3

Corporate Appraisal

Know your enemy and know yourself, and in a hundred battles you will never be in peril.

SUN-TZU

One important reason for formulating marketing strategy is to prepare the company to interact with the changing environment in which it operates. Implicit here is the significance of predicting the shape the environment is likely to take in the future. Then, with a perspective of the company's present position, the task ahead can be determined. Study of the environment is reserved for a later chapter. This chapter is devoted to corporate appraisal.

An analogy to corporate appraisal is provided by a career counselor's job. Just as it is relatively easy to make a list of the jobs available to a young person, it is simple to produce a superficial list of investment opportunities open to a company. With the career counselor, the real skill comes in taking stock of each applicant; examining the applicant's qualifications, personality, and temperament; defining the areas in which some sort of further development or training may be required; and matching these characteristics and the applicant's aspirations against various options. Well-established techniques can be used to find out most of the necessary information about an individual. Digging deep into the psyche of a company is more complex but no less important. Failure by the company in the area of appraisal can be as stunting to future development in the corporate sense as the misplacement of a young graduate in the personal sense.

How should the strategist approach the task of appraising corporate perspectives? What needs to be discovered? These and other similar questions are explored in this chapter.

MEANING OF CORPORATE APPRAISAL

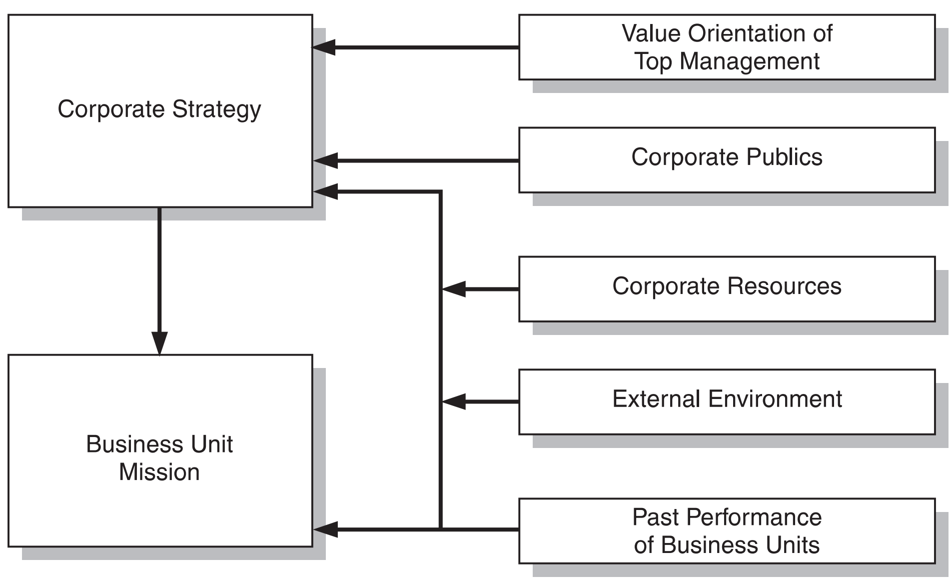
Broadly, **corporate appraisal** refers to an examination of the entire organization from different angles. It is a measurement of the readiness of the internal culture of the corporation to interact with the external environment. Marketing strategists are concerned with those aspects of the corporation that have a direct bearing on corporate-wide strategy because that must be referred in defining the business unit mission, the level at which marketing strategy is formulated. As shown in Exhibit 3-1, corporate strategy is affected by such factors as value orientation to top management, corporate publics, corporate resources, past performance of the business units, and the external environment. Of these, the first four factors are examined in this chapter.

Two important characteristics of strategic marketing are its concern with issues having far-reaching effects on the entire organization and change as an essential ingredient in its conduct. These characteristics make the process of marketing strategy formulation a difficult job and demand creativity and adaptability on the part of the organization. Creativity, however, is not common among all organizations. By the same token, adaptation to changing conditions is not easy. As has been said:

> Success in the past always becomes enshrined in the present by the over-valuation of the policies and attitudes which accompanied that success. . . . With time these attitudes become embedded in a system of beliefs, traditions, taboos, habits, customs, and inhibitions which constitute the distinctive culture of that firm. Such cultures are as distinctive as the cultural differences between nationalities or the personality differences between individuals. They do not adapt to change very easily.[1]

Human history is full of instances of communities and cultures being wiped out over time for the apparent reason of failing to change with the times. In the context of business, why is it that organizations such as Xerox, Wal-Mart, Hewlett-Packard, and Microsoft, comparative newcomers among large organizations, are considered blue-chip companies? Why should United States Rubber, American Tobacco, and General Motors lag behind? Why are General Electric, Walt Disney, Citicorp, Du Pont, and 3M continually ranked as "successful" companies? The outstanding common denominator in the success of companies is the element of change. When time demands that the perspective of an organization change, and the company makes an appropriate response, success is the outcome.

EXHIBIT 3-1
Scope of Corporate Appraisal



Obviously, marketing strategists must take a close look at the perspectives of the organization before formulating future strategy. Strategies must bear a close relationship to the internal culture of the corporation if they are to be successfully implemented.

FACTORS IN APPRAISAL: CORPORATE PUBLICS

Business exists for people. Thus, the first consideration in the strategic process is to recognize the individuals and groups who have an interest in the fate of the corporation and the extent and nature of their expectations.

Meaning of Corporate Public

The following groups generally constitute the interest-holders in business organizations:

1. Owners
2. Employees
3. Customers
4. Suppliers
5. Banking community and other lenders
6. Government
7. Community in which the company does business
8. Society at large

For the healthy growth of the organization, all eight groups must be served adequately. Of all the stakeholders, in the past corporations paid little attention to the communities in which they operated; today, however, the importance of service to community and to society is widely acknowledged. The community may force a company to refrain from activities that are detrimental to the environment. For example, the Boise Cascade Company was once denounced as harsh, stingy, socially insensitive, and considerably short of the highest ethical standards because of its unplanned land development. Community interests ultimately prevailed, forcing the company to either give up its land development activities or make proper arrangements for the disposal of waste and to introduce other environmental safeguards. Similarly, social concern may prevent a company from becoming involved in certain types of business. A publishing company responsive to community standards may refuse to publish pornographic material.

Johnson & Johnson exemplified responsible corporate behavior when it resolved the contingency created by the deaths of seven individuals who had consumed contaminated Tylenol capsules.[2] Within a few days, the company instituted a total product recall at a cost of $50 million after taxes, despite the fact that the problem did not occur because of negligence on the part of the company. Subsequently, the company took the initiative to develop more effective packaging to prevent tampering in the future. The company's commitment to socially responsible behavior was reaffirmed when it quit producing capsules entirely after the tampering occurred again. Johnson & Johnson put the well-being of the customer ahead of profitability in resolving this tampering problem. In brief, the requirements and expectations of today's society must serve as basic ingredients in the development of strategy:

> Though profit and efficiency must remain central values within the culture, they must be balanced by other values that help define the limits of activities designed to achieve those objectives and by values describing other important ethical and socially responsible behaviors. Without the integration of concerns about ethics and social responsibility at the very beginning of the marketing planning process, as well as throughout the process, the organizational culture may not provide the checks and balances needed to develop ethical and socially responsible marketing programs.[3]

Corporate Response to Different Publics

Historically, a business organization considered its sole purpose to be economic gain, concerning itself with other spheres of society only when required by law or self-interest or when motivated by philanthropy or charity. Charity was merely a celebration of a corporation's good fortune that it desired to share with "outsiders" or a display of pity for the unfortunate. Indirectly, of course, even this rather uninspired notion of charity gave the company a good name and thus served a public relations function.[4] In slack times, a company reduced its activities in all areas, instituting both inside cost-cutting measures and the lowering of commitments to all publics other than stockholders. Such a perspective worked well until the mid-1960s; however, with economic prosperity almost assured, different stakeholders have begun to demand a more equitable deal from corporations.

Concern over environmental pollution by corporations, for example, has become a major issue in both the public and the private sector. Similarly, customers expect products to be wholesome; employees want opportunities for advancement and self-improvement; and the community hopes that a corporation would assume some of its concerns, such as unemployment among minorities. Society now expects business corporations to help in resolving social problems. In brief, the role of the corporation has shifted from that of an economic institution solely responsible to its stockholders to that of a multifaceted force owing its existence to different stakeholders to whom it must be accountable. As one of the most progressive institutions in the society, the corporation is expected to provide balanced prosperity in all fields. Two generations ago, the idea of a business being a party to a contract with society would have provoked an indignant snort from most businesspeople. Even 10 years ago, a business's contract with society was more likely material for a corporate president's speech to the stockholders than a basis for policy. It is a measure of how much the attitudes of middle-of-the-road businesspeople have changed that the notion of a social contract is now the basic assumption for their statements on the social responsibilities of a business. This new outlook extends the mission of the business beyond its primary obligation to owners.

In today's environment, corporate strategy must be developed not simply to enhance financial performance, but also to maximize performance across the board, delivering the highest gains to all stakeholders, or corporate publics. And companies are responding to changing times. As former chairman Waldron of Avon Products noted, "We have 40,000 employees and 1.3 million representatives.

. . . They have much deeper and more important stakes in our company than shareholders."[5]

The "concept of stakeholders" is really an extension of the marketing concept, the central doctrine in marketing.

> Marketing concept and the stakeholder concept are strongly related with a common root or core. Clearly, one commonality is that the stakeholder concept recognizes the consumer as a public with concerns central to the organization's purpose. Perhaps a further element of this common core is a realization of the importance of cooperative exchange with the consumer. In fact, all publics of an organization can be viewed in a cooperative vs. adversarial perspective. Cooperative strategies with labor, marketing channel members, etc., may result in eventual but not mutual symbiosis. For example, if a manufacturer cooperates with wholesalers, then these wholesalers may be more likely to cooperate with retailers. Similarly, retailers may then be more likely to treat the customer well. Consequently, the customer will be more loyal to certain brands, and this catalyzes the manufacturer to continue to be cooperative with channel members. This eventual, but not necessarily mutual, symbiosis may result in more long-run stability and evolutionary potential within the business system.[6]

One company that systematically and continuously examines and serves the interests of its stakeholders is Corning. It cooperates with labor, promotes diversity, and goes out of its way to improve the community. For example, the company's partnership with the glass workers' union promotes joint decision making. Worker teams determine job schedules and even factory design. All U.S. workers share a bonus based on point performance. All managers and salaried workers attend seminars to build sensitivity and support for women and African-American coworkers. A network of mentors helps minorities (i.e., African Americans, Asians, Hispanics, and women) with career planning. Corning acquires and rehabilitates commercial properties, then finds tenants (some minority-owned) at market rates to locate their business there. It works to attract new business to the region and has invested in the local infrastructure by building a Hilton hotel, a museum, and a city library.

> More than the biggest employer in town, Corning plays benefactor, landlord, and social engineer. The company is half-owner of a racetrack and sponsors a professional golf tournament. Affordable housing, day care, new business development—it's doing all that, too. Corning is more directly involved in its community than most big U.S. corporations. . . . When a flood in 1972 put the town under 10 feet of water, the company paid area teenagers to rehabilitate damaged homes and appliances, then spent millions to build a new library and skating rink. But Corning's recent efforts have been more focused: They aim to turn a remote, insular town into a place that will appeal to the smart professionals Corning wants to attract—a place that offers social options for young singles, support for new families, and cultural diversity for minorities.
>
> It's a strategy that often borders on corporate socialism. Corning bought the rundown bars—which "didn't fit with our objective," says one executive—as part of a block-long redevelopment of Market Street, the town's main commercial strip.
>
> More important, Corning is working to create a region less dependent on its headquarters and 15 factories. . . . To help support the flagging local economy, Corning bought the Watkins Glen auto-racing track, which had slipped into bankruptcy. It

rebuilt the facility, took in a managing partner, and last summer, saw the track host 200,000 visitors. Similarly, the company lobbied a supermarket chain to build an enormous new store. It persuaded United Parcel Service to locate a regional hub nearby.

In all, Corning expects its Corning Enterprises subsidiary, which spearheads community investments, to bring 200 new jobs to the Chemung River valley each year. It also wants to boost the number of tourists by 2% annually and attract four new businesses to town. Corning Enterprises funds its activities largely with rental income from real estate that it has purchased and rehabilitated.[7]

Corporate Publics: Analysis of Expectations

Although the expectations of different groups vary, in our society growth and improvement are the common expectations of any institution. But this broad view does not take into account the stakes of different groups within a business. For planning purposes, a clearer definition of each group's hopes is needed.

Exhibit 3-2 summarizes the factors against which the expectations of different groups can be measured. The broad categories shown here should be broken down into subcategories as far as possible. For example, in a community where juvenile delinquency is rampant, youth programs become an important area of corporate concern. One must be careful, however, not to make unrealistic or false assumptions about the expectations of different groups. Take owners, for example. Typically, 50 percent of earnings after taxes must be reinvested in the business to sustain normal growth, but the payout desired by the owners may render it difficult to finance growth. Thus, a balance must be struck between the payment of dividends and the plowing back of earnings. A vice president of finance for a chemical company with yearly sales over $100 million said in a conversation with the author:

> While we do recognize the significance of retaining more money, we must consider the desires of our stockholders. They happen to be people who actually live on dividend payments. Thus, a part of long-term growth must be given up in order to maintain their short-term needs for regular dividend payments.

Apparently this company would not be correct in assuming that growth alone is the objective of its stockholders. Thus, it behooves the marketing strategist to gain clear insight into the demands of different corporate publics.

Who in the company should study stakeholders' expectations? This task constitutes a project in itself and should be assigned either to someone inside the company (such as a strategic planner, an assistant to the president, a director of public affairs, or a marketing researcher) or to a consultant hired for this purpose. When this analysis is first undertaken, it will be fairly difficult to specify stakeholders, designate their areas of concern, and make their expectations explicit. After the initial study is made, updating it from year to year should be fairly routine.

The groups that constitute the stakeholders of a business organization are usually the same from one business to another. Mainly they are the owners, employees, customers, suppliers, the banking community and other lenders, government, the immediate community, and society at large. The areas of concern of each group and their expectations, however, require surveying. As with any other

EXHIBIT 3-2
Corporate Publics and their Concerns

Publics	*Areas of Concern*
Owners	Payout Equity Stock price Nonmonetary desires
Customers	Business reliability Product reliability Product improvement Product price Product service Continuity Marketing efficiency
Employees of all ranks	Monetary reward Reward of recognition Reward of pride Environment Challenge Continuity Advancement
Suppliers	Price Stability Continuity Growth
Banking community and other lenders	Sound risk Interest payment Repayment of principal
Government (federal, state, and local)	Taxes Security and law enforcement Management expertise Democratic government Capitalistic system Implementation of programs
Immediate community	Economic growth and efficiency Education Employment and training
Society at large	Civil rights Urban renewal and development Pollution abatement Conservation and recreation Culture and arts Medical care

survey, this amounts to seeking information from an appropriate sample within each group. A structured questionnaire is preferable for obtaining objective answers. Before surveying the sample, however, it is desirable to conduct in-depth interviews with a few members of each group. The information provided by these interviews is helpful in developing the questionnaire. While overall areas of concern may not vary from one period to another, expectations certainly do. For example, during a recession stockholders may desire a higher payout in dividends than at other times. Besides, in a given period, the public may not articulate expectations in all of its areas of concern. During inflationary periods, for example, customers may emphasize stable prices only, while product improvement and marketing efficiency may figure prominently in times of prosperity.

Corporate Publics and Corporate Strategy

The expectations of different publics provide the corporation with a focus for working out its objectives and goals. However, a company may not be able to satisfy the expectations of all stakeholders for two reasons: limited resources and conflicting expectations among stakeholders. For example, customers may want low prices and simultaneously ask for product improvements. Likewise, to meet exactly the expectations of the community, the company may be obliged to reduce dividends. Thus, a balance must be struck between the expectations of different stakeholders and the company's ability to honor them.

The corporate response to stakeholders' expectations emerges in the form of its objectives and goals, which in turn determine corporate strategy. While objectives and goals are discussed in detail in Chapter 8, a sample of corporate objectives with reference to customers is given here.

Assume the following customer expectations for a food-processing company:

1. The company should provide wholesome products.
2. The company should clearly state the ingredients of different products in words that are easily comprehensible to an ordinary consumer.
3. The company should make all efforts to keep prices down.

The company, based on these expectations, may set the following goals:

Wholesome Products

1. Create a new position—vice president, product quality. No new products will be introduced into the market until they are approved for wholesomeness by this vice president. The vice president's decision will be upheld no matter how bright a picture of consumer acceptance of a product is painted by marketing research and marketing planning.
2. Create a panel of nutrient testers to analyze and judge different products for their wholesomeness.
3. Communicate with consumers about the wholesomeness of the company's products, suggesting that they deal directly with the vice president of product quality should there be any questions. (Incidentally, a position similar to vice president of product quality was created at Gillette a few years ago. This executive's decisions overruled the market introduction of products despite numerous other reasons for early introduction.)

Information on Ingredients

1. Create a new position—director, consumer information. The person in this position will decide what information about product ingredients, nutritive value, etc., should be included on each package.
2. Seek feedback every other year from a sample of consumers concerning the effectiveness and clarity of the information provided.
3. Encourage customers, through various forms of promotions, to communicate with the director of consumer information on a toll-free phone line to clarify information that may be unclear.
4. Revise information contents based on numbers 2 and 3.

Keeping Prices Low

1. Communicate with customers on what leads the company to raise different prices (e.g., cost of labor is up, cost of ingredients is up, etc.).
2. Design various ways to reduce price pressure on consumers. For example, develop family packs.
3. Let customers know how much they can save by buying family packs. Assure them that the quality of the product will remain intact for a specified period.
4. Work on new ways to reduce costs. For example, a substitute may be found for a product ingredient whose cost has gone up tremendously.

By using this illustration, the expectations of each group of stakeholders can be translated into specific goals. Some firms, Adolph Coors Company, for example, define their commitment to stakeholders more broadly (see Exhibit 3-3). However, this company is not alone in articulating its concern for stakeholders. A whole corporate culture has sprung up that argues for the essential commonality of labor-management community-shareholder interests.

FACTORS IN APPRAISAL: VALUE ORIENTATION OF TOP MANAGEMENT

The ideologies and philosophies of top management as a team and of the CEO as the leader of the team have a profound effect on managerial policy and the strategic development process. According to Steiner:

> [The CEO's] aspirations about his personal life, the life of his company as an institution, and the lives of those involved in his business are major determinants of choice of strategy. His mores, habits, and ways of doing things determine how he behaves and decides. His sense of obligation to his company will decide his devotion and choice of subject matter to think about.[8]

Rene McPherson, former CEO of Dana Corporation, incessantly emphasized cost reduction and productivity improvement: the company doubled its productivity in seven years. IBM chairmen have always preached the importance of calling on customers—to the point of stressing the proper dress for a call. Over time, a certain way of dressing became an accepted norm of behavior for the entire corporation. Texas Instruments' ex-chairman Patrick Haggerty made it a point to drop in at a development laboratory on his way home each night when he was in Dallas to emphasize his view of the importance of new products for the company.

EXHIBIT 3-3
Coors Commitment to Its Stakeholders

Our corporate philosophy can be summed up by the statement, "Quality in all we are and all we do." This statement reflects our total commitment to quality relationships with customers, suppliers, community, stockholders and each other. Quality relationships are honorable, just, truthful, genuine, unselfish, and reputable.

We are committed first to our customers for whom we must provide products and services of recognizably superior quality. Our customers are essential to our existence. Every effort must be made to provide them with the highest quality products and services at fair and competitive prices.

We are committed to build quality relationships with suppliers because we require the highest quality goods and services. Contracts and prices should be mutually beneficial for the Company and the supplier and be honorably adhered to by both.

We are committed to improve the quality of life within our community. Our policy is to comply strictly with all local, state and federal laws, with our Corporate Code of Conduct and to promote the responsible use of our products. We strive to conserve our natural resources and minimize our impact on the environment. We pay our fair tax share and contribute resources to enhance community life. We boldly and visibly support the free enterprise system and individual freedom within a framework which also promotes personal responsibility and caring for others.

We are committed to the long-term financial success of our stockholders through consistent dividends and appreciation in the value of the capital they have put at risk. Reinvestment in facilities, research and development, marketing and new business opportunities which provide long-term earnings growth take precedence over short-term financial optimization.

These values can only be fulfilled by quality people dedicated to quality relationships within our Company. We are committed to provide fair compensation and a quality work environment that is safe and friendly. We value personal dignity. We recognize individual accomplishment and the success of the team. Quality relationships are built upon mutual respect, compassion and open communication among all employees. We foster personal and professional growth and development without bias or prejudice and encourage wellness in body, mind and spirit for all employees.

Source: Adolph Coors Company.

Such single-minded focus on a value becomes an integral part of a company's culture. As employees steeped in the corporate culture move up the ladder, they become role models for newcomers, and the process continues.[9]

How companies in essentially the same business move in different strategic directions because of different top management values can be illustrated with an example from American Can Company and Continental Group. Throughout the 1970s, both Robert S. Hatfield, then Continental's chairman, and William F. May, his counterpart at American Can, made deep changes in their companies' product portfolios. Both closed numerous, aged can-making plants. Both divested tangential businesses they deemed to have lackluster growth prospects. And both sought either to hire or promote executives who would steer their companies in profitable directions.

But similar as their overall strategies might seem, their concepts of their companies diverged markedly. May envisioned American Can as a corporate think tank, serving as both a trend spotter and a trendsetter. He put his trust in the advice of financial experts who, although lean on operating experience, were knowledgeable about business theory. They took American Can into such diverse fields as aluminum recycling, record distribution, and mail-order consumer products. By contrast, Hatfield sought executives with proven records in spotting new potential in old areas. The company acquired Richmond Corporation, an insurance holding company, and Florida Gas Company.[10]

Importance of Value Orientation in the Corporate Environment

It would be wrong to assume that every firm wants to grow. There are companies that probably could grow faster than their current rates indicate. But when top management is averse to expansion, sluggishness prevails throughout the organization, inhibiting growth. A large number of companies start small, perhaps with a family managing the organization. Some entrepreneurs at the helm of such companies are quite satisfied with what they are able to achieve. They would rather not grow than give up complete control of the organization. Obviously, if managerial values promote stability rather than growth, strategy will form accordingly. For Ben & Jerry's Homemade Inc., social agenda is more important than business expansion. When a top supplier from Tokyo called to offer distribution in Japan, a lucrative ice-cream market, the company said no because the Japanese company had no reputation for backing social causes.[11]

Of course, if the owners find that their expectations are in conflict with the value system of top management, they may seek to replace the company's management with a more philosophically compatible team. As an example, a flamboyant CEO who emphasizes growth and introduces changes in the organization to the extent of creating suspicion among owners, board members, and colleagues may lead to the CEO's exit from the organization. An unconventionally high debt-to-equity ratio can be sufficient cause for a CEO to be dismissed. Conflict over the company's social agenda cost Ben & Jerry's the services of a CEO, Robert Holland Jr. He resigned after less than two years on the job because he ran into opposition from the cofounders regarding no-fat sorbet because that meant buying less hormone-free milk from those virtuous dairy farmers. And when Holland tried to distribute products in France, a dispute arose when cofounder Ben issued a statement condemning France's nuclear-testing program.[12]

In brief, the value systems of the individual members of top management serve as important inputs in strategy development. If people at the top hold conflicting values, the chosen strategy will lack the willing cooperation and commitment of all executives. Generally, differing values are reflected in conflicts over policies, objectives, strategies, and structure.

This point may be illustrated with reference to Johnson & Johnson, a solidly profitable company. Its core businesses are entering market maturity and offer limited long-term growth potential. In the mid-1980s, therefore, the company embarked on a program to manufacture sophisticated technology products. But the development and marketing of high-tech products require a markedly different culture than that needed for Johnson & Johnson's traditional products. High-tech products require greater cooperation among corporate units, which is sometimes hard to obtain. Traditionally, Johnson & Johnson's various businesses have been run as completely decentralized units with total autonomy. To successfully achieve the shift to technology products, the CEO of the company, James E. Burke, is tinkering in subtle but important ways with a management style and corporate culture that have long been central to the company's success.[13] Similar efforts are at work at Procter & Gamble: "Pressed by competitors and aided by new technology, P&G is, in fact, remodeling its corporate culture—a process bringing pain to some, relief to others and wonderment to most."[14]

Top Management Values and Corporate Culture

Over time, top management values come to characterize the culture of the entire organization. Corporate culture in turn affects the entire perspective of the organization. It influences its product and service quality, advertising content, pricing policies, treatment of employees, and relationships with customers, suppliers, and the community.

Corporate culture gives employees a sense of direction, a sense of how to behave and what they ought to be doing. Employees who fail to live up to the cultural norms of the organization find the going tough. This point may be illustrated with reference to PepsiCo and J.C. Penney Company. At PepsiCo, beating the competition is the surest path to success. In its soft drink operation, Pepsi takes on Coke directly, asking consumers to compare the taste of the two colas. This kind of direct confrontation is reflected inside the company as well. Managers are pitted against each other to grab more market share, to work harder, and to wring more profits out of their businesses. Because winning is the key value at PepsiCo, losing has its penalties. Consistent runners-up find their jobs gone. Employees know they must win merely to stay in place and must devastate the competition to get ahead.[15]

But the aggressive manager who succeeds at Pepsi would be sorely out of place at J.C. Penney Company, where a quick victory is far less important than building long-term loyalty.

> Indeed, a Penney store manager once was severely rebuked by the company's president for making too much profit. That was considered unfair to customers, whose trust Penney seeks to win. The business style set by the company's founder—which one competitor describes as avoiding "taking unfair advantage of anyone the company did business with"—still prevails today. Customers know they can return merchandise with no questions asked; suppliers know that Penney will not haggle over terms; and employees are comfortable in their jobs, knowing that Penney will avoid layoffs at all costs and will find easier jobs for those who cannot handle more demanding ones. Not surprisingly, Penney's average executive tenure is 33 years while Pepsi's is 10.[16]

These vastly different methods of doing business are just two examples of corporate culture. People who work at PepsiCo and at Penney sense that corporate values constitute the yardstick by which they will be measured. Just as tribal cultures have totems and taboos that dictate how each member should act toward fellow members and outsiders, a corporation's culture influences employees' actions toward customers, competitors, suppliers, and one another. Sometimes the rules are written, but more often they are tacit. Most often they are laid down by a strong founder and hardened by success into custom.

One authority describes four categories of corporate culture—academies, clubs, baseball teams, and fortresses.[17] Each category attracts certain personalities. The following are some of the traits among managers who gravitate to a particular corporate culture.

Academies

— Have parents who value self-reliance but put less emphasis on honesty and consideration.
— Tend to be less religious.
— Graduate from business school with high grades.
— Have more problems with subordinates in their first ten years of work.

Clubs

— Have parents who emphasize honesty and consideration.
— Have a lower regard for hard work and self-reliance.
— Tend to be more religious.
— Care more about health, family, and security and less about future income and autonomy.
— Are less likely to have substantial equity in their companies.

Baseball Teams

— Describe their fathers as unpredictable.
— Generally have more problems planning their careers in the first ten years after business school and work for more companies during that period than classmates do.
— Include personal growth and future income among their priorities.
— Value security less than others.

Fortresses

— Have parents who value curiosity.
— Were helped strongly by mentors in the first year out of school.
— Are less concerned than others with feelings of belonging, professional growth, and future income.
— Experience problems in career planning, on-the-job decisions, and job implementation.

An example of an academy is IBM, where managers spend at least 40 hours each year in training, being carefully groomed to become experts in a particular function. United Parcel Service represents a club culture, which emphasizes grooming managers as generalists, with initiation beginning at the entry level. Generally speaking, accounting firms, law firms, and consulting, advertising, and software development companies exhibit baseball team cultures. Entrepreneurial in style, they seek out talent of all ages and experience and value inventiveness. Fortress companies are concerned with survival and are usually best represented by companies in a perpetual boom-and-bust cycle (e.g., retailers and natural resource companies).

Many companies cannot be neatly categorized in any one way. Many exhibit a blend of corporate cultures. For example, within General Electric, the NBC unit has baseball team qualities, whereas the aerospace division operates like a club, the electronics division like an academy, and the home appliance unit like a fortress. Companies may move from one category to another as they mature or as forced by the environment. For example, Apple started out as a baseball team but now appears to be emerging as an academy. Banks have traditionally exhibited a club culture, but with deregulation, they are evolving into baseball teams.

In the current environment, the changes that businesses are being forced to make merely to stay competitive—improving quality, increasing speed, becoming customer oriented—are so fundamental that they must take root in a company's very essence; that is, its culture. Cultural change, while difficult and time-consuming to achieve, is nevertheless feasible if approached properly. The CEO must direct change to make sure that it happens coherently. He or she must live the new culture, become the walking embodiment of it, and spot and celebrate subordinates who exemplify the values that are to be inculcated. The following are keys to cultural change:

— **Understand your old culture first.** You can't chart a course until you know where you are.
— **Encourage those employees** who are bucking the old culture and have ideas for a better one.
— **Find the best subculture** in your organization, and hold it up as an example from which others can learn.
— **Don't attack culture head on.** Help employees find their own new ways to accomplish their tasks, and a better culture will follow.
— **Don't count on a vision** to work miracles. At best, a vision acts as a guiding principle for change.
— **Figure on five to ten years** for significant, organization-wide improvement.
— **Live the culture you want.** As always, actions speak louder than words.[18]

Trying to change an institution's culture is certain to be frustrating. Most people resist change, and when the change goes to the basic character of the place where they earn a living, many people become upset. A company trying to improve its culture is like a person trying to improve his or her character. The process is long, difficult, often agonizing. The only reason that people put themselves through such difficulty is that it is correspondingly satisfying and valuable. As AT&T's CEO Robert Allen comments:

> It's not easy to change a culture that was very control oriented and top down. We're trying to create an atmosphere of turning the organization chart upside down, putting the customers on top. The people close to the customer should be doing the key decision-making.[19]

Measurement of Values

In emphasizing the significance of the value system in strategic planning, several questions become pertinent. Should the corporation attempt to formally establish values for important members of management? If so, who should do it? What measures or techniques should be used? If the values of senior executives are in conflict, what should be done? Can values be changed?

It is desirable that the values of top management should be measured. If nothing else, such measurement will familiarize the CEO with the orientation of top executives and will help the CEO to better appreciate their viewpoints. Opinions differ, however, on who should do the measuring. Although a good case can be made for giving the assignment to a staff person, a strategic planner or a human resources planner, for example, hiring an outside consultant is probably the most effective way to gain an objective perspective on management values. If a consultant's findings appear to create conflict in the organization, they can be scrapped. With help from the consultant, the human resources planner in the company, working closely with the strategic planner, can design a system for the measurement of values once the initial effort is made.

Values can be measured in various ways. A popular technique is the self-evaluating scale developed by Allport, Vernon, and Lindzey.[20] This scale divides values into six classes: religious, political, theoretical, economic, aesthetic, and social. A manual is available that lists the average scores of different groups. Executives can complete the test in about 30 minutes and determine the structure of their values individually. Difficulties with using this scale lie in relating the executives' values to their jobs and in determining the impact of these values on corporate strategy.

A more specific way is to pinpoint those aspects of human values likely to affect strategy development and to measure one's score in relation to these values on a simple five- or seven-point scale. For example, we can measure an executive's orientation toward leadership image, performance standards and evaluation, decision-making techniques, use of authority, attitude about change, and nature of involvement. Exhibit 3-4 shows a sample scale for measuring these values.

As a matter of fact, a formal value orientation profile of each executive may not be entirely necessary. By raising questions such as the following about each top executive, one can gather insight into value orientations. Does the executive:

- Seem efficiency-minded?
- Like repetition?
- Like to be first in a new field instead of second?
- Revel in detail work?
- Seem willing to pay the price of keeping in personal touch with the customer, etc.?

Can the value system of an individual be changed? Traditionally, it has been held that a person's behavior is determined mainly by the inner self reacting within a given environment. In line with this thinking, major shifts in values should be difficult to achieve. In recent years, however, a new school of behaviorists has emerged

EXHIBIT 3-4
Measuring Value Orientation

A. Leadership Image

1	2	3	4	5

Considered unfair and not well liked	Shows concern for others, is sincere fair, and ethical; evokes respect

B. Performance

1	2	3	4	5

Permissive; tolerates mediocracy	Highly demanding and critical; replaces mediocracy

C. Decision–Making Techniques

1	2	3	4	5

Based on intuition	Based on scientific analylsis

D. Use of Authority

1	2	3	4	5

Exhibits raw authority; highly authoritative	Implies authority rather than overtly using it

E. Attitude About Change

1	2	3	4	5

Resists change	Seeks change and pushes others

F. Nature of Involvement

1	2	3	4	5

Mainly interested in operational problems; interested in short-term results	Gives much to strategy

that assigns a more significant role to the environment. These new behaviorists challenge the concept of “self” as the underlying force in determining behavior.[21] If their “environmental” thesis is accepted, it should be possible to bring about a change in individual values so that senior executives can become more unified.

However, the science of human behavior has yet to discover the tools that can be used to change values. Thus, it would be appropriate to say that minor changes in personal values can be produced through manipulation of the environment; but where the values of an individual executive differ significantly from those of a colleague, an attempt to alter an individual's values would be difficult.

Several years ago, differing values caused a key executive at Procter & Gamble, John W. Hanley, to leave the company for the CEO position at Monsanto. Other members of the Procter & Gamble management team found him too aggressive, too eager to experiment and change practices, and too quick to challenge his superior. Because he could not be brought around to the conservative style of the company's other executives, he was passed over for the presidency and eventually left the company.[22]

Value Orientation and Corporate Strategy

The influence of the value orientation of top management on the perspectives of the business has already been emphasized. This section examines how a particular type of value orientation may lead to certain objectives and strategy perspectives. Two examples of this influence are presented below. In the first example, the president is rated high on social and aesthetic values, which seems to indicate a

Example A

Values

The president of a small manufacturer of office duplicating equipment ranked relatively high on social values, giving particular attention to the security, welfare, and happiness of the employees. Second in order of importance to the president were aesthetic values.

Objectives and Strategies

1. Slow-to-moderate company growth
2. Emphasis on a single product
3. An independent-agent form of sales organization
4. Very high-quality products with aesthetic appeal
5. Refusal to compete on a price basis

Example B

Values

The top-management team members of a high-fidelity loudspeaker systems manufacturer placed greater emphasis on theoretical and social values than on other values.

Objectives and Strategies

1. Scientific truth and integrity in advertising
2. Lower margins to dealers than competitors were paying
3. Maintenance of "truth and honesty" in relationships with suppliers, dealers, and employees

greater emphasis on the quality of a single product than on growth per se. In the second example, again, the theoretical and social orientation of top management appears to stress truth and honesty rather than strictly growth. If the strategic plans of these two companies were to emphasize growth as a major goal, they would undoubtedly fail. Planned perspectives may not be implemented if they are constrained by top management's value system.

A corporation's culture can be its major strength when it is consistent with its strategies, as demonstrated by the following examples:

- At IBM, marketing drives a service philosophy that is almost unparalleled. The company keeps a hot line open 24 hours a day, seven days a week, to service IBM products.
- At International Telephone and Telegraph Corporation, financial discipline demands total dedication. To beat out the competition in a merger, an executive once called former chairman Harold S. Geneen at 3 a.m. to get his approval.
- At Microsoft, an emphasis on innovation creates freedom with responsibility. Employees can set their own hours and working style, but they are expected to articulate and support their activities with evidence of progress.
- At Delta Air Lines Inc., a focus on customer service produces a high degree of teamwork. Employees switch jobs to keep planes flying and baggage moving.
- At Toyota standards in efficiency, productivity, and quality are the most important pursuits. No wonder the company is the benchmark in manufacturing and product development.
- At GE every business unit should conduct continuous campaigns to become the lowest-cost producer in its area. One approach to reducing costs and improving productivity is work-outs, which are multi-day retreats. After the boss and outside consultants lay out the unit's achievements, problems, and business environment, the participants brainstorm to come up with recommendations for improving operations. They receive on-the-spot responses and pledges that what is agreed upon will be implemented quickly.

In summary, an organization in the process of strategy formulation must study the values of its executives. While exact measurement of values may not be possible, some awareness of the values held by top management is helpful to planners. Care should be taken not to threaten or alienate executives by challenging their beliefs, traits, or outlooks. In the strategy formulation, the value package of the management team should be duly considered even if it means compromising on growth and profitability. Where no such compromise is feasible, it is better to transfer or change the assignment of a dissenting executive.

The experience of Interpace Corporation's CEO is relevant here. After moving from International Telephone and Telegraph Corporation (ITT) in the early 1980s, he drew on his ITT background to manage Interpace, a miniconglomerate with interests in such diverse products as teacups and concrete pipes. He used a formula that had worked well at ITT, which consisted of viewing assets primarily as financial pawns to be shifted around at the CEO's will, of compelling managers to abide by financial dicta, and of focusing on financial results. The approach seemed reasonable, but its implementation at Interpace was fraught with problems. ITT's management style did not fit the Interpace culture, despite the fact that the CEO replaced 35 members of a 51-person team.[23] Culture that prevents a company from meeting competitive threats or from adapting to changing economic or social environments can lead to stagnation and the company's ultimate demise unless the company makes a conscious effort to change.

FACTORS IN APPRAISAL: CORPORATE RESOURCES

The resources of a firm are its distinctive capabilities and strengths. Resources are relative in nature and must always be measured with reference to the competition. Resources can be categorized as financial strength, human resources, raw material reserve, engineering and production, overall management, and marketing strength. The marketing strategist needs to consider not only marketing resources but also resources of the company across the board. For example, price setting is a part of marketing strategy, yet it must be considered in the context of the financial strength of the company if the firm is to grow as rapidly as it should. It is obvious that profit margins on sales, combined with dividend policy, determine the amount of funds that a firm can generate internally. It is less well understood, but equally true, that if a firm uses more debt than its competitors or pays lower dividends, it can generate more funds for growth by decreasing profit margins. Thus, it is important in strategy development that all of the firm's resources are fully utilized in a truly integrated way. The firm that does not use its resources fully is a target for the firm that will—even if the latter has fewer resources. Full and skillful utilization of resources can give a firm a distinct competitive edge.

Resources and Marketing Strategy

Consider the following resources of a company:

1. Has ample cash on hand (financial strength).
2. Average age of key management personnel is 42 years (human resources).
3. Has a superior raw material ingredient in reserve (raw material reserve).
4. Manufactures parts and components that go into the final product using the company's own facilities (plant and equipment).
5. The products of the company, if properly installed and serviced regularly, never stop while being used (technical competence).
6. Has knowledge of, a close relationship with, and expertise in doing business with grocery chains (marketing strength).

How do these resources affect marketing strategy? The cash-rich company, unlike the cash-tight company, is in a position to provide liberal credit accommodation to customers. General Electric, for example, established the General Electric Credit Corporation (now called GE Capital Corporation) to help its dealers and ultimate customers to obtain credit. In the case of a manufacturer of durable goods whose products are usually bought on credit, the availability of easy credit can itself be the difference between success and failure in the marketplace.

If a company has a raw material reserve, it does not need to depend on outside suppliers when there are shortages. In the mid-1980s, there was a shortage of high-grade paper. A magazine publisher with its own forests and paper manufacturing facilities did not need to depend on paper companies to acquire paper. Thus, even when a shortage forced its competitors to reduce the sizes of their magazines, the company not dependent on outsiders was able to provide the same pre-shortage product to its customers.

In the initial stages of the development of color television, RCA was the only company that manufactured color picture tubes. In addition to using these tubes in its own television sets, RCA also sold them to other manufacturers/competitors such as GE. When the market for color television began to grow, RCA was in a strong position to obtain a larger share of the growth partly because of its easy access to picture tubes. GE, on the other hand, was weaker in this respect.

IBM's technical capabilities, among other things, helped it to be an innovator in developing data processing equipment and in introducing it to the market. IBM's excellent after-sale service facilities in themselves promoted the company's products. After-sale servicing put a promotional tool in the hands of salespeople to push the company's products.

Procter & Gamble is noted for its superior strength in dealing with grocery channels. The fact that this strength has served Procter & Gamble well hardly needs to be mentioned. More than anything else, marketing strength has helped Procter & Gamble to compete successfully with established companies in the introduction of new products. In brief, the resources of a company help it to establish and maintain itself in the marketplace. It is, of course, necessary for resources to be appraised objectively. It is the marketing power of big retailers like Wal-Mart that forces magazine publishers to share advance copies of forthcoming issues with them. They then decide if a particular issue will be sold in their stores. For example, Wal-Mart stores banned the April 1997 issue of *Vibe*, a magazine that focuses on rap music and urban culture, after viewing an early print of its cover and deeming it too risqué. Similarly, Winn-Dixie supermarkets (a 1,186-store chain) refused to carry the March 1997 issue of *Cosmopolitan* (the nation's best-selling monthly magazine in terms of newsstand sales) because they judged it contained material that would be objectionable to many of their customers.[24]

Measurement of Resources

A firm is a conglomerate of different entities, each having a number of variables that affects performance. How far should a strategist probe into these variables to designate the resources of the firm? Exhibit 3-5 is a list of possible strategic factors. Not all of these factors are important for every business; attention should be focused on those that could play a critical role in the success or failure of the particular firm. Therefore, the first step in designating resources is to have executives in different areas of the business go through the list and identify those variables that they deem strategic for success. Then each strategic factor may be evaluated either qualitatively or quantitatively. One way of conducting the evaluation is to frame relevant questions around each strategic factor, which may be rated on either a dichotomous or a continuous scale. As an example, the paragraphs that follow discuss questions relevant to a men's sportswear manufacturer.

EXHIBIT 3-5
Strategic Factors in Business

A. General Managerial

1. Ability to attract and maintain high-quality top management
2. Ability to develop future managers for overseas operations
3. Ability to develop future managers for domestic operations
4. Ability to develop a better organizational structure
5. Ability to develop a better strategic planning program
6. Ability to achieve better overall control of company operations
7. Ability to use more new quantitative tools and techniques in decision making at
    a. Top management levels
    b. Lower management levels
8. Ability to assure better judgment, creativity, and imagination in decision making at
    a. Top management levels
    b. Lower management levels
9. Ability to use computers for problem solving and planning
10. Ability to use computers for information handling and financial control
11. Ability to divest nonprofitable enterprises
12. Ability to perceive new needs and opportunities for products
13. Ability to motivate sufficient managerial drive for profits

B. Financial

1. Ability to raise long-term capital at low cost
    a. Debt
    b. Equity
2. Ability to raise short-term capital
3. Ability to maximize value of stockholder investment
4. Ability to provide a competitive return to stockholders
5. Willingness to take risks with commensurate returns in what appear to be excellent new business opportunities in order to achieve growth objectives
6. Ability to apply return on investment criteria to research and development investments
7. Ability to finance diversification by means of
    a. Acquisitions
    b. In-house research and development

C. Marketing

1. Ability to accumulate better knowledge about markets
2. Ability to establish a wide customer base
3. Ability to establish a selective consumer base
4. Ability to establish an efficient product distribution system
5. Ability to get good business contracts (government and others)
6. Ability to assure imaginative advertising and sales promotion campaigns
7. Ability to use pricing more effectively (including discounts, customer credit, product service, guarantees, delivery, etc.)
8. Ability to develop better relationships between marketing and new product engineering and production
9. Ability to produce vigor in sales organization

EXHIBIT 3-5
Strategic Factors in Business (continued)

D. Engineering and Production

1. Ability to develop effective machinery and equipment replacement policies
2. Ability to provide more efficient plant layout
3. Ability to develop sufficient capacity for expansion
4. Ability to develop better materials and inventory control
5. Ability to improve product quality control
6. Ability to improve in-house product engineering
7. Ability to improve in-house basic product research capabilities
8. Ability to develop more effective profit improvement (cost reduction) programs
9. Ability to develop better ability to mass produce at low per-unit cost
10. Ability to relocate present production facilities
11. Ability to automate production facilities
12. Ability to inspire better management of and better results from research and development expenditures
13. Ability to establish foreign production facilities
14. Ability to develop more flexibility in using facilities for different products
15. Ability to be in the forefront of technology and be extremely scientifically creative

E. Products

1. Ability to improve present products
2. Ability to develop more efficient and effective product line selection
3. Ability to develop new products to replace old ones
4. Ability to develop new products in new markets
5. Ability to develop sales for present products in new markets
6. Ability to diversify products by acquisition
7. Ability to attract more subcontracting
8. Ability to get bigger share of product market

F. Personnel

1. Ability to attract scientists and highly qualified technical employees
2. Ability to establish better relationships with employees
3. Ability to get along with labor unions
4. Ability to better utilize the skills of employees
5. Ability to motivate more employees to remain abreast of developments in their fields
6. Ability to level peaks and valleys of employment requirements
7. Ability to stimulate creativity in employees
8. Ability to optimize employee turnover (not too much and not too little)

G. Materials

1. Ability to get geographically closer to raw material sources
2. Ability to assure continuity of raw material supplies
3. Ability to find new sources of raw materials
4. Ability to own and control sources of raw materials
5. Ability to bring in house presently purchased materials and components
6. Ability to reduce raw material costs

Top Management. Which executives form the top management? Which manager can be held responsible for the firm's performance during the past few years? Is each manager capable of undertaking future challenges as successfully as past challenges were undertaken? Is something needed to boost the morale of top management? What are the distinguishing characteristics of each top executive? Are there any conflicts, such as personality conflicts, among them? If so, between whom and for what reasons? What has been done and is being done for organizational development? What are the reasons for the company's performance during the past few years? Are the old ways of managing obsolete? What more can be done to enhance the company's capabilities?

Marketing. What are the company's major products/services? What are the basic facts about each product (e.g., market share, profitability, position in the life cycle, major competitors and their strengths and weaknesses, etc.)? In which field can the firm be considered a leader? Why? What can be said about the firm's pricing policies (i.e., compared with value and with the prices of competitors)? What is the nature of new product development efforts, the coordination between research and development and manufacturing? How does the market look in the future for the planning period? What steps are being taken or proposed to meet future challenges? What can be said about the company's channel arrangements, physical distribution, and promotional efforts? What is the behavior of marketing costs? What new products are expected to be launched, when, and with what expectations? What has been done about consumer satisfaction?

Production. Are people capable of working on new machines, new processes, new designs, etc., which may be developed in the future? What new plant, equipment, and facilities are needed? What are the basic facts about each product (e.g., cost structure, quality control, work stoppages)? What is the nature of labor relations? Are any problems anticipated? What steps have been proposed or taken to avert strikes, work stoppages, and so forth? Does production perform its part effectively in the manufacturing of new products? How flexible are operations? Can they be made suitable for future competition and new products well on the way to being produced and marketed commercially? What steps have been proposed or taken to control pollution? What are the important raw materials being used or likely to be used? What are the important sources for each raw material? How reliable are these sources?

Finance. What is the financial standing of the company as a whole and of its different products/divisions in terms of earnings, sales, tangible net worth, working capital, earnings per share, liquidity, inventory, cash flow position, and capital structure? What is the cost of capital? Can money be used more productively? What is the reputation of the company in the financial community? How does the company's performance compare with that of competitors and other similarly sized corporations? What steps have been proposed or taken to line up new sources of capital, to increase return on investment through more productive use of resources, and to lower break-even points? Has the company managed tax matters aggressively? What contingency steps are proposed to avert threats of capital shortage or a takeover?

Research and Development. What is the research and development reputation of the company? What percentage of sales and profits in the past can be directly attributed to research and development efforts? Are there any conflicts or personality clashes in the department? If so, what has been proposed and what is being done? What is the status of current major projects? When are they expected to be completed? In what way will they help the company's performance? What kind of relationships does research and development have with marketing and manufacturing? What steps have been proposed and are being taken to cut overhead and improve quality? Are all scientists/researchers adequately used? If not, why not? Can we expect any breakthroughs from research and development? Are there any resentments? If so, what are they and for what reason do they exist?

Miscellaneous. What has been proposed or done to serve minorities, the community, the cause of education, and other such concerns? What is the nature of productivity gains for the company as a whole and for each part of the company? How does the company stand in comparison to industry trends and national goals? How well does the company compete in the world market? Which countries/companies constitute tough competitors? What are their strengths and weaknesses? What is the nature and scope of the company's public relations function? Is it adequate? How does it compare with that of competitors and other companies of similar size and character? Which government agencies—federal, state, or local—does the company deal with most often? Are the company's relationships with various levels of government satisfactory? Who are the company's stockholders? Do a few individuals/institutions hold majority stock? What are their corporate expectations? Do they prefer capital gains or dividend income?

Ratings on these questions may be added up to compute the total resource score in each area. It must be understood that not all questions can be evaluated using the same scale. In many cases, quantitative measurement may be difficult and subjective evaluation must be accepted. Further, measurement of resources should be done for current effectiveness and for future perspectives.

Strategic factors for success lie in different functional areas, the distribution network, for example, and they vary by industry. As shown in Exhibit 3-6, the success factors for different industries fall at different points along a continuum of functional activities that begins with raw materials sourcing and ends with servicing. In the uranium industry, raw materials sourcing is the key to success because low-quality ore requires much more complicated and costly processing. Inasmuch as the price of uranium does not vary among producers, the choice of the source of uranium supply is the crucial determinant of profitability. In contrast, the critical factor in the soda industry is production technology. Because the mercury process is more than twice as efficient as the semipermeable membrane method of obtaining soda of similar quality, a company using the latter process is at a disadvantage no matter what else it might do to reduce extra cost. In other words, the use of mercury technology is a strategic resource for a soda company

EXHIBIT 3-6
Success Factors for Different Industries

	Specimen Industries	
Key Factor or Function	*To Increase Profit*	*To Gain Share*
Raw materials sourcing	Uranium	Petroleum
Product facilities (economies of scale)	Shipbuilding, steelmaking	Shipbuilding, steelmaking
Design	Aircraft	Aircraft, hi-fi
Production technology	Soda, semiconductors	Semiconductors
Product range/variety	Department stores	Components
Application engineering /engineers	Minicomputers	Large-scale integration (LSI), microprocessors
Sales force (quality × quantity)	Electronic code recorders (ECR)	Automobiles
Distribution network	Beer	Films, home appliances
Servicing	Elevators	Commercial vehicles (e.g., taxis)

Source: Kenichi Ohmae, *The Mind of the Strategist* (New York: McGraw-Hill Book Co., 1982): 47.

if its competitors have chosen not to go to the expense and difficulty of changing over from the semipermeable membrane method.[25]

PAST PERFORMANCE OF BUSINESS UNITS

The past performance of business units serves as an important input in formulating corporate-wide strategy. It helps in the assessment of the current situation and possible developments in the future. For example, if the profitability of an SBU has been declining over the past five years, an appraisal of current performance as satisfactory cannot be justified, assuming the trend continues. In addition, any projected rise in profitability must be thoroughly justified in the light of this trend. The perspectives of different SBUs over time, vis-à-vis other factors (top management values, concerns of stakeholders, corporate resources, and the socioeconomic-political-technological environment), show which have the potential for profitable growth.

SBU performance is based on such measures as financial strength (sales—dollar or volume—operating profit before taxes, cash flow, depreciation, sales per employee, profits per employee, investment per employee, return on investment/sales/assets, and asset turnover); human resources (use of employee skills, productivity, turnover, and ethnic and racial composition); facilities (rated capacity, capacity utilization, and modernization); inventories (raw materials, finished products, and obsolete inventory); marketing (research and development expenditures, new product introductions, number of salespersons, sales per salesperson, independent distributors, exclusive distributors, and promotion expenditures); international business (growth rate and geographic coverage); and managerial performance (leadership capabilities, planning, development of personnel, and delegation).

Usually the volume of data that the above information would generate is much greater than required. It is desirable, therefore, for management to specify what measures it considers important in appraising the performance of SBUs. From the viewpoint of corporate management, the following three measures are frequently the principal measures of performance:

1. **Effectiveness** measures the success of a business's products and programs in relation to those of its competitors in the market. Effectiveness commonly is measured by such items as sales growth in comparison with that of competitors or by changes in market share.
2. **Efficiency** is the outcome of a business's programs in relation to the resources employed in implementing them. Common measures of efficiency are profitability as a percentage of sales and return on investment.
3. **Adaptability** is the business's success in responding over time to changing conditions and opportunities in the environment. Adaptability can be measured in a variety of ways, but common measures are the number of successful new product introductions in relation to those of competitors and the percentage of sales accounted for by products introduced within some recent time period.[26]

To ensure consistency in information received from different SBUs, it is worthwhile to develop a pro forma sheet listing the categories of information that corporate management desires. The general profile produced from the evaluation of information obtained through pro forma sheets provides a quick picture of how well things are going.

SUMMARY

Corporate appraisal constitutes an important ingredient in the strategy development process because it lays the foundation for the company to interact with the future environment. Corporate publics, value orientation of top management, and corporate resources are the three principal factors in appraisal discussed in this chapter. Appraisal of the past performance of business units, which also affects formulation of corporate strategy for the future, is covered briefly.

Corporate publics are all those groups having a stake in the organization; that is, owners, employees, customers, suppliers, the banking community and other lenders, government, the community in which the company does business, and society at large. Expectations of all stakeholders should be considered in formulating corporate strategy. Corporate strategy is also deeply influenced by the value orientation of the corporation's top management. Thus, the values of top management should be studied and duly assessed in setting objectives. Finally, the company's resources in different areas should be carefully evaluated. They serve as major criteria for the formulation of future perspectives.

DISCUSSION QUESTIONS

1. How often should a company undertake corporate appraisal? What are the arguments for and against yearly corporate appraisal?
2. Discuss the pros and cons of having a consultant conduct the appraisal.
3. Identify five companies that in your opinion have failed to change with time and have either pulled out of the marketplace or continue in it as laggards.
4. Identify five companies that in your opinion have kept pace with time as evidenced by their performance.
5. What expectations does a community have of (a) a bank, (b) a medical group, and (c) a manufacturer of cyclical goods?
6. What top management values are most likely to lead to a growth orientation?
7. Is growth orientation necessarily good? Discuss.
8. In your opinion, what marketing resources are the most critical for success in the cosmetics industry?

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