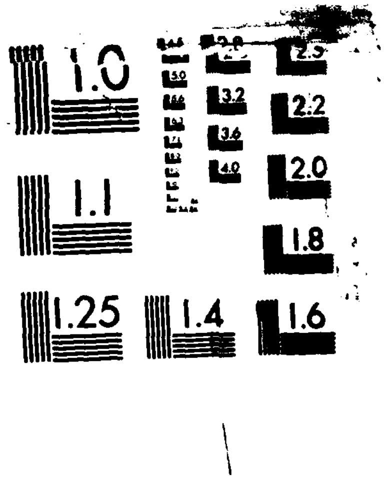
AD-A168 184 TWELVE CASE STUDIES OF TERMINATIONS AND DIVESTITURES BY BUSINESS FIRMS(U) RAND CORP SANTA MONICA CA S J BODILLY APR 86 RAND/N-2339-AF F49620-86-C-0008 1/1

UNCLASSIFIED F/G 5/1 NL



MICROCOPY RESOLUTION TEST CHART

NATIONAL BUREAU OF STANDARDS

A RAND NOTE

AD-A168 184

TWELVE CASE STUDIES OF TERMINATIONS AND DIVESTITURES BY BUSINESS FIRMS

Susan J. Bodilly

April 1986

N-2339-AF

Prepared for

The United States Air Force

Rand
1700 MAIN STREET
P.O. BOX 2138
SANTA MONICA, CA 90406-2138

40 Years 1946-1986 PROJECT AIR FORCE

UNCLASSIFIED

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

REPORT DOCUMENTATION PAGE

READ INSTRUCTIONS BEFORE COMPLETING FORM

1. REPORT NUMBER N-2339-AF	2. GOVT ACCESSION NO.	3. RECIPIENT'S CATALOG NUMBER
4. TITLE (and Subtitle) Twelve Case STudies of Terminations and Divestitures by Business Firms		5. TYPE OF REPORT & PERIOD COVERED Interim
		6. PERFORMING ORG. REPORT NUMBER
7. AUTHOR(s) Susan J. Bodilly		8. CONTRACT OR GRANT NUMBER(s) F49620-86-C-0008
9. PERFORMING ORGANIZATION NAME AND ADDRESS The Rand Corporation 1700 Main Street Santa Monica, CA 90406		10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS
11. CONTROLLING OFFICE NAME AND ADDRESS Requirements, Programs & Studies Group (AF/RDQX) Ofc, DCS/R&S and Acquisition Hq, USAF, Washington, DC 20330		12. REPORT DATE April 1986
		13. NUMBER OF PAGES 34
14. MONITORING AGENCY NAME & ADDRESS(if different from Controlling Office)		15. SECURITY CLASS. (of this report) Unclassified
		15a. DECLASSIFICATION/DOWNGRADING SCHEDULE

16. DISTRIBUTION STATEMENT (of this Report)

Approved for Public Release; Distribution Unlimited

17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)

No Restrictions

18. SUPPLEMENTARY NOTES

19. KEY WORDS (Continue on reverse side if necessary and identify by block number)

Contracts
Budgets
Management Planning and Control
Planning
Corporations
Air Force Budgets
Air Force Planning

20. ABSTRACT (Continue on reverse side if necessary and identify by block number)

See reverse side

DD FORM 1 JAN 73 1473 EDITION OF 1 NOV 65 IS OBSOLETE

UNCLASSIFIED

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

To aid the Air Force in planning for potential budget cuts dictated by the Gramm-Rudman-Hollings Act, this Note considers case studies of twelve firms that have terminated or divested major activities. The study's findings suggest the following conclusions: (1) large organizations have difficulty terminating or divesting major activities; (2) a decision to terminate a major activity is usually made in conjunction with a decision to continue or initiate another activity, tying it to broad questions of corporate strategy; (3) successful corporations viewed termination in the larger context of corporate strategy, while often reformulating that strategy; (4) the strategy provided a context for decisions, not a plan; (5) top management's leadership skills were crucial in initiating, encouraging, and supporting the corporate strategy changes; and (6) termination efforts required the use of nonroutine procedures outside the established budgeting and planning processes.

(Keywords: Gramm Rudman Hollings Bill; defense industry; Public laws).

A RAND NOTE

TWELVE CASE STUDIES OF TERMINATIONS
AND DIVESTITURES BY BUSINESS FIRMS

Susan J. Bodilly

April 1986

N-2339-AF

Prepared for The United States Air Force

Rand
1700 MAIN STREET
P.O. BOX 2138
SANTA MONICA, CA 90406-2138

40 Years 1946-1986 PROJECT AIR FORCE

PREFACE

The current budget crisis has abruptly ended the growth in defense spending. The military services now face the possibility of major reductions in funding. To meet the requirements of the 1985 Gramm-Rudman Act, the armed services may be forced to cut severely a relatively small number of procurement and research and development accounts. Some large and important programs will have to be terminated to make these cuts.

Although the Air Force has terminated marginal programs from time to time, it has not been forced to use the termination of major programs as a way to reduce its budget. Consequently, the Air Force planning and budgeting processes are not designed to produce termination decisions.

In early 1983, the Air Force Director of Plans asked Rand to investigate the problems of termination in the Air Force. He wanted to know specifically why the Air Force has difficulty terminating activities of marginal value and what it might do to increase its ability to terminate.

To answer these questions, Rand analyzed (1) the literature on the barriers that private-sector business firms and government agencies encounter in trying to terminate important activities, (2) the Air Force's planning and resource-allocation process, and (3) the experience of 12 large business firms that had terminated or divested major activities.

The results and conclusions of the study are reported in Paul T. Hill, Thomas K. Glennan, Jr., and Susan J. Bodilly, *Obstacles to the Termination of Air Force Activities,* R-3303-AF, January 1986. This Note analyzes the methods used by the 12 business firms to terminate major product lines.

The study was conducted as a direct assistance effort for the Air Force under the Project AIR FORCE Resource Management Program. This Note should interest Air Force personnel facing possible termination decisions.

SUMMARY

Business firms terminate or divest activities to achieve long-term benefits. This Note describes the methods used by 12 large business firms to terminate activities that had once been the main source of their income and corporate identity.

Although these firms and the Air Force face quite different situations with regard to the reasons for and barriers to termination, common themes in the case studies provide insights into the reasons for the Air Force's difficulty in terminating marginal activities. They also suggest steps that the Air Force might take to achieve terminations if it deems such actions advisable.

To ensure some relevance to the Air Force's problem, we based the research on case studies of businesses whose organization resembled that of the complex public bureaucracy. These firms controlled a major share of their markets and terminated major activities (see Table 1). We obtained case studies of these firms from the Harvard, Stanford, and Dartmouth business schools and from textbooks.

The cases indicated that large organizations have difficulty terminating or divesting major activities. The problems can usually be traced to a combination of the parochial interests of individuals and subunits within the organization and the absence of explicit strategies to guide policy. Moreover, decisions to terminate activities of great significance to an organization can seldom be made on the merits (or demerits) of the terminated activity itself.

A decision to terminate a major activity is usually made in conjunction with a decision to continue or initiate another activity. In short, termination decisions are inextricably tied to broad questions of corporate strategy.

Despite the ample testimony to the difficulty of terminating activities, the cases also suggested general lessons concerning ways to overcome these difficulties:

Table S.1

CASE STUDIES OF TERMINATIONS USED IN THIS RESEARCH

Corporation and Date of Action	Business or Product Terminated	Purpose and/or Result
American Motors Corp. 1954-1961	Hudson and Nash medium car lines; plants; RANCO, Inc.	To enter small car market
Boise Cascade Corp. 1971-1976 1973--	International operations; realty; urban development business	To reduce debt; lost $20M in selling assets, but finally recovered
Cap Bakeries, Inc. 1966-1971	Talsentez Mexican food subsidiary	To reduce financial drain; had short-term loss
Chrysler Corp. 1970-1978	International operations	To enable investment in new car line
Curtis Publishing Co. 1961-1970	Bantam Books; Grosset & Dunlap, Inc.; printing and paper businesses	To avoid bankruptcy; divested overhead businesses
Firestone Tire and Rubber Co. 1973-1978	Swiss Prattein plant operations	To reduce costs by closing plant; paid employees Fr6.5M in settlements
General Mills, Inc. 1961-1977	Feed and flour milling businesses; post-WWII acquisitions	To streamline; entered consumer products market competitively
General Motors Corp. 1970-1978	Several large car lines	To remain competitive with foreign competition
McCord Corp. 1960-1967	Automotive radiators	To end long-term drain; had $2.4M short-term loss
Pillsbury Corp. 1972-1977	Souverain Cellars; Pillsbury Farms; others	To compete in growing consumer food market
Whittaker Corp. 1964-1972	55 diverse businesses	To reduce core to improve cohesivness and operations
Xerox Corp. 1965-1978	Xerox Data Systems	To increase cohesiveness of firm; lost $84M in 1975

- **The corporations that succeeded considered termination in the larger context of corporate strategy, often while reformulating that strategy.** Most terminations took place as part of a corporate effort to increase resources for new investments and expenditure changes.
- **The strategy provided a context for decisions, not a plan.** Many external factors and coincidences influenced the recognition of the need to terminate or divest and the decisions about exactly what to terminate. Detailed planning could easily be negated by sudden environmental changes; thus, flexibility and opportunistic handling of circumstances were important to successful termination efforts.
- Because these decisions involved change in corporate strategy, **the strong leadership and the political skills of the top management were crucial in initiating, encouraging, and supporting the corporate strategy changes, including termination.** The top executives acted both formally and informally as the pathfinders, decisionmakers, and consensus builders of the firms.
- **Finally, termination efforts required the use of nonroutine procedures outside the established budgeting and planning processes.** New procedures were established to encourage informed decisionmaking, consensus, and executive control. Outside consultants, seminars, special committees, reorganizations, new reporting channels, and personnel turnovers were commonly used.

The private sector cases offer an especially important lesson in the chief executive's use of control and consensus-building devices to present a single, cohesive front to external regulators, stockholders, and consumers. The Air Force may find this approach useful in dealing with Congress. Moreover, as in the case of the private sector terminations, major Air Force terminations will result from decisions about what the *organization most* needs to do, not from decisions on what it should terminate.

CONTENTS

TABLES

I. INTRODUCTION

With the enactment of the Gramm-Rudman law in late 1985, the entire federal government entered a period of sharp fiscal retrenchment. The Department of Defense may be unable to make the necessary reductions without eliminating major programs. Since the Air Force now spends about one-third of the defense budget, it is unlikely to escape the pressure for program termination.

The Air Force recognized in the early 1980s that new commitments to Air Force programs would cost more than the administration's spending plans could cover[1] and that future defense budgets would probably not be as large as the administration requested. Considering the termination of some existing programs as a possible response option, the Air Force Director of Plans asked Rand in early 1983 to review the experiences of other large organizations that had divested major programs or products, to draw some lessons from those experiences, and to determine how they might apply to the Air Force.

Rand analyzed (1) the literature on the obstacles to the termination of important activities encountered by large corporations and government agencies, (2) the Air Force's planning and allocation process, and (3) the termination and divestiture experiences of 12 large business firms. The results and conclusions of the study are reported in Paul T. Hill, Thomas K. Glennan, Jr., and Susan J. Bodilly, *Obstacles to the Termination of Air Force Activities*, R-3303-AF, January 1986.

The 12 large business firms had undertaken the terminations to achieve specific benefits. The terminations enabled them to concentrate available resources on recovering from unfavorable developments or on growing in promising new directions. A corporate strategy based on clearly articulated priorities and previously designated candidates for termination gave managements increased control, autonomy, and flexibility in facing external regulators.

---

[1]The Grace Commission and the Office of Management and Budget (OMB) both noted the "bow wave" effect during the later years of research and development (R&D) programs.

This Note describes the methods used by the 12 large business firms to terminate or divest activities that had once been a major source of their income, their corporate strategy, or their corporate identity. Obviously, these firms and the Air Force face quite different situations with regard to the reasons for and barriers to termination. Profitability and market share data provide sharp criteria for judging the performance of a business. Public discussions of defense strategy and potential terminations offer a considerably less positive basis for assessing Air Force activities.

Nevertheless, common themes in the case studies provide insights into the reasons for the Air Force's difficulty in terminating marginal activities. They also suggest steps that the Air Force might take to achieve terminations if it deems such actions advisable or necessary.

RESEARCH PLAN

To ensure some relevance to the Air Force's problem, Rand looked for businesses whose organization resembled that of the complex public bureaucracy. We chose only firms that controlled a major share of their markets and considered terminations only of major activities.[2]

We obtained case studies of these firms from the Harvard, Stanford, and Dartmouth business schools and from textbooks.[3] Of approximately 70 termination cases that fit our general criteria, only the dozen listed in Table 1 provided sufficient descriptive material on the termination process to warrant analysis.

In analyzing the case studies, we sought to answer the following questions:

---

[2]A major activity is a function or product that constitutes part of a firm's traditional identity or one that involves a substantial portion of the firm's assets. We did not, for example, consider the termination of small R&D programs, divestitures of product lines unrelated to the firm's major business, or court-ordered terminations.

[3]See the Bibliography at the end of this Note.

Table 1

CASE STUDIES OF TERMINATIONS USED IN THIS RESEARCH

Corporation and Date of Action	Business or Product Terminated	Purpose and/or Result
American Motors Corp. 1954-1961	Hudson and Nash medium car lines; plants; RANCO, Inc.	To enter small car market
Boise Cascade Corp. 1971-1976 1973--	International operations; realty; urban development business	To reduce debt; lost $20M in selling assets, but finally recovered
Cap Bakeries, Inc. 1966-1971	Talsentez Mexican food subsidiary	To reduce financial drain; had short-term loss
Chrysler Corp. 1970-1978	International operations	To enable investment in new car line
Curtis Publishing Co. 1961-1970	Bantam Books; Grosset & Dunlap, Inc.; printing and paper businesses	To avoid bankruptcy: divested overhead businesses
Firestone Tire and Rubber Co. 1973-1978	Swiss Prattein plant operations	To reduce costs by closing plant; paid employees Fr6.5M in settlements
General Mills, Inc. 1961-1977	Feed and flour milling businesses; post-WWII acquisitions	To streamline; entered consumer products market competitively
General Motors Corp. 1970-1978	Several large car lines	To remain competitive with foreign competition
McCord Corp. 1960-1967	Automotive radiators	To end long-term drain; had $2.4M short-term loss
Pillsbury Corp. 1972-1977	Souverain Cellars; Pillsbury Farms; others	To compete in growing consumer food market
Whittaker Corp. 1964-1972	55 diverse businesses	To reduce core to improve cohesivness and operations
Xerox Corp. 1965-1978	Xerox Data Systems	To increase cohesiveness of firm; lost $84M in 1975

- Under what circumstances do firms consider termination?
- Who in the organization typically initiates the termination, participates in the deliberations, and makes the final decisions?
- What information is developed in the course of the deliberations, and by whom?

- What, if any, special delegations of authority and unusual decisionmaking processes are used?
- Are any specific decisionmaking processes associated with specific outcomes (e.g., successes or failures in implementing termination)?

The data sources did not provide the information needed to assign cause-and-effect relationships between terminations and subsequent financial performance; we therefore were unable to trace the ultimate effects of terminations on a firm's financial health. Also, because they did not apply directly to the Air Force, we did not examine the specific accounting methods and financial criteria that the firms used in choosing termination candidates.

SYNOPSIS OF THE CASES

American Motors Corporation (AMC), 1954-1961

In 1954, the Hudson and Nash automobile companies merged to form American Motors. Hudson and Nash had been competing poorly against the three largest automotive manufacturers across broad product lines. Under the new chairman's direction, AMC formulated a strategy that created a market niche in which the company could compete aggressively. Several large car lines and subsidiaries were terminated to raise resources to back AMC's entry into the small car market with the Rambler.

Boise Cascade Corporation, 1971-1976

After years of unparalleled growth, mostly through acquisitions, Boise Cascade's corporate earnings plummeted in a period of slow building starts, high inflation, and poor debt management. To regain its health, the firm sold assets unrelated to its strong core and used the money to lower the debt and to reinvest.

Cap Bakeries, Inc., 1966-1971

Cap, a pseudonymous multimillion-dollar baked-goods producer, had invested heavily in the acquisition of a Mexican food subsidiary. The subsidiary required large capital funds to remain competitive in its market. Although neither the subsidiary management nor the corporate management could get the subsidiary to produce to their expectations, they refused to recognize the futility of the venture. Finally, the board chose a new president, who sold the subsidiary at a considerable loss.

Chrysler Corporation, 1970-1978

Faced with falling demand owing to rising energy prices, stiff foreign and domestic competition, and increasing debt, Chrysler reviewed its corporate strategy. To reduce its debt and increase demand, Chrysler sold its international operations and invested the money in restructuring its entire automotive line to produce small cars.

Curtis Publishing Company, 1961-1970

Changes in consumer preferences, poor management, and inefficient vertical integration led to Curtis's progressive decline toward bankruptcy. The inability of any one power group within the corporation to force a change of strategy ended when Curtis was bought out. The new owner promptly sold the overhead operations and revitalized the *Saturday Evening Post*.

Firestone Rubber and Tire Company, 1973-1978

Confronted with lower demand for its products, Firestone closed several plants, including one in Switzerland. Although the case study lacked detail, we included it because the terminations involved high costs and complicated political negotiations.

General Mills, Inc., 1961-1977

After years of lackluster performance by General Mills, a new corporate management reviewed its products and corporate structure. Deciding that new growth would come in consumer goods, the management sold the feed and flour milling operations to stabilize earnings and reinvest in growth areas.

General Motors Corporation (GM), 1970-1978

Rising fuel prices, environmental and safety concerns, and stiff foreign competition led to a series of strategic reviews of corporate policy. Management decided on a long-term sales and production strategy involving the replacement of existing automotive lines with more efficient ones.

McCord Corporation, 1960-1967

In 1960, McCord, a producer of car radiators, faced decreasing demand, as many automobile manufacturers were making their own radiators. Much of the McCord top management had come up through the radiator subsidiary, and despite the recommendations of several reports and studies, it could not bring itself to terminate the radiator division. When McCord merged with the Davidson Rubber Company, Davidson personnel replaced many of the McCord top managers. The Davidson management quickly divested the radiator business.

Pillsbury Corporation, 1972-1977

After many years of slow growth and unstable earnings, Pillsbury acquired a new management, which introduced a corporate strategy emphasizing consumer food products, including restaurants. Poorly performing and unrelated businesses were sold to provide capital for the major move into consumer foods.

Whittaker Corporation, 1964-1972

Whittaker, a defense technology firm, experienced rapid growth through miscellaneous acquisitions. The growth, however, led to increasing debt, and in the late 1960s, banks forced a corporate review of the indebtedness. A vice president, with the encouragement of the chairman, proposed the divestiture of 55 businesses. The vice president was made president and immediately divested as proposed.

Xerox Corporation, 1965-1978

Xerox entered the new office-machine market competitively with the acquisition of several computer-related firms, including Xerox Data Systems, a mainframe producer. To achieve the planned market positions, Xerox pumped a large amount of capital into these firms. Several years later, after a corporate strategic review, the top management pulled back from its new computer strategy and placed greater emphasis on the corporation's earlier strengths. The mainframe business, although showing a profit, was sold at a heavy loss, but Xerox's cohesion was restored.

Section II of this Note describes and illustrates with examples the behavior patterns of these 12 corporations as they conducted the terminations. Section III summarizes the lessons drawn from the analysis of these cases.

II. ANALYSIS OF THE CASE STUDIES

Several themes--the corporate strategy context, corporate flexibility, the role of top management, the methods used to surmount the obstacles to termination, and the costs of termination--emerged from the analysis of the 12 cases. These themes form the structure of the discussion.

- Most divestitures took place as part of a corporate effort to increase available resources for new investments and expenditure changes. Even in cases where financial concerns predominated, termination candidates were screened carefully for strategic importance to the corporation. Although corporate strategies usually had not been clearly established at the time termination decisions were made, new corporate strategies obviously evolved from the termination discussions.
- External factors, coincidence, and sudden opportunities influenced the timing of terminations. Because careful planning and strategy formulation were often overtaken by events, successful termination required a flexible strategy.
- The top management, especially the chief executive officer (CEO), played a crucial role in terminations. The CEO acted informally and formally as the pathfinder, decisionmaker, and implementer of new strategy. The cases clearly demonstrated (1) the need for strong leadership to initiate, encourage, integrate, and support the termination process and (2) the CEO's role in representing the corporate view to the outside world.
- Terminations required the top management to break out of traditional operating patterns. The CEO resorted to extraordinary procedures to increase information, build consensus, and maintain control of the process.

- The benefits of termination can be substantial. It allows a firm to concentrate its available resources on recovering from unfavorable developments or to grow in a promising, new direction.
- Finally, the costs of termination include financial loss; the loss of worker morale, corporate prestige, and management time; and emotional shock.

WHEN AND WHY FIRMS CONSIDER TERMINATION

Businesses terminate activities to achieve long-term benefits, usually in the form of increased profits. According to business and economic literature, terminations are a natural result of product life cycles and an essential part of a corporate strategy.[1] Corporate strategists believe that terminations should be considered only in the context of a firm's corporate goals and strategies.

"Corporate strategy" refers to a set of principles and guidelines, agreed to at the highest levels of an organization, that define that organization's raison d'etre, its activities of highest priority, and its future course. The corporate strategy serves to:

---

[1]A school of business thought involves the study of corporate strategy, including the exit from a declining business. See William K. Hall, "Survival Strategies in a Hostile Environment," *Harvard Business Review*, September-October 1980; Richard G. Hamermesh and Steven B. Silk, "How to Compete in Stagnant Industries," *Harvard Business Review*, September-October 1979; Katherine Rudie Harrigan, "Exit Decisions in Mature Industries," *Academy of Management Journal*, Vol. 25, No. 4, 1982; -----, "Deterrents to Divestiture," *Academy of Management Journal*, Vol. 24, No. 2, 1981; -----, *Strategies for Declining Industries*, D.C. Heath and Co., Lexington, Mass. 1980; and Michael E. Porter, "Please Note Location of Nearest Exit," *California Management Review*, Vol. 56, No. 2, Winter 1976. According to Harrigan (1980), five strategies may be used to deal with a declining market: increase assets to dominate; hold until uncertainty is reduced; decrease into a niche; harvest what remains; divest.

Economic theory provides the framework for a product life cycle and barriers to entry and exit. See Gerald B. Allan and John I. Hammond, *Note on the Boston Consulting Group Concept of Competitive Analysis and Corporate Strategy*, Harvard Business School Case Services, No. 175-175, Harvard Business School, Boston, Mass., 1975; and Charles Hofer et al., *Strategic Management: A Casebook in Business Policy and Planning*, West Publishing Company, St. Paul, Minn., 1980.

- Build and sustain consensus within the organization regarding these basic matters
- Provide guidance for decisions and policies at all levels of management
- Provide a basis for group coherence and the corporation's image to the outside world.

Corporate strategy interacts with the environment. It adapts to changing circumstances while it also seeks to shape the environment. Priorities flow from strategy, informing decisions on trade-offs imposed by resource limitations.

Strategic planning or strategy formulation for future growth involves goal setting, forecasting market changes, long-range planning, and intuitive judgments. The implementation of a strategic plan requires (1) constant new information to monitor progress or to make necessary changes, (2) support and acceptance from the corporate whole, and (3) the influence and authority of top management to control the process.

Although individual circumstances differed, specific terminations helped to clarify larger corporate strategies in the 12 cases studied. Terminations were linked to other strategic options designed to reach specified goals. In all cases, terminations provided funds to support new strategic postures or to reduce drains from core strategic activities.

Catalysts for Change

In the cases examined, the following four factors stimulated the strategic review that resulted in terminations:

- The appointment of new managers to top positions (six cases)
- Financial distress (five cases)
- Major changes in the firm's market (five cases)
- Pressure from external groups (seven cases).

As Table 2 shows, at least one of the four factors appeared in each case. They often occurred in combination; for example, financial problems led to hiring new management, which reviewed corporate goals and strategies and ultimately decided to divest.

In the AMC, Cap, Curtis, General Mills, McCord, and Pillsbury cases, new managements set as their major goals the revitalization of the company. Neither Pillsbury nor General Mills faced financial crisis or radical change in their markets. Both had businesses that lacked dazzle or had unstable earnings, but they were not in danger of collapse. In both cases, *new top management* reviewed corporate businesses to identify future growth opportunities.

In the AMC, Cap, Curtis, and McCord cases, the companies had performed poorly but were unable to initiate a strategy for improvement. New, strong leadership was needed to redefine strategic goals or to take advantage of opportunities.

The merger of Hudson and Nash, for example, put George Romney in charge of the new AMC. Until then, both companies had competed unsuccessfully against Ford, GM, and Chrysler. As CEO, Romney adopted a new strategy: to compete with the "Big Three" car manufacturers in a specially created market niche. His commitment to the Rambler as a way to enter the small car market led to the termination of the other Hudson and Nash lines.

Five firms (Chrysler, Curtis, Boise Cascade, Firestone, and Whittaker) faced *financial crisis*. In these cases, the management recognized the need to divest, but did not know *what* to divest. The redefinition of corporate goals and strategy enabled them to decide which activities to terminate.

Chrysler, for instance, was producing large cars in the early 1970s and competing unsuccessfully with GM and Ford in all product lines and international markets. Rising fuel costs precipitated by the oil embargo forced the Chrysler top management to downsize cars a few product lines at a time. Chrysler obtained resources for its new production strategy by divesting foreign businesses that had been draining resources.

Table 2

CONDITIONS PRECIPITATING TERMINATIONS IN TWELVE FIRMS

	Market Conditions	Management Changes	Financial Constraints	External Pressures
American Motors	Small producer, competing with Big Three, needed niche	New management under merger	Limited assets for borrowing	Vocal stockholders, limited bank credit
Boise Cascade	Depressed building sector	Slow succession of management	Must reduce big debt before making new investments	Banks demand debt reduction; foreign governments confiscate assets; environmentalist seek closure
Cap Bakeries	Competition cuts subsidiary market share	Management unable to divest, eventually replaced	Subsidiary plant investment drains capital budget	Not a factor
Chrysler	Decreasing market share, shift in consumer preferences	Routine succession	Big external debt, foreign operations drain capital	Must meet new federal regulations; creditors demand debt reduction; unions want wage increases
Curtis	Decreasing market share	Eventual takeover, new management	Operating in red, must reduce debt	Banks, stockholders demand changes
Firestone	Reduced demand for product	Not a factor	Must reduce capacity in response to poor sales	Foreign government, unions, press demand plants stay open
General Mills	Undynamic performance, new opportunities	New management	Not a factor	Not a factor
General Motors	Increased competition, shift in consumer preferences	New management	Not a factor	Stiff regulatory standards
McCord	Reduced radiator market	New management as result of merger	Old business drains capital	Not a factor
Pillsbury	Undynamic performance, new opportunities	New management	Not a factor	Stock analysts must support
Whittaker	Poor performance, new opportunities	Management unable to divest, replaced	Big external debt	Banks demand credit reduction
Xerox	New growth opportunities	Not a factor	Capital constraints	FTC limits competitive moves

Market changes that resulted in a decline in demand or permanent change in consumer preference led Boise Cascade, Chrysler, Firestone, General Motors, and McCord to terminate activities. McCord's radiator business is a classic example. As the large automotive companies integrated vertically and began to produce their own radiators, McCord's former customers became competitors. The radiator business slipped from 21 percent to 10 percent of McCord's sales. The company as a whole could not operate profitably under these circumstances. The radiator business was finally terminated after a change in management.

External pressure groups also influenced strategy changes leading to terminations. As a result of growing debts, banks pressed Boise Cascade, Chrysler, Curtis, and Whittaker to review corporate assets. In the Boise Cascade, Chrysler, and Pillsbury cases, the pressure groups were security analysts. In other cases, they were stockholders (Curtis), environmentalists (Boise Cascade), and government regulatory agencies (Chrysler, GM, and Xerox).

The stiff regulatory standards imposed on fuel efficiency, automotive safety, and emissions forced both Chrysler and GM to change their product strategy and Chrysler to sell off assets. In fact, Chrysler obtained U.S. Treasury-backed loans partly on the strength of its argument that federal regulations had placed it at an unfair strategic disadvantage.

Role of Termination in Corporate Strategy

Whatever the reason for initiating the review of goals and strategy, the aim of termination, like that of other strategic actions, is to improve the future prospects of the firm. In the case studies, termination contributed to future prospects by providing funds for increased investment in core areas (eight cases) and/or by reducing the drain of money or people from core areas (six cases). Chrysler and Pillsbury used both strategies; General Motors used neither, choosing instead to adjust the product mix by downsizing several large car lines.

At AMC, Boise Cascade, Chrysler, Curtis, General Mills, Pillsbury, Whittaker, and Xerox, strategic review resulted in emphasis on areas of strength or expertise, and extraneous assets were sold to supply the funds needed for concentration in the core businesses. For instance, when faced with poor markets and pressure by creditors to reduce debts, Boise Cascade terminated a string of land development companies and foreign-based utilities and reinvested the funds in lumber, paper, and building materials.

The Cap, Chrysler, Curtis, Firestone, McCord, and Pillsbury cases involved terminations to reduce heavy capital drains or to avoid heavy investments to stay competitive. In each case, management faced the choice of either increasing expenditures or abandoning particular product lines or businesses entirely.

Criteria for Terminations

The case studies showed that one or more of the following three criteria were used in each instance of termination:

- Absence of good corporate fit
- Low future potential
- Poor current performance.

Fit refers to the business's contribution to what management considers the core of the corporation. Thus, a poorly performing business might not be terminated if it had growth potential or was essential to meeting the corporate goal of concentrating resources in particular areas. The commitment of AMC to the Rambler and of Boise Cascade to the building materials industry are examples.

In contrast, a business that performed well but did not meet the other two criteria might be sold or released to operate independently. For instance, Pillsbury divested Pillsbury Farms when the latter was showing a profit. Remaining competitive would have required large investments that would have drawn funds from core areas where the ultimate profit would be greater.

CORPORATE FLEXIBILITY IN TIMING OF TERMINATIONS

The timing of the termination decisions depended on both internal and external circumstances, including new investment opportunities, the ability to locate buyers, fluctuations in interest rates, and the support of a new management. Pillsbury's divesting of Souverain Cellars provides a good example.

Although Souverain Cellars had been a divestiture candidate for some time, Pillsbury acted only when the proper combination of circumstances led top management to believe that the decision and the timing were right. Originally a promising acquisition, Souverain suffered because of the overcapacity of the California wine industry. With $8 million sunk in new production facilities, Pillsbury wanted Souverain to pay off. At the same time, Pillsbury had been formulating a strategy of concentration in core food and restaurant businesses. The wine company did not fit into this core.

In 1975, Steak and Ale, a restaurant business that fit perfectly into the new strategy, appeared on the market. Pillsbury quickly divested Souverain Cellars to obtain funds to buy Steak and Ale. Moreover, Pillsbury earned enough in 1975 to cover the short-term loss caused by divestiture.

The Pillsbury case demonstrates the advantages of an evolutionary rather than fixed strategy. Terminations of opportunity may provide greater gains than ones dictated by adverse financial circumstances. A well-articulated definition of core activities and priorities may enable a corporation to take advantage of unexpected opportunities. Careful timing and flexibility in corporate strategy may increase long-term gains.

The cases support Quinn's notion of logical incrementalism.[2] According to Quinn, strategy formulation is an ongoing process with cyclic iterations, and firms may take as many as six or seven years to develop and implement a strategy. The GM and Chrysler strategies formulated during the oil embargo have only recently begun to achieve their purpose. The ad hoc strategy process, including termination,

---

[2]See James Brian Quinn, *Strategies for Change: Logical Incrementalism*, Richard Irwin, Inc., Homewood, Ill., 1980.

responds to environmental change. Although the strategy rationale may not be explicit at the beginning, its evolution and logical progression may be seen in retrospect.[3]

ROLE OF CHIEF EXECUTIVE OFFICER

In every case, the CEO, the chairman of the board, and/or the president played a crucial and constructive role in the termination process.[4] The CEOs initiated the investigation of strategic options, established the strategic review process, provided incentives for considering termination, supported and sometimes orchestrated the effort to evaluate termination options, and made the final decisions.[5] The CEOs did not necessarily participate in the day-to-day termination process, but they made known their interest.

In six case studies (AMC, Curtis, Chrysler, General Mills, General Motors, and Pillsbury), the CEOs backed the divestitures or product changes, which involved large portions of the firm's assets and considerable risk. Without the active and sustained guidance and commitment of the CEOs, the terminations would not have occurred. In the Cap, McCord, Curtis, and Whittaker cases, the incumbent CEO opposed termination. Only after the board appointed a new CEO were the activities terminated.

Following strategic planning, the CEO typically consolidated support for the new policy and increased his control over the corporation. In all 12 cases, the CEO spent the major part of his time signaling his intentions and encouraging potential supporters of changes. In all but one case (Firestone), the CEO reorganized or replaced personnel so as to consolidate his control and to weaken resistance to change.

---

[3]Quinn notes that outsiders may be able to discern the shifting patterns of strategy change better than those in the corporation caught up in the day-to-day minor decisions that together constitute a major shift.

[4]We will henceforth use CEO to refer to the top manager.

[5]These roles closely corresponded to Harold Leavitt's views as discussed in Thomas J. Peters and Robert H. Waterman, *In Search of Excellence*, Harper & Row, Publishers, New York, 1982.

The styles of the individual CEOs varied greatly. William Spoor of Pillsbury appeared somewhat authoritarian; Eugene Cafiero of Chrysler emphasized personal interaction and friendliness. No one style appeared better suited than another to directing a major change; however, the best styles included clear explanations of the new strategy, purposefulness, and concern about building support for change and sustaining morale.[6]

The vested interests and those loyal to the product being terminated can hinder the termination process. They are often fired or given new assignments that reduce their ability to resist termination.[7] For example, George Romney, in his first act as president of AMC, fired the vice president for sales because he opposed the production of the Rambler.

KEY STEPS IN TERMINATION PROCESS

To achieve major strategy changes, the CEO requires:

- *Information* on which to base sound business decisions
- *Control* of the organization
- *Consensus* (the majority of the organization must understand and support the change).[8]

---

[6]See Katherine Rudie Harrigan, "Exploiting Profit Opportunities in Declining Businesses: Making a Killing in a Dying Industry" (mimeograph), University of Texas, Dallas, 1981; and Marc Gerstein and Heather Reisman, "Strategic Selection: Matching Executives to Business Conditions," *Sloan Management Review,* Winter 1983. Harrigan and Gerstein hold opposing views on the desirable attributes of divestment directors but agree on the need for strong leadership to maintain morale.

[7]For a discussion of the difficulties of changing vested interests, see Peter M. Blau, *The Dynamics of Bureaucracy,* University of Chicago Press, Chicago, Ill., 1963; L. L. Cummings and Randall B. Dunham, *Introduction to Organizational Behavior,* Richard D. Irwin, Inc., Homewood, Ill., 1980; and Donald Warwick, *A Theory of Public Bureaucracy*, Harvard Business Press, Cambridge, Mass., 1975.

[8]The general strategy literature recognizes these requirements. See, for example, Michael E. Porter, *Competitive Strategy*, The Free Press, New York, 1980; Hofer (1980), and Quinn (1980).

These three essentials are interrelated, and actions taken to acquire one may help to create the others. For example, while obtaining information, a fact-finding group may at the same time build consensus through interaction. Or, a reorganization may increase the ability of the top managers to control the organization and at the same time open new information channels.

Information

The firms that we studied adopted various mechanisms to improve the internal flow, quantity, and quality of information (see Table 3). Many aggregated normal, routine budgeting and accounting information to higher, more useful planning levels. Seven initiated long-range planning exercises, some for the first time, as a way to develop a sense of the firm's future. Both GM and Xerox adopted planning horizons of at least ten years.

All except Curtis established ad hoc study groups to develop corporate strategy and future options. These groups usually were created by the CEO, included the CEO, or reported directly to the CEO. They sought to elicit expert opinion on present and future prospects from knowledgeable people in the firm. Seven firms used external consultants to advise them on strategy.

Before becoming CEO of General Mills, General Rawlings instituted a high-level corporate strategy study group that reported regularly to him and to all management personnel. The group, called management operations reviews, studied each core business of General Mills in succession and forecast its future, including new product or consumer changes. The reviews, which continued for five years, helped to demonstrate the need for divesting the flour mills. The discussion stemming from the reviews generated support for the divestitures.

Some CEOs relied on themselves and a few others to create better information upon which to base strategies. Joe Alibrandi, as vice president of Whittaker, was assigned the task of developing a corporate strategy to reduce the firm's debt and improve its performance. After discussions with the chief financial officer, all division managers, and other firm personnel, he formulated a strategy for divesting all

Table 3

ACTIONS TO IMPROVE INFORMATION IN TWELVE FIRMS

	Studies	Consultants	Planning Changes	Dissemination of Information
American Motors	Reviewed survey of transportation habits	--	Initiated long-range planning	Meetings with dealers, sales representatives
Boise Cascade	Staff studies of businesses; national marketing study	Used for financial advice	Initiated long-range planning	Memos to organization
Cap Bakeries	National marketing study	Used for market penetration plan	--	Poor dissemination; no changes
Chrysler	Staff studies; plant managers' task force; white papers	CEO consulted businessmen whom he respected	Initiated yearly planning meetings	White papers; employee-CEO meetings; CEO forced divisions to discuss changes
Curtis	--	Used to prepare strategic plan	--	Special briefings to board
Firestone	Staff studies	--	--	--
General Mills	Management operations review; computer forecasts	--	Initiated long-range forecasting, planning	Retreats, conferences, informal dialogues with lower levels
General Motors	Product Policy Committee studies	--	Initiated long-range planning, 10-year forecasts	Formal committees; informal meetings
McCord	Initiated studies by radiator committee, executive committee	Used for survey of capital needs	Initiated stricter reviews of financial forecasts	Committee to exchange information
Pillsbury	Initiated strategy committee, white papers	Used for second opinion, developing options	Initiated long-range planning	Monday morning staff meetings
Whittaker	Vice president conducted special strategy review	--	--	Discussions with each division; full management meeting
Xerox	Committee reports; product planning studies	Used for forecasts and future options	Increased use of product planning exercises	Weekend retreats

businesses not essential to a few core areas. On becoming the CEO, he divested 55 businesses.

Many firms also used outside consultants. Xerox and Pillsbury relied extensively on consultants to provide ideas for future investment options and to confirm their internal study findings. Pillsbury hired the Stanford Research Institute and the Hudson Institute to define the "Superbox of the 80's," an undetermined product that would lead Pillsbury to steady profit growth. It consulted another outside group to confirm its decision to divest some businesses so as to concentrate on restaurants. Eugene Cafiero of Chrysler, in contrast, personally consulted other corporate CEOs whom he considered innovative and whose views he respected to develop a new business plan.

These special studies went hand in hand with techniques to disseminate information to the proper groups for discussion and informal exchanges. For instance, Xerox sent 170 top technical and planning personnel on a week-long retreat to discuss ideas formulated by a special study group and outside consultants. Chrysler, GM, and General Mills also used this technique. Boise Cascade's top management issued regular memorandums to keep its staff informed, and GM encouraged informal meetings of different functional groups.

Control

Actions to increase management control were normally taken in reaction to poor past performance or current financial crisis to prevent further strategic blunders. Such actions included reorganization, reporting changes, and management reforms, including the hiring and firing of personnel related to the termination (see Table 4). In other cases of increased control, the CEO sought to emphasize the importance of the new policies or to neutralize opposition.

Reorganization. Reorganizations were common before, during, and after termination. Eleven of the firms studied reorganized. No preferred type of organization was apparent: Some firms chose matrix organizations, some centralized functions, and others decentralized. In addition, changes in reporting were made, often at the insistence of the CEO, who wanted to know firsthand how the firm was doing. At Pillsbury,

Table 4

CHANGES TO INCREASE TOP MANAGEMENT CONTROL IN TWELVE FIRMS

	Organizational Changes	Reporting Changes	Management Changes
American Motors	Reduced dealerships; restructured manufacturing; reorganized after divestitures	--	Hired supporters of Rambler; retired "big car" executives; fired sales manager
Boise Cascade	Extended depth of top management; expanded executive council made decisions	Temporarily approved every expenditure at top level	Hired new planning executive; new management replaced old acquisition-oriented managers
Cap Bakeries	Cap divided into two groups, each with executive VP	--	Replaced subsidiary executive twice; replaced Cap president
Chrysler	Reduced management layers, corporate staff; dealt directly with divisions	Dodge truckand sales divisions report directly to CEO; reduction of layers strengthened CEO-operations link	Management succession; fired all planners
Curtis	--	--	High CEO turnover; each new CEO hired and fired staff; eventual company takeover
Firestone	--	--	--
General Mills	Reorganized to promote consumer products, snack foods	--	Routine succession
General Motors	Set up project center to coordinate, oversee divisions, organizational review board to expand top management; increased operational control	--	Routine succession (when CEO retired, chosen heirs took over)
McCord	Decentralized to divisionalized profit center; adopted new accounting procedures	Reports on divisionalized profit centers indicated health of each	Radiator firm CEO resigned, succeeded by Davidson team; all new executive committee
Pillsbury	Consolidated support activities; reduced top management; reorganized into core areas; cut 8 from senior management committee	Operating divisions reported directly to CEO	Routine succession
Whittaker	Added group management; split into key groups; divested non-core activities	Vice president encouraged new reporting to promote termination	Replaced president after divestiture presentation to board
Xerox	Set up matrix organization in 1975; changed accounting to pinpoint poor products	Matrix system imposed cross-functional reporting	Routine succession

for example, the CEO formally and permanently changed the reporting by operational heads, requiring them to report directly to him.

At AMC, Cap, Curtis, General Mills, and Whittaker, reorganizations occurred simultaneously with the terminations. For instance, as AMC liquidated businesses to create resources to manufacture the Rambler, the structure of the organization changed quite dramatically.

In other cases, reorganizations enabled or encouraged subsequent terminations. The reorganizations of Boise Cascade, Chrysler, GM, McCord, Pillsbury, and Xerox increased the ability of top management to control the corporation.

McCord, for example, had a functionally organized management structure that tended to hide the problems of one business by aggregating performance data of all businesses. By the time information reached the top, the management was unable to tell how each specific business was doing.

In 1966, McCord instituted a new profit center type of organization that gave operating autonomy to individual businesses, although the top management continued to make all money and strategy decisions. A new accounting system enabled the corporate management to pinpoint the performance of each business. This restructuring gave the CEO the information and power he needed to control the operations of each business. He terminated the radiator firm.

Chrysler, in contrast, restructured its management in an attempt to cut costs. It reduced marketing and operations staffs and several layers of midlevel management; as a result, the nonautomotive divisions had only a vice president between them and the president. The reorganization reduced costs, but in the words of John Riccardo, the chairman:

> [M]ore important, it gave us the ability to make decisions faster by eliminating as many layers of management as possible between the guy making policy and the guy implementing it. If we boot a decision I want to boot it myself, not have someone screen it out for me.[9]

---

[9]"The Comer at Chrysler Tries a New Road," *Business Week*, July 13, 1974.

Changes in Reporting. The reorganizations often included changes in reporting to give the CEO direct control. For example, between 1972 and mid-1973, a member of the top management of Boise Cascade had to approve each decision, major or minor. Referring to this crisis period, John Fery, the Boise Cascade president said: "Every expenditure was approved right in this office."

At Pillsbury, Spoor reduced management layers and consolidated staff functions (much as Chrysler had done). At the same time, he formally and permanently changed the reporting so that operations reported directly to him. According to one source, Spoor "made it clear that the style of management had changed. He was going to be involved. He would call the shots."[10]

In downsizing, the GM top management recognized the need to coordinate the extensive product line changes that would be made over ten years. They reorganized and created a project center to coordinate the various divisions. Until then, each automotive division had been responsible for a different component of a car model. For instance, Pontiac designed the air conditioning, while Chevrolet created the frame. This system encouraged uncoordinated, independent actions by the divisions. The project center, however, forced the cross-function discussions and exchanges of information needed to smooth, coordinate, and control the work of the divisions.

Management Changes. The cases studied included many examples of top management changes, not all of which were connected with terminations. The McCord-Davidson merger provides a good example.

Considering the firm's performance in the radiator business unsatisfactory, the McCord executive committee ordered a study of the possibility of termination. Several members of the executive committee, however, including the chairman, president, and executive vice president, had spent most of their careers in the radiator business and would not agree to termination.[11] The merger with Davidson Rubber

---

[10]See Mariann Jelinek and James Brian Quinn, *The Pillsbury Company*, Amos Tuck School of Business Administration, Dartmouth College, Hanover, New Hampshire, 1980.

[11]The effect of old loyalties on strategic change is discussed in Porter (1980), Quinn (1980), Blau (1963), Cummings (1980), and Warwick (1975).

forced the removal of almost the entire top management of McCord, including the president and chairman. After consolidating its authority, the new management liquidated the radiator business.

Top managers forced management turnover as a way to increase their control in strategic decisions. For instance, the Cap management twice replaced the executive of its troublesome Talsentez Mexican food business in an effort to improve performance. Finally, the Cap board hired a new CEO from outside the corporation with instructions to solve the Talsentez problem. After discussions with staff and senior managers and his own analysis, the new CEO divested Talsentez.

Similarly, the Whittaker president had initiated an acquisition policy that threatened the well-being of the company. The board chairman asked a vice president, Joe Alibrandi, to formulate a new corporate strategy. Armed with the vice president's proposals, the chairman replaced the old president with Alibrandi, who carried out his proposed divestitures.

Consensus

A major part of the termination effort was directed at encouraging management, staff, and employee support for changes. The success of the termination depended largely on the CEO's ability to foster an atmosphere in which changes would be accepted. The CEO sought to encourage employees to discuss and support future strategy moves and potential terminations. A delicate balance had to be maintained so that constructive criticism that might lead to support was not turned into opposition. Two cases especially illustrate the importance of the CEO's efforts to build support.

The new strategy that Chrysler adopted in 1975 to enable it to invest in a new car line also involved reducing costs. The cost-cutting alienated many workers, but Chrysler needed union and worker support for the new program. Cafiero, the Chrysler president, apparently a modest but effective speaker, visited many of the Chrysler plants to explain the need for divestitures, plant closings, and cost-cutting and to provide a forum to dissipate opposition. He described his mode of operation as follows:

> If I can convince people of the need, they can do remarkable things--it's always worked. I've always gotten people to participate. You can't set goals by yourself. You can always give orders, but that's not setting goals.
>
> I told everybody that the first guy who is fired for trying to change things for the better or to get involved in decisions will be rehired with an increase in pay.[12]

In the end, all employee levels backed the new strategy.

Cafiero, Riccardo, and later, Iacocca played important roles as representatives of Chrysler to the outside world. Each spent a great deal of time testifying, discussing, and meeting with the banks, the federal government, and unions to encourage the support needed.

At Pillsbury, Spoor, then vice president, was asked to study new strategy options. His report was to be presented to the board as his bid for the presidency of the company. He set up a strategy group, talked with each board member individually, and discussed the corporation's future with consultants and key executives. By the time he presented his conclusions to the board, he had spoken to every important person in the company. In so doing, he laid the groundwork for the support of his ideas.

As CEO, Spoor encouraged new strategy ideas, as well as independent thought by his business managers. For several difficult termination decisions, he requested papers, pro and con, from members of the board and management. The presentation of the papers created a forum for discussion. By the time all views were heard, consensus had formed on the action to be taken. As a result, the business managers of Souverain Cellars and the European Flower Market, another Pillsbury subsidiary, each suggested the divestiture of his own business.

The costs of termination include short-term financial losses; the loss of worker morale, corporate prestige, and management time; and emotional exhaustion.[13] The 12 cases reviewed demonstrate the high

---

[12]Quoted in James Brian Quinn, *Chrysler Corporation*, Amos Tuck School of Business Administration, Dartmouth College, Hanover, New Hampshire, 1977.

[13]The literature on exits from declining industries describes many of these economic and personal costs. See, for example, Phyllis

costs. At least five firms experienced heavy short-term financial losses; others also experienced losses, but the case reports did not specify the amounts.

The Firestone case focused almost exclusively on the divestment costs. The Pratteln plant termination dragged on for months after its announcement because of legal and media efforts to stop it. In addition to the cost of terminating plant operations, expenses included the cost of negotiations and keeping the plant open during negotiations, court-related fees, severance pay, and the loss of prestige.

The heavy costs can exhaust the management of any organization. At Boise Cascade, Cap, Chrysler, Curtis, GM, McCord, Pillsbury, and Whittaker, management spent large amounts of time on termination, to the neglect of other matters. In addition, corporate political battles, whether won or lost, eroded the morale of the organization. Thoughtful CEOs at AMC, Boise Cascade, GM, and Xerox took steps to minimize these ill effects. The consequences of failure to alleviate the personal and morale costs of termination may be seen in the Curtis case, where political infighting led to morale deterioration, constant upheavals, and loss of purpose.

Feinberg, "Selling Off a Doggy Division," *Institutional Investor*, June 1980; Harrigan (1980); and "Texas Instruments Cleans Up Its Act," *Business Week*, September 19, 1983. These articles caution businessmen about the personal and emotional toll that divestitures may take.

III. CONCLUSIONS

The cases confirm the difficulty of terminating or divesting activities. The problems usually stem from a combination of the parochial interests of individuals and groups within the organization and the absence of explicit strategies to guide policy.

The cases also confirm the close tie between termination decisions and broad questions of corporate strategy. Organizations rarely terminate activities of great significance on the merits (or demerits) of the terminated activity itself. They usually decide to terminate an activity in conjunction with a decision to continue or initiate another activity.

The cases further indicate that opponents of termination try to protect their interests by controlling the information reaching the decisionmaker. They organize to advocate their point of view. They do not normally do this solely because of self-interest, but rather because they are committed to the activity in question, a commitment that is fostered by the organization as a whole. Without such commitment, organizations would perform poorly.

Despite the ample testimony to the difficulty of terminating activities, the cases also suggest general lessons concerning ways to overcome these difficulties:

- The corporations that succeeded considered termination in the larger context of corporate strategy, often while reformulating that strategy. Most terminations took place as part of a corporate effort to increase resources for new investments and expenditure changes.
- The strategy provided a context for decisions, not a plan. Many external factors and coincidences influenced the recognition of the need to terminate or divest and the decisions about exactly what to terminate. Sudden environmental changes could easily negate detailed planning; thus, successful termination efforts required flexibility and opportunistic handling of circumstances.

- Because these decisions involved change in corporate strategy, the strong leadership and the political skills of the top management were crucial in initiating, encouraging, and supporting the corporate strategy changes, including termination. The CEOs acted both formally and informally as the firms' pathfinders, decisionmakers, and consensus builders.
- Finally, termination efforts required the use of nonroutine procedures outside the established budgeting and planning processes. Corporate heads established new procedures to encourage informed decisionmaking, consensus, and executive control. They often used outside consultants, seminars, special committees, reorganizations, new reporting channels, and personnel turnovers to achieve their goals.

These lessons from the 12 cases studied apply to the Air Force primarily because the paradigm of strategic planning fits the organizational behavior and processes of both the private and public sectors. Unfortunately, however, the public and private sectors are not exactly comparable because the environments in which they operate differ.

Public sector strategy is formulated in an open forum, enabling the coalescence of opposition. Moreover, policy may be discontinuous, owing to frequent top management turnover and the inability to groom successors.[1] The private sector CEO has greater control than one in the public sector; he also has approved mechanisms for maintaining control and continuity that may not be acceptable in the public sector. The private sector cases demonstrate that continuity and control are essential parts of strategy, but they offer no insight into how to maintain them under public sector conditions.

Nevertheless, the private sector cases offer especially important examples of the chief executive's use of control and consensus-building devices to present a single, cohesive front to external regulators and consumers. The Air Force may find this approach useful in dealing with

[1]This may not apply to the military management in the services, in which successors are trained for their jobs.

Congress. Moreover, as in the case of the private sector terminations, major Air Force terminations will result from decisions about what the organization most needs to do, not from decisions on what it should terminate.

BIBLIOGRAPHY

CASE STUDIES

American Motors

Scott, Bruce R., "American Motors Corporation," Harvard Business School Case Services, No. 9-364-001, Harvard Business School, Boston, Mass. (rev.), September 1975.

Boise Cascade

Brandt, Steven R., "Boise Cascade (A): Establishing a Planning System," Harvard Business School Case Services, No. 9-380-691, Graduate School of Business, Stanford University, Calif., undated.

Brandt, Steven R., "Boise Cascade (B): A Planning Process," Harvard Business School Case Services, No. 9-380-692, Graduate School of Business, Stanford University, Calif., undated.

Katz, Robert L., *Cases and Concepts in Corporate Strategy*, Prentice Hall, Inc., Englewood Cliffs, New Jersey, 1970.

Cap Bakeries

Clark, Gilmour Stuart, "The Divestment Decision Process," dissertation, Harvard Business School, Boston, Mass., 1973.

Chrysler

"Chrysler U.K. (A)," Harvard Business School Case Services, No. 9-278-119, Harvard Business School, Boston, Mass. (rev.), June 1980.

Murphy, William J., "The Chrysler Corporation Bailout," Harvard Business School Case Services, No. 9-380-205, Harvard Business School, Boston, Mass. (rev.), August 1981.

Quinn, James Brian, "Chrysler Corporation," Amos Tuck School of Business Administration, Dartmouth College, Hanover, New Hampshire, 1977.

Curtis

Wynne, John M., "The Saturday Evening Post (R)," Harvard Business School Case Services, No. 9-373-009, Harvard Business School, Boston, Mass. (rev.), 1971.

Firestone

Oaklander, Harold, "The Swiss Call It the Firestone Affair," Harvard Business School Case Services, No. 9-379-660, Graduate School of Business, Pace University, New York, 1978.

General Mills

Jelinek, Mariann, and James Brian Quinn, *General Mills, Inc.*, Amos Tuck School of Business Administration, Dartmouth College, Hanover, New Hampshire, 1978.

General Motors

Quinn, James Brian, *General Motors Corporation: The Downsizing Decision*, Amos Tuck School of Business Administration, Dartmouth College, Hanover, New Hampshire, 1978.

McCord

Clark, Gilmour Stuart, "The Divestment Decision Process," dissertation, Harvard Business School, Boston, Mass., 1973.

Pillsbury

Jelinek, Mariann, and James Brian Quinn, "The Pillsbury Company," Amos Tuck School of Business Administration, Dartmouth College, Hanover, New Hampshire, 1980.

Whittaker

Clark, Gilmour Stuart, "The Divestment Decision Process," dissertation, Harvard Business School, Boston, Massachusetts, 1973.

Xerox

Quinn, James Brian, "Xerox Corporation (A) and (B)," Amos Tuck School of Business Administration, Dartmouth College, Hanover, New Hampshire, 1977.

OTHER SOURCE MATERIALS

Allan, Gerald B., and John I. Hammond, "Note on the Boston Consulting Group Concept of Competitive Analysis and Corporate Strategy," Harvard Business School Case Services, No. 175-175, Harvard Business School, Boston, Mass., 1975.

Blau, Peter M., *The Dynamics of Bureaucracy,* University of Chicago Press, Chicago, Ill., 1963.

Business Week, "Texas Instruments Cleans Up Its Act," September 19, 1983.

Business Week, "The Comer at Chrysler Tries a New Road," July 13, 1974.

Cummings, L. L., and Randall B. Dunham, *Introduction to Organizational Behavior*, Richard D. Irwin, Inc., Homewood, Ill., 1980.

Cyert, Richard M., and James G. Marsh, *A Behavioral Theory of the Firm*, Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1963.

The Economist, "In Search of a Diet," August 6, 1983.

Feinberg, Phyllis, "Selling Off a Doggy Division," *Institutional Investor*, June 1980.

Gerstein, Marc, and Heather Reisman, "Strategic Selection: Matching Executives to Business Conditions," *Sloan Management Review*, Winter 1983.

Hall, William K., "Survival Strategies in a Hostile Environment," *Harvard Business Review*, September-October 1980.

Hamermesh, Richard G., and Steven B. Silk, "How to Compete in Stagnant Industries," *Harvard Business Review*, September-October 1979.

Harrigan, Katherine Rudie, *Strategies for Declining Industries*, D. C. Heath and Co., Lexington, Mass., 1980.

-----, "Deterrents to Divestiture," *Academy of Management Journal*, Vol. 24, No. 2, 1981.

-----, "Exploiting Profit Opportunities in Declining Businesses: Making a Killing in a Dying Industry," University of Texas, Dallas, 1981.

-----, "Exit Decisions in Mature Industries," *Academy of Management Journal*, Vol. 25, No. 4, 1982.

Hilton, Peter, "Divestiture: The Strategic Move on the Corporate Chessboard," *Management Review*, March 1972.

Hofer, Charles, et al., *Strategic Management: A Casebook in Business Policy and Planning*, West Publishing Company, St. Paul, Minn., 1980.

Lovejoy, Frederick, *Divestment for Profit*, Financial Executives Research Foundation, New York, 1971.

Matarazzo, James M., *Closing the Corporate Library*, Special Libraries Association, New York, 1981.

Persson, Bo, *Surviving Failures*, Humanities Press, New Jersey, 1979.

Peters, Thomas J., and Robert H. Waterman, *In Search of Excellence*, Harper & Row, Publishers, New York, 1982.

Porter, Michael E., *Competitive Strategy*, The Free Press, New York, 1980.

-----, "Please Note Location of Nearest Exit," *California Management Review*, Vol. 56, No. 2, Winter 1976.

Quinn, James Brian, *Strategies for Change: Logical Incrementalism*, Richard Irwin, Inc., Homewood, Ill., 1980.

Vignola, Leonard, *Strategic Divestment*, American Management Associations, New York, 1974.

Warwick, Donald, *A Theory of Public Bureaucracy*, Harvard Business Press, Cambridge, Mass., 1975.

END
DTIC
7-86