force competitors to antagonize powerful third parties—by choosing preemptive moves which necessitate the competitor's upsetting powerful third parties, it is likely that the competitor will offer no response."

MacMillan suggests that major opportunities for preemptive strategies exist in the areas presented in Table 3.3.

MacMillan's preemptive strategy approach seems intuitively sound. There is, in fact, evidence from a host of research to suggest that such actions generally (not necessarily those he specifically suggests) are quite sound. One must always keep in mind the situation, and be cognizant of the SWOTs involved.

Table 3.3 Sources of Preemptive Opportunities

Supply Systems

1. Secure access to raw materials or components
2. Preempt production equipment
3. Dominate supply logistics

Product

1. Introduce new product lines
2. Develop dominant design
3. Position
4. Secure accelerated approval from agencies
5. Secure product development and delivery skills
6. Expand scope of the product

Production Systems

1. Proprietary processes
2. Aggressive capacity expansion
3. Vertical integration with key suppliers
4. Secure scarce and critical production skills

Customers

1. Segmentation
2. Build early brand awareness
3. Train customers in usage skills
4. Capture key accounts

Distribution and Service Systems

1. Occupation of prime locations
2. Preferential access to key distributors
3. Dominance of distribution logistics
4. Access to superior service capabilities
5. Development of distributor skills

Source: I. C. MacMillan, "Preemptive Strategies," reprinted by permission from the *Journal of Business Strategy*, Fall 1983, Copyright © 1983, Warren, Gorham & Lamont Inc., 210 South Street, Boston, Mass., p. 20. All Rights Reserved.

³²I. C. MacMillan, "Preemptive Strategies," *Journal of Business Strategy*, Fall 1983, p. 16.

³³Ibid., p. 18.

³⁴Ibid., pp. 18–19.

³⁵Ibid., p. 19.

Some Important Characteristics of Plans

is relevant to note that all plans should have certain characteristics and that the contents strategy should reflect them. A few of these characteristics are listed below.

Flexibility. In today's volatile environment, organizations must remain flexible in their planning processes so that as changes arise, the organizations will be able to adapt. Some organizations have developed numerous contingency plans and multiple strategies for the purpose of coping with the changing requirements of the environment. Having already developed alternative strategies, the firm can implement the proper one immediately upon the occurrence of various events. For instance, the bank that has an inflexible strategy today will be out of business tomorrow, because banks operate in very volatile environments.

Contents. Any plan should include, to the appropriate degree, specification of

Who will be involved—organization levels and individuals.

What will be required—resources.

Where action will occur—geographically and by organization level.

When action will occur—time horizon, implementation date.

Why action will occur—the objective.

How the objective will be accomplished—what actions are necessary (which is indicated somewhat by who, what, and where, the means of implementation).

Control—some provision for evaluation.

Consistency. Plans developed within a strategy should be consistent with one another, and strategies should be consistent within an organization. The objectives of the master strategy must be included in the development of intermediate and operational plans. These plans must also be consistent with organizational structure. Such considerations are especially important to the functional area division plans. These objectives often suboptimize the total strategy because functional area or product division needs are included without the proper analysis of their impact on overall organizational-objectives accomplishment.

Timeliness. To be effective, a plan must be timely. Even the Edsel might have succeeded had it been introduced just two years sooner or later. Although some believed it unattractive, its main failing was that it was a big car introduced when the consumer was looking for a small car.

Risks. Risk is many things to many people. To some, it is the probability of return. To others, it may be this probability in combination with the severity of consequences. Risk has often been defined in several other ways, among them in terms of the variability of returns over time. We believe that, to have a high probability of success, the strategy must have the proper level of risk however it may be defined and measured. Inga S. Baird believes that managers should consider the numerous facets of this definition when attempting to measure risk. She advises them to consider virtually all the aspects of risk, its many definitions and measurements, and then develop a summary estimate of this strategy in-

put.³⁶ We agree. We also recognize that this may not always be possible, nor always necessary.

Acceptance by Society and Government. Business's social responsibility is so important that every plan must be specifically concerned with societal impact analysis. If society and government do not accept an organization's actions as appropriate, profit may suffer. In addition, sanctions may be levied against the firm so that it will eventually be forced to change.

Summary

The major strategic objectives which exist in virtually all business organizations include: growth, efficiency, utilization of resources, contribution to owners, contribution to customers, contribution to employees, and contribution to society. Objectives serve not only to direct but also to integrate the organization. MBORR as a management system and philosophy has been shown to be highly related to organizational success.

The master strategy has four major components: a societal response strategy, a mission determination strategy, a primary mission strategy, and a supportive strategy. In business, these strategies are known as the enterprise strategy, the corporate strategy, the business strategy, and the functional (support) strategy. Each of these major strategies is composed of numerous subcomponent strategies. The enterprise strategy is concerned with how the organization functions as a member of the overall society. The corporate strategy is concerned with the business or businesses the firm is in and the basic action strategies that naturally follow. The business strategy is concerned primarily with marketing (and occasionally with other functional strategies). Business strategies are the primary driving force behind the organization's ability to compete. Finally, the supportive strategies focus on the efforts of both economic functional strategies—such as production, finance, and human resources management—and managerial functional strategies—such as planning, organizing, implementing, and controlling—to support the business strategy.

Plans, and hence strategies, have important intrinsic characteristics, including flexibility, contents, consistency, timeliness, risk, and acceptance by society and government.

Key Terms and Concepts

By the time you have completed this chapter, you should be familiar with the following key terms and concepts: the objective-setting process; typical business objectives and their major characteristics; the levels of objectives; the major MBORR processes; the positive and negative features of MBORR; the importance of objectives to performance; the four major levels of strategy for all organizations and for business in particular; the major component substrategies of the corporate strategy, including definitions and examples; the grand strategy; and the major characteristics of plans.

³⁶ I. S. Baird, "What Is Risk Anyway? The Treatment of Risk in Strategic Management" (Paper presented to the Academy of Management, Boston, August 1984).