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By Seymour Tilles

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No good military officer would undertake even a small-scale attack on a limited objective without a clear concept of his strategy. No seasoned politician would undertake a campaign for a major office without an equally clear concept of his strategy. In the field of business management, however, we frequently find men deploying resources on a large scale without any clear notion of what their strategy is. And yet a company's strategy is a vital ingredient in determining its future. A valid strategy will yield growth, profit, or whatever other objectives the managers have established. An inappropriate strategy not only will fail to yield benefits, but also may result in disaster.

In this article I will try to demonstrate the truth of these contentions by examining the experiences of a number of companies. I shall discuss what strategy is, how it can be evaluated, and how, by evaluating its strategy, a management can do much to assure the future of the enterprise.

Decisive Impact

The influence of strategy can be seen in every age and in every area of industry. Here are some examples:

From the time it was started in 1911 as the Computing-Tabulating-Recording Co., International Business Machines Corporation has demonstrated the significance of a soundly conceived strategy. Seeing itself in the data-system business at a time when most manufacturers were still preoccupied with individual pieces of equipment, IBM developed a set of policies which resulted in its dominating the office equipment industry.

By contrast, Packard in the 1930's was to the automobile industry everything that IBM is today to the office machine industry. In 1937, it sold over 109,000 cars, compared with about 11,000 for Cadillac. By 1954 it had disappeared as an independent producer.

Strategy is, of course, not the only factor determining a company's success or failure. The competence of its managerial leadership is significant as well. Luck can be a factor, too (although often what people call good luck is really the product of good strategy). But a valid strategy can gain extraordinary results for the company whose general level of competence is only average. And, conversely, the most inspiring leaders who are locked into an inappropriate strategy will have to exert their full competence and energy merely in order to keep from losing ground.

When Hannibal inflicted the humiliating defeat on the Roman army at Cannae in 216 B.C., he led a ragged band against soldiers who were in possession

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of superior arms, better training, and competent "noncoms." His strategy, however, was so superior that all of those advantages proved to be relatively insignificant. Similarly, when Jacob Borowsky made Lestoil the hottest-selling detergent in New England some years ago, he was performing a similar feat—relying on strategy to battle competition with superior resources.

Strategy is important not only for aspiring Davids who need an offensive device to combat corporate Goliaths. It is significant also for the large organization faced with a wide range of choice in domestic and international operations. For instance, the following corporations are all in the midst of strategic changes, the implications of which are worldwide in scope:

□ Massey-Ferguson, Ltd., with 26 factories located around the world, and vying for leadership in the farm-equipment industry.

□ General Electric Company and Westinghouse Electric Corporation, the giant producers of electrical equipment who are recasting their competitive policies.

□ Singer Sewing Machine Company, trying to make its vast assets yield a greater return.

Dynamic Concept

A strategy is a set of goals and major policies. The definition is as simple as that. But while the notion of a strategy is extremely easy to grasp, working out an agreed-upon statement for a given company can be a fundamental contribution to the organization's future success.

In order to develop such a statement, managers must be able to identify precisely what is meant by a goal and what is meant by a major policy. Otherwise, the process of strategy determination may degenerate into what it so often becomes—the solemn recording of platitudes, useless for either the clarification of direction or the achievement of consensus.

Identifying Goals

Corporate goals are an indication of what the company as a whole is trying to *achieve* and to *become*. Both parts—the achieving and the becoming—are important for a full understanding of what a company hopes to attain. For example:

□ Under the leadership of Alfred Sloan, General Motors achieved a considerable degree of external success; this was accomplished because Sloan worked out a pattern for the kind of company he wanted it to be internally.

□ Similarly, the remarkable record of Du Pont in the twentieth century and the growth of Sears, Roebuck under Julius Rosenwald were as much a tribute to their modified structure as to their external strategy.[1]

Achieving. In order to state what a company expects to achieve, it is important to state what it hopes to do with respect to its environment. For instance:

> Ernest Breech, chairman of the board of the Ford Motor Company, said that the strategy formulated by his company in 1946 was based on a desire "to hold our own in what we foresaw would be a rich but hotly competitive market."[2] The view of the environment implicit in this statement is unmistakable: an expanding overall demand, increasing competition, and emphasis on market share as a measure of performance against competitors.

Clearly, a statement of what a company hopes to achieve may be much more varied and complex than can be contained in a single sentence. This will be especially true for those managers who are sophisticated enough to perceive that a company operates in more external "systems" than the market. The firm is part not only of a market but also of an industry, the community, the economy, and other systems. In each case there are unique relationships to observe (e.g., with competitors, municipal leaders, Congress, and so on). A more complete discussion of this point is contained in a previous HBR article.[3]

Becoming. If you ask young men what they want to accomplish by the time they are 40, the answers you get fall into two distinct categories. There are those—the great majority—who will respond in terms of what they want to *have*. This is especially true of graduate students of business administration. There are some men, however, who will answer in terms of the kind of men they hope to *be*. These are the only ones who have a clear idea of where they are going.

The same is true of companies. For far too many companies, what little thinking goes on about the future is done primarily in money terms. There is nothing wrong with financial planning. Most companies should do more of it. But there is a basic fallacy in confusing a financial plan with thinking

[1] For an interesting discussion of this relationship, see A. D. Chandler, Jr., *Strategy and Structure* (Cambridge, Massachusetts Institute of Technology Press, 1962), pp. 1–17.

[2] See Edward C. Bursk and Dan H. Fenn, Jr., *Planning the Future Strategy of Your Business* (New York, McGraw-Hill Book Company, Inc., 1956), p. 8.

[3] Seymour Tilles, "The Manager's Job—A Systems Approach," HBR January–February 1963, p. 73.

about the kind of company you want yours to become. It is like saying, "When I'm 40, I'm going to be *rich*." It leaves too many basic questions unanswered. Rich in what way? Rich doing what?

The other major fallacy in stating what you want to become is to say it only in terms of a product. The number of companies who have got themselves into trouble by falling in love with a particular product is distressingly great.[4] Perhaps the saddest examples are those giants of American industry who defined their future in terms of continuing to be the major suppliers of steam locomotives to the nation's railroads. In fact, these companies were so wedded to this concept of their future that they formed a cartel in order to keep General Motors out of the steam locomotive business. When the diesel locomotive proved its superiority to steam, these companies all but disappeared.

The lesson of these experiences is that a key element of setting goals is the ability to see them in terms of more than a single dimension. Both money and product policy are part of a statement of objectives; but it is essential that these be viewed as the concrete expressions of a more abstract set of goals—the satisfaction of the needs of significant groups which cooperate to ensure the company's continued existence.

Who are these groups? There are many—customers, managers, employees, stockholders, to mention just the major ones. The key to corporate success is the company's ability to identify the important needs of each of these groups, to establish some balance among them, and to work out a set of operating policies which permits their satisfaction. This set of policies, as a pattern, identifies what the company is trying to be.

The Growth Fad

Many managers have a view of their company's future which is strikingly analogous to the child's view of himself. When asked what they want their companies to become over the next few years, they reply, "bigger."

There are a great many rationalizations for this preoccupation with growth. Probably the one most frequently voiced is that which says, "You have to grow or die." What must be appreciated, however, is that "bigger" for a company has enormous implications for management. It involves a different way of life, and one which many managers may not be suited for—either in terms of temperament or skills.

Moreover, whether for a large company or a small one, "bigger," by itself, may not make economic sense. Companies which are highly profitable at their present size may grow into bankruptcy very easily; witness the case of Grayson-Robinson Stores, Inc., a chain of retail stores. Starting out as a small but profitable chain, it grew rapidly into receivership. Conversely, a company which is not now profitable may more successfully seek its survival in cost reduction than in sales growth. Chrysler is a striking example of this approach.

There is, in the United States, a business philosophy which reflects the frontier heritage of the country. It is one which places a high value on growth, in physical terms. The manager whose corporate sales are not increasing, the number of whose subordinates is not growing, whose plants are not expanding, feels that he is not successful. But there is a dangerous trap in this kind of thinking. More of the same is not necessarily progress. In addition, few managers are capable of running units several times larger than the ones they now head. The great danger of wholehearted consumer acceptance or an astute program of corporate acquisition is that it frequently propels managers into situations that are beyond their present competence. Such cases—and they are legion—emphasize that in stating corporate objectives, bigger is not always better. A dramatic example is that of the Ampex Corporation:

> From 1950 to 1960, Ampex's annual sales went from less than $1,000,000 to more than $73,000,000. Its earnings went from $115,000 to nearly $4,000,000. The following year, the company reported a decline in sales to $70,000,000, and a net loss of $3,900,000. The Wall Street Journal reported: "As one source close to the company put it, Ampex's former management 'was intelligent and well-educated, but simply lacked the experience necessary to control' the company's rapid development."[5]

Role of Policy

A policy says something about *how* goals will be attained. It is what statisticians would call a "decision rule," and what systems engineers would call a "standing plan." It tells people what they should and should not do in order to contribute to achievement of corporate goals.

A policy should be more than just a platitude. It should be a helpful guide to making strategy explicit, and providing direction to subordinates. Consequently, the more definite it is, the more helpful it can be. "We will provide our stockholders with a fair return," is a policy no one could possibly

[4] See Theodore Levitt, "Marketing Myopia," HBR July–August 1960, p. 45.

[5] "R for Ampex: Drastic Changes Help Solve Big Headache of Fast Corporate Growth," *Wall Street Journal*, September 17, 1962, p. 1.

disagree with—or be helped by. What *is* a fair return? This is the type of question that must be answered before the company's intentions become clear.

The job of management is not merely the preparation of valid policies for a standard set of activities; it is the much more challenging one of first deciding what activities are so strategically significant that explicit decision-rules in that area are mandatory. No standard set of policies can be considered major for all companies. Each company is a unique situation. It must decide for itself which aspects of corporate life are most relevant to its own aspirations and work out policy statements for them. For example, advertising may be insignificant to a company which provides research services to the Defense Department, but critical to a firm trying to mass-merchandise luxury goods.

It is difficult to generalize about which policies are major, even within a particular industry, because a number of extraordinarily successful companies appear to violate all the rules. To illustrate:

> In the candy industry it would seem safe to generalize that advertising should be a major policy area. However, the Hershey Company, which is so successful that its name is practically the generic term for the product, has persistently followed a policy of no advertising.
>
> Similarly, in the field of high-fidelity components, one would expect that dealer relations would be a critical policy area. But Acoustics Research, Inc., has built an enviable record of sales growth and of profitability by relying entirely on consumer pull.

Need to Be Explicit

The first thing to be said about corporate strategy is that having one is a step forward. Any strategy, once made explicit, can quickly be evaluated and improved. But if no attempt is ever made to commit it to paper, there is always the danger that the strategy is either incomplete or misunderstood.

Many successful companies are not aware of the strategy that underlies their success. It is quite possible for a company to achieve initial success without real awareness of its causes. However, it is much more difficult to successfully *branch out into new ventures* without a precise appreciation of their strategic significance. This is why many established companies fail miserably when they attempt a program of corporate acquisition, product diversification, or market expansion. One illustration of this is cited by Myles L. Mace and George G. Montgomery in their recent study of corporate acquisitions:

> "A basic resin company . . . bought a plastic boat manufacturer because this seemed to present a controlled market for a portion of the resin it produced. It soon found that the boat business was considerably different from the manufacture and sale of basic chemicals. After a short but unpleasant experience in manufacturing and trying to market what was essentially a consumer's item, the management concluded that its experience and abilities lay essentially in industrial rather than consumer-type products."[6]

Another reason for making strategy explicit is the assistance it provides for delegation and for coordination. To an ever-increasing extent, management is a team activity, whereby groups of executives contribute to corporate success. Making strategy explicit makes it far easier for each executive to appreciate what the overall goals are, and what his own contribution to them must be.

Making an Evaluation

Is your strategy right for you? There are six criteria on which to base an answer. These are:

1. Internal consistency.
2. Consistency with the environment.
3. Appropriateness in the light of available resources.
4. Satisfactory degree of risk.
5. Appropriate time horizon.
6. Workability.

If all of these criteria are met, you have a strategy that is right for you. This is as much as can be asked. There is no such thing as a good strategy in any absolute, objective sense. In the remainder of this article I shall discuss the criteria in some detail.

1. Is the Strategy Internally Consistent?

Internal consistency refers to the cumulative impact of individual policies on corporate goals. In a well-worked-out strategy, each policy fits into an integrated pattern. It should be judged not only in terms of itself, but also in terms of how it relates to other policies which the company has established and to the goals it is pursuing.

In a dynamic company consistency can never be taken for granted. For example:

[6] *Management Problems of Corporate Acquisitions* (Boston, Division of Research, Harvard Business School, 1962), p. 60.

> Many family-owned organizations pursue a pair of policies which soon become inconsistent: rapid expansion and retention of exclusive family control of the firm. If they are successful in expanding, the need for additional financing soon raises major problems concerning the extent to which exclusive family control can be maintained.
>
> While this pair of policies is especially prevalent among smaller firms, it is by no means limited to them. The Ford Motor Company after World War II and the New York Times today are examples of quite large, family-controlled organizations that have had to reconcile the two conflicting aims.

The criterion of internal consistency is an especially important one for evaluating strategies because it identifies those areas where strategic choices will eventually have to be made. An inconsistent strategy does *not* necessarily mean that the company is currently in difficulty. But it does mean that unless management keeps its eye on a particular area of operation, it may well find itself forced to make a choice without enough time either to search for or to prepare attractive alternatives.

2. Is the Strategy Consistent With the Environment?

A firm which has a certain product policy, price policy, or advertising policy is saying that it has chosen to relate itself to its customers—actual and potential—in a certain way. Similarly, its policies with respect to government contracts, collective bargaining, foreign investment, and so forth are expressions of relationship with other groups and forces. Hence an important test of strategy is whether the chosen policies are consistent with the environment—whether they really make sense with respect to what is going on outside.

Consistency with the environment has both a static and a dynamic aspect. In a static sense, it implies judging the efficacy of policies with respect to the environment as it exists *now*. In a dynamic sense, it means judging the efficacy of policies with respect to the environment *as it appears to be changing*. One purpose of a viable strategy is to ensure the long-run success of an organization. Since the environment of a company is constantly changing, ensuring success over the long run means that management must constantly be assessing the degree to which policies previously established are consistent with the environment as it exists now; and whether current policies take into account the environment as it will be in the future. In one sense, therefore, establishing a strategy is like aiming at a moving target: you have to be concerned not only with present position but also with the speed and direction of movement.

Failure to have a strategy consistent with the environment can be costly to the organization. Ford's sad experience with the Edsel is by now a textbook example of such failure. Certainly, had Ford pushed the Falcon at the time when it was pushing the Edsel, and with the same resources, it would have a far stronger position in the world automobile market today.

Illustrations of strategies that have not been consistent with the environment are easy to find by using hindsight. *But the reason that such examples are plentiful is not that foresight is difficult to apply*. It is because even today few companies are seriously engaged in analyzing environmental trends and using this intelligence as a basis for managing their own futures.

3. Is the Strategy Appropriate in View of the Available Resources?

Resources are those things that a company *is* or *has* and that help it to achieve its corporate objectives. Included are money, competence, and facilities; but these by no means complete the list. In companies selling consumer goods, for example, the major resource may be the name of the product. In any case, there are two basic issues which management must decide in relating strategy and resources. These are:

□ What are our critical resources?
□ Is the proposed strategy appropriate for available resources?

Let us look now at what is meant by a "critical resource" and at how the criterion of resource utilization can be used as a basis for evaluating strategy.

Critical Resources

The essential strategic attribute of resources is that they represent action potential. Taken together, a company's resources represent its capacity to respond to threats and opportunities that may be perceived in the environment. In other words, resources are the bundle of chips that the company has to play with in the serious game of business.

From an action-potential point of view, a resource may be critical in two senses: (1) as the factor limiting the achievement of corporate goals; and (2) as that which the company will exploit as the basis for its strategy. Thus, critical resources are both what the company has most of and what it has least of.

The three resources most frequently identified as critical are money, competence, and physical facilities. Let us look at the strategic significance of each.

Money. Money is a particularly valuable resource because it provides the greatest flexibility of response to events as they arise. It may be considered the "safest" resource, in that safety may be equated with the freedom to choose from among the widest variety of future alternatives. Companies that wish to reduce their short-run risk will therefore attempt to accumulate the greatest reservoir of funds they can.

However, it is important to remember that while the accumulation of funds may offer short-run security, it may place the company at a serious competitive disadvantage with respect to other companies which are following a higher-risk course.

The classical illustration of this kind of outcome is the strategy pursued by Montgomery Ward under the late Sewell Avery. As reported in *Fortune*:

> "While Sears confidently bet on a new and expanding America, Avery developed an *idée fixe* that postwar inflation would end in a crash no less serious than that of 1929. Following this idea, he opened no new stores but rather piled up cash to the ceiling in preparation for an economic debacle that never came. In these years, Ward's balance sheet gave a somewhat misleading picture of its prospects. Net earnings remained respectably high, and were generally higher than those of Sears as a percentage of sales. In 1946, earnings after taxes were $52 million. They rose to $74 million in 1950, and then declined to $35 million in 1954. Meanwhile, however, sales remained static, and in Avery's administration profits and liquidity were maintained at the expense of growth. In 1954, Ward had $327 million in cash and securities, $147 million in receivables, and $216 million in inventory, giving it a total current-asset position of $690 million and net worth of $639 million. It was liquid, all right, but it was also the shell of a once great company."[7]

Competence. Organizations survive because they are good at doing those things which are necessary to keep them alive. However, the degree of competence of a given organization is by no means uniform across the broad range of skills necessary to stay in business. Some companies are particularly good at marketing, others especially good at engineering, still others depend primarily on their financial sophistication. Philip Selznick refers to that which a company is particularly good at as its "distinctive competence."[8]

In determining a strategy, management must carefully appraise its own skill profile in order to determine where its strengths and weaknesses lie. It must then adopt a strategy which makes the greatest use of its strengths. To illustrate:

> The competence of *The New York Times* lies primarily in giving extensive and insightful coverage of events—the ability to report "all the news that's fit to print." It is neither highly profitable (earning only 1.5% of revenues in 1960—far less than, say, the *Wall Street Journal*), nor aggressively sold. Its decision to publish a West Coast and an international edition is a gamble that the strength of its "distinctive competence" will make it accepted even outside of New York.
>
> Because of a declining demand for soft coal, many producers of soft coal are diversifying into other fields. All of them, however, are remaining true to some central skill that they have developed over the years. For instance:
>
> □ Consolidation Coal is moving from simply the mining of soft coal to the mining and transportation of soft coal. It is planning with Texas Eastern Transmission Corporation to build a $100-million pipeline that would carry a mixture of powdered coal and water from West Virginia to the East Coast.
>
> □ North American Coal Company, on the other hand, is moving toward becoming a chemical company. It recently joined with Strategic Materials Corporation to perfect a process for extracting aluminum sulfate from the mine shale that North American produces in its coal-running operations.

James L. Hamilton, president of the Island Creek Coal Co., has summed up the concept of distinctive competence in a colorful way:

> "We are a career company dedicated to coal, and we have some very definite ideas about growth and expansion within the industry. We're not thinking of buying a cotton mill and starting to make shirts."[9]

Physical facilities. Physical facilities are the resource whose strategic influence is perhaps most frequently misunderstood. Managers seem to be divided among those, usually technical men, who are enamored of physical facilities as the tangible symbol of the corporate entity; and those, usually financial men, who view physical facilities as an undesirable but necessary freezing of part of the company's funds. The latter group is dominant. In many companies, return on investment has emerged as virtually the sole criterion for deciding whether or not a particular facility should be acquired.

[7] "Montgomery Ward: Prosperity Is Still Around the Corner," *Fortune*, November 1960, p. 140.

[8] *Leadership in Administration* (Evanston, Illinois, Row, Peterson & Company, 1957), p. 42.

[9] *Wall Street Journal*, September 11, 1962, p. 30.

Actually, this is putting the cart before the horse. Physical facilities have significance primarily in relationship to overall corporate strategy. It is, therefore, only in relationship to *other* aspects of corporate strategy that the acquisition or disposition of physical facilities can be determined. The total investment required and the projected return on it have a place in this determination—but only as an indication of the financial implications of a particular strategic decision and not as an exclusive criterion for its own sake.

Any appraisal of a company's physical facilities as a strategic resource must consider the relationship of the company to its environment. Facilities have no intrinsic value for their own sake. Their value to the company is either in their location relative to markets, to sources of labor, or to materials; or in their efficiency relative to existing or impending competitive installations. Thus, the essential considerations in any decision regarding physical facilities are a projection of changes likely to occur in the environment and a prediction about what the company's responses to these are likely to be.

Here are two examples of the necessity for relating an evaluation of facilities to environmental changes:

□ Following the end of World War II, all domestic producers of typewriters in the United States invested heavily in plant facilities in this country. They hypothesized a rapid increase of sales throughout the world. This indeed took place, but it was short-lived. The rise of vigorous overseas competitors, especially Olivetti and Olympia, went hand in hand with a booming overseas market. At home, IBM's electric typewriter took more and more of the domestic market. Squeezed between these two pressures, the rest of the U.S. typewriter industry found itself with a great deal of excess capacity following the Korean conflict. Excess capacity is today still a major problem in this field.

□ The steady decline in the number of farms in the United States and the emergence of vigorous overseas competition have forced most domestic full-line manufacturers of farm equipment to sharply curtail total plant area. For example, in less than four years, International Harvester eliminated more than a third of its capacity (as measured in square feet of plant space) for the production of farm machinery.

The close relationship between physical facilities and environmental trends emphasizes one of the most significant attributes of fixed assets—their temporal utility. Accounting practice recognizes this in its treatment of depreciation allowances. But even when the tax laws permit generous write-offs, they should not be used as the sole basis for setting the time period over which the investment must be justified. Environmental considerations may reveal that a different time horizon is more relevant for strategy determination. To illustrate again:

> As Armstrong Cork Company moved away from natural cork to synthetic materials during the early 1950's, management considered buying facilities for the production of its raw materials—particularly polyvinyl chloride. However, before doing so, it surveyed the chemical industry and concluded that producers were overbuilding. It therefore decided not to invest in facilities for the manufacture of this material. The projections were valid; since 1956 polyvinyl chloride has dropped 50% in price.

A strategic approach to facilities may not only change the time horizon; it may also change the whole basis of asset valuation:

> Recently a substantial portion of Loew's theaters was acquired by the Tisch brothers, owners and operators of a number of successful hotels, including the Americana in Florida.[10] As long as the assets of Loew's theaters were viewed only as places for the projection of films, its theaters, however conservatively valued, seemed to be not much of a bargain. But to a keen appraiser of hotel properties the theater sites, on rather expensive real estate in downtown city areas, had considerable appeal. Whether this appraisal will be borne out is as yet unknown. At any rate, the stock, which was originally purchased at $14 (with a book value of $22), was selling at $23 in October 1962.

Achieving the Right Balance

One of the most difficult issues in strategy determination is that of achieving a balance between strategic goals and available resources. This requires a set of necessarily empirical, but critical, estimates of the total resources required to achieve particular objectives, the rate at which they will have to be committed, and the likelihood that they will be available. The most common errors are either to fail to make these estimates at all or to be excessively optimistic about them.

One example of the unfortunate results of being wrong on these estimates is the case of Royal McBee and the computer market:

> In January 1956 Royal McBee and the General Precision Equipment Corporation formed a

[10] See "The Tisches Eye Their Next $65 Million," *Fortune*, January 1960, p. 140.

jointly owned company—the Royal Precision Corporation—to enter the market for electronic data-processing equipment. This joint operation was a logical pooling of complementary talents. General Precision had a great deal of experience in developing and producing computers. Its Librascope Division had been selling them to the government for years. However, it lacked a commercial distribution system. Royal McBee, on the other hand, had a great deal of experience in marketing data-processing equipment, but lacked the technical competence to develop and produce a computer.

The joint venture was eminently successful, and within a short time the Royal Precision LPG-30 was the leader in the small-computer field. However, the very success of the computer venture caused Royal McBee some serious problems. The success of the Royal Precision subsidiary demanded that the partners put more and more money into it. This was no problem for General Precision, but it became an ever more serious problem for Royal McBee, which found itself in an increasingly critical cash bind. In March 1962 it sold its interest in Royal Precision to General Precision for $5 million—a price which represented a reported $6.9 million loss on the investment. Concluding that it simply did not have sufficient resources to stay with the new venture, it decided to return to its traditional strengths: typewriters and simple data-processing systems.

Another place where optimistic estimates of resources frequently cause problems is in small businesses. Surveys of the causes of small-business failure reveal that a most frequent cause of bankruptcy is inadequate resources to weather either the early period of establishment or unforeseen downturns in business conditions.

It is apparent from the preceding discussion that a critical strategic decision involves deciding: (1) how much of the company's resources to commit to opportunities currently perceived, and (2) how much to keep uncommitted as a reserve against the appearance of unanticipated demands. This decision is closely related to two other criteria for the evaluation of strategy: risk and timing. I shall now discuss these.

4. Does the Strategy Involve an Acceptable Degree of Risk?

Strategy and resources, taken together, determine the degree of risk which the company is undertaking. This is a critical managerial choice. For example, when the old Underwood Corporation decided to enter the computer field, it was making what might have been an extremely astute strategic choice. However, the fact that it ran out of money before it could accomplish anything in that field turned its pursuit of opportunity into the prelude to disaster. This is not to say that the strategy was "bad." However, the course of action pursued *was* a high-risk strategy. Had it been successful, the payoff would have been lush. The fact that it was a stupendous failure instead does not mean that it was senseless to take the gamble.

Each company must decide for itself how much risk it wants to live with. In attempting to assess the degree of risk associated with a particular strategy, management may use a variety of techniques. For example, mathematicians have developed an elegant set of techniques for choosing among a variety of strategies where you are willing to estimate the payoffs and the probabilities associated with them. However, our concern here is not with these quantitative aspects but with the identification of some qualitative factors which may serve as a rough basis for evaluating the degree of risk inherent in a strategy. These factors are:

1. The amount of resources (on which the strategy is based) whose continued existence or value is not assured.
2. The length of the time periods to which resources are committed.
3. The proportion of resources committed to a single venture.

The greater these quantities, the greater the degree of risk that is involved.

Uncertain Term of Existence

Since a strategy is based on resources, any resource which may disappear before the payoff has been obtained may constitute a danger to the organization. Resources may disappear for various reasons. For example, they may lose their value. This frequently happens to such resources as physical facilities and product features. Again, they may be accidentally destroyed. The most vulnerable resource here is competence. The possible crash of the company plane or the blip on the president's electrocardiogram are what make many organizations essentially speculative ventures. In fact, one of the critical attributes of highly centralized organizations is that the more centralized they are, the more speculative they are. The disappearance of the top executive, or the disruption of communication with him, may wreak havoc at subordinate levels.

However, for many companies, the possibility that critical resources may lose their value stems not so much from internal developments as from shifts in the environment. Take specialized production know-how, for example. It has value only because of demand for the product by customers—and customers may change their minds. This is cause for acute concern among the increasing number of companies whose futures depend so heavily on their ability to participate in defense contracts. A familiar case is the plight of the airframe industry following World War II. Some of the companies succeeded in making the shift from aircraft to missiles, but this has only resulted in their being faced with the same problem on a larger scale.

Duration of Commitment

Financial analysts often look at the ratio of fixed assets to current assets in order to assess the extent to which resources are committed to long-term programs. This may or may not give a satisfactory answer. How important are the assets? When will they be paid for?

The reasons for the risk increasing as the time for payoff increases is, of course, the inherent uncertainty in any venture. Resources committed over long time spans make the company vulnerable to changes in the environment. Since the difficulty of predicting such changes increases as the time span increases, long-term projects are basically more risky than are short ones. This is especially true of companies whose environments are unstable. And today, either because of technological, political, or economic shifts, most companies are decidedly in the category of those that face major upheaval in their corporate environments. The company building its future around technological equipment, the company selling primarily to the government, the company investing in underdeveloped nations, the company selling to the Common Market, the company with a plant in the South—all these have this prospect in common.

The harsh dilemma of modern management is that the time span of decision is increasing at the same time as the corporate environment is becoming increasingly unstable. It is this dilemma which places such a premium on the manager's sensitivity to external trends today. Much has been written about his role as a commander and administrator. But it is no less important that he be a *strategist.*

Size of the Stakes

The more of its resources a company commits to a particular strategy, the more pronounced the consequences. If the strategy is successful, the payoff will be great—both to managers and investors. If the strategy fails, the consequences will be dire—both to managers and investors. Thus, a critical decision for the executive group is: What proportion of available resources should be committed to a particular course of action?

This decision may be handled in a variety of ways. For example, faced with a project that requires more of its resources than it is willing to commit, a company either may choose to refrain from undertaking the project or, alternatively, may seek to reduce the total resources required by undertaking a joint venture or by going the route of merger or acquisition in order to broaden the resource base.

The amount of resources management stands ready to commit is of particular significance where there is some likelihood that larger competitors, having greater resources, may choose to enter the company's field. Thus, those companies which entered the small-computer field in the past few years are now faced with the penetration into this area of the data-processing giants. (Both IBM and Remington Rand have recently introduced new small computers.)

I do not mean to imply that the "best" strategy is the one with the least risk. High payoffs are frequently associated with high-risk strategies. Moreover, it is a frequent but dangerous assumption to think that inaction, or lack of change, is a low-risk strategy. Failure to exploit its resources to the fullest may well be the riskiest strategy of all that an organization may pursue, as Montgomery Ward and other companies have amply demonstrated.

5. Does the Strategy Have an Appropriate Time Horizon?

A significant part of every strategy is the time horizon on which it is based. A viable strategy not only reveals what goals are to be accomplished; it says something about *when* the aims are to be achieved.

Goals, like resources, have time-based utility. A new product developed, a plant put on stream, a degree of market penetration, become significant strategic objectives only if accomplished by a certain time. Delay may deprive them of all strategic significance. A perfect example of this in the military sphere is the Sinai campaign of 1956. The strategic objective of the Israelis was not only to conquer the entire Sinai peninsula; it also was to do it in seven days. By contrast, the lethargic movement of the British troops made the operation a futile one for both England and France.

In choosing an appropriate time horizon, we must pay careful attention to the goals being pursued, and to the particular organization involved. Goals must be established far enough in advance to allow the organization to adjust to them. Organizations, like ships, cannot be "spun on a dime." Consequently, the larger the organization, the further its strategic time horizon must extend, since its adjustment time is longer. It is no mere managerial whim that the major contributions to long-range planning have emerged from the larger organizations—especially those large organizations such as Lockheed, North American Aviation, and RCA that traditionally have had to deal with highly unstable environments.

The observation that large corporations plan far ahead while small ones can get away without doing so has frequently been made. However, the significance of planning for the small but growing company has frequently been overlooked. As a company gets bigger, it must not only change the way it operates; it must also steadily push ahead its time horizon—and this is a difficult thing to do. The manager who has built a successful enterprise by his skill at "putting out fires" or the wheeler-dealer whose firm has grown by a quick succession of financial coups is seldom able to make the transition to the long look ahead.

In many cases, even if the executive were inclined to take a longer range view of events, the formal reward system seriously militates against doing so. In most companies the system of management rewards is closely related to currently reported profits. Where this is the case, executives may understandably be so preoccupied with reporting a profit year by year that they fail to spend as much time as they should in managing the company's long-term future. But if we seriously accept the thesis that the essence of managerial responsibility is the extended time lapse between decision and result, currently reported profits are hardly a reasonable basis on which to compensate top executives. Such a basis simply serves to shorten the time horizon with which the executive is concerned.

The importance of an extended time horizon derives not only from the fact that an organization changes slowly and needs time to work through basic modifications in its strategy; it derives also from the fact that there is a considerable advantage in a certain consistency of strategy maintained over long periods of time. The great danger to companies which do not carefully formulate strategies well in advance is that they are prone to fling themselves toward chaos by drastic changes in policy—and in personnel—at frequent intervals. A parade of presidents is a clear indication of a board that has not really decided what its strategy should be. It is a common harbinger of serious corporate difficulty as well.

The time horizon is also important because of its impact on the selection of policies. The greater the time horizon, the greater the range in choice of tactics. If, for instance, the goals desired must be achieved in a relatively short time, steps like acquisition and merger may become virtually mandatory. An interesting illustration is the decision of National Cash Register to enter the market for electronic data-processing equipment. As reported in *Forbes*:

> "Once committed to EDP, NCR wasted no time. To buy talent and experience in 1953 it acquired Computer Research Corp. of Hawthorne, California. . . . For speed's sake, the manufacture of the 394's central units was turned over to GE. . . . NCR's research and development outlays also began curving steeply upwards."[11]

6. Is the Strategy Workable?

At first glance, it would seem that the simplest way to evaluate a corporate strategy is the completely pragmatic one of asking: Does it work? However, further reflection should reveal that if we try to answer that question, we are immediately faced with a quest for criteria. What is the evidence of a strategy "working"?

Quantitative indices of performance are a good start, but they really measure the influence of two critical factors combined: the strategy selected and the skill with which it is being executed. Faced with the failure to achieve anticipated results, both of these influences must be critically examined. One interesting illustration of this is a recent survey of the Chrysler Corporation after it suffered a period of serious loss:

> "In 1959, during one of the frequent reorganizations at Chrysler Corp., aimed at halting the company's slide, a management consultant concluded: 'The only thing wrong with Chrysler is people. The corporation needs some good top executives.' "[12]

By contrast, when Olivetti acquired the Underwood Corporation, it was able to reduce the cost of producing typewriters by one-third. And it did it without changing any of the top people in the production group. However, it did introduce a drastically revised set of policies.

If a strategy cannot be evaluated by results alone, there are some other indications that may be used to assess its contribution to corporate progress:

[11] "NCR and the Computer Sweepstakes," *Forbes*, October 15, 1962, p. 21.

[12] "How Chrysler Hopes to Rebound," *Business Week*, October 6, 1962, p. 45.

□ The degree of consensus which exists among executives concerning corporate goals and policies.
□ The extent to which major areas of managerial choice are identified in advance, while there is still time to explore a variety of alternatives.
□ The extent to which resource requirements are discovered well before the last minute, necessitating neither crash programs of cost reduction nor the elimination of planned programs. The widespread popularity of the meat-axe approach to cost reduction is a clear indication of the frequent failure of corporate strategic planning.

Conclusion

The modern organization must deploy expensive and complex resources in the pursuit of transitory opportunities. The time required to develop resources is so extended, and the time-scale of opportunities is so brief and fleeting, that a company which has not carefully delineated and appraised its strategy is adrift in white water.

In short, while a set of goals and major policies that meets the criteria listed above does not guarantee success, it can be of considerable value in giving management both the time and the room to maneuver.