

Division of Research
Graduate School of Business Administration

January 1987

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ECONOMIC VS. MANAGERIAL MOTIVATIONS

Working Paper #485

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Abstract

The multitude of merger, acquisition, and divestment announcements in the business press provides anecdotal evidence that there has been much restructuring activity within large firms in recent years. However, there has been no systematic research that addresses these broad shifts in strategy and as a result there is no readily available measure. In investigating strategic redirection, this study has made a rough, but first pass at measuring a complex phenomenon. The measure arrived at examines only a subset of the actual phenomenon, i.e. shifts within the business mix as captured through changes in the importance of the core business. The nature of the concept, however, can only be researched well by looking at a piece at a time. By focussing on a narrow, but precise measure of strategic redirection, we are able to investigate the phenomenon empirically. Utilizing this measure, this study empirically investigated the magnitude and incidence of strategic redirection in a random sample of 200 large (Fortune 1000) manufacturing firms for the 1973-1981 period and alternative factors associated with the phenomenon of strategic redirection. Based on this analysis, it appears that top management composition is significantly more explanatory than economic and firm variables in explaining the degree of portfolio shifts within the sample.

INTRODUCTION

Many large companies have experienced organizational transformations during the late 1970s and 1980s that are profoundly different from the merger activity and diversification of the 1960s. The abundance of merger, acquisition, and divestment activity reported in the business press is evidence that firms are experiencing major strategic changes. Salter and Weinhold (1979) found that the most significant characteristics of the recent merger movement has been the high level of acquisition activity by the so-called blue chips of American business. Many of these previous single business firms have chosen to reposition strategically by way of conglomerate acquisitions. Mobil, Coca-Cola, R.J. Reynolds, U.S. Steel, Sears, and General Motors are just a few examples of firms that have altered their corporate portfolio through conglomerate acquisitions. Furthermore, the acquisition activity since 1974 has been characterized by an unusual number of so-called "megamergers", mergers whose value exceeds \$100 million. In addition, divestments, write-offs, and so-called restructuring activity has gained much business popularity in recent years (e.g. see "Splitting Up: The Other Side of Merger Mania", Business Week, July 1, 1985; "Surge in Restructuring is Profoundly Altering Much of U.S. Industry", Wall Street Journal, August 12, 1985). Divesting of the historical core business by such firms as ITT, Esmark, and Foremost-McKesson has also become a strategically popular course to pursue.

This increasing attention to restructuring is qualitatively different from previous merger activity. While the merger wave of the 1960s and early 1970s was predominantly one of diversification, the more recent level of strategic activity has included both divestiture and restructuring. In addition, the participants are now predominantly diversified in nature.

According to Leontiades (1986) the result of all of this corporate repositioning is that firms now manage a family of strategic groups where traditional industry boundaries are often blurred. The flurry of strategic activity often accompanied by massive restructuring within the firm's portfolio is an indication that firms are explicitly pursuing major changes in corporate strategy, or strategic redirection. In order to research this phenomenon, a measure must be developed that captures some element of these shifts in strategy over time. Research can then be conducted on the magnitude and incidence of strategic redirection within large firms, as well as the patterns and motivations for redirection. From this basis we can arrive at a better understanding of the recent wave of corporate strategic activity.

Previous Research

The concept of strategy is traditionally defined as the match between an organization's resources and its environment (Hofer and Schendel, 1979). Since single business firms were the predominant economic entity prior to 1970 (Chandler, 1962), early policy research addressed strategy in terms of achieving a competitive advantage for a business within its industry (Ansoff, 1965; Andrews, 1970). More recent research has examined the nature of business strategy in terms of the linkages between techno-economic factors; industry characteristics, firm strategy, and economic performance (Hatten, Schendel, and Cooper, 1981; Porter, 1979).

Given the increasing incidence of diversification first noted by Chandler, additional research addressed different types of diversification, (e.g. related vs. unrelated) that were being followed (Wrigley, 1970; Rumelt, 1974; Channon, 1973; Pavan, 1972; Pooley-Dias, 1972; Thanheiser, 1972); as well as analyzing economic and performance factors that could explain the diversification phenomenon (Montgomery, 1979; Biggadike, 1976; Bettis and

Prahalad, 1984). The diversified nature of much of the Fortune 1000 resulted in a recognition of strategy hierarchies (Hofer and Schendel, 1979) where corporate strategy addressed the match between a firm and its environment in terms of "What set of businesses should we compete in?"

Frameworks were developed to assist in the formulation of strategy at the corporate level within a diversified firm. Ansoff's (1965) Product/Mission Matrix conceptualizes corporate strategy in terms of the firm's expansion into new products and new markets. Similarly, the portfolio matrix first developed at the BCG (Hedley, 1977) and refined at General Electric is also a means by which to visualize corporate strategy within a multi-business firm. From these models, it is the level and pattern of the firm's resource allocation that reflect corporate strategy.

Research addressing the firm's resource allocation have focused on the methods of investment: acquisition or internal development (Pitts, 1977; Yip, 1982); as well as the issue of divestment (Gilmour, 1973; Porter, 1976; Duhaime, 1981); and the existence of exit barriers to divestiture (Harrigan, 1980, 1981) that ultimately impact the business portfolio of the firm. While this research addresses specific corporate strategic decisions regarding one particular business or industry, it falls short in addressing overall corporate strategic change as a result of acquisition and divestiture activity over a prolonged period of time.

The focus for much of the strategy research has been at the business level of analysis addressing the issue of how best to compete effectively within a particular industry. In addition, strategic redirection has eluded detection by the more traditional measures of strategy classification. While the business press provides plenty of anecdotal evidence, additional research is called for to develop a measure for the phenomenon of strategic redirection

and then to examine the extent of redirection and possible factors associated with the phenomenon.

A MEASURE FOR STRATEGIC REDIRECTION

Strategic redirection at the corporate level is a multi-faceted phenomenon that can best be characterized as dramatic change within the organization. According to Tushman, Virany, and Romanelli (1985), reorientations are systemic, organization-wide change defined by simultaneous changes in strategy, power, and structure and controls. To operationalize the concept of strategic redirection the researcher is faced with arriving at a definition that lends itself to data gathering for a large sample of firms while at least capturing some aspect of a multi-dimensional phenomenon.

Since our focus of inquiry is at the corporate level, strategic typologies which center on business level strategy such as Miles & Snow's (1978) are inappropriate. On the other hand, corporate level measures of strategic change such as product count measures of diversification used extensively in industrial organization economics (Gort, 1962; Rhoades, 1973) as well as categorical measures of diversification developed by Wrigley (1970) and extended by Rumelt (1974) also face shortcomings. The prevailing measures of strategic change while possessing certain benefits cannot be considered optimal in capturing strategic redirection within diversified firms.

While strategic redirection represent a broad issue, we can begin to focus on certain elements of the phenomenon that are both visible and measurable. One possible proxy for the phenomenon is shifts in the firm's portfolio. One of the likely outcomes of redirecting strategy by way of acquisitions, mergers, divestments, and restructuring is the redefinition of the firm's business mix. Corporate level strategy has often been defined as "what businesses do we want to be in?" (Hofer and Schendel, 1978) or as filling

the gap between the performance potential of current SBUs and the desired performance level by adding new SBUs and/or divesting one or more current SBUs (Guth, 1986). In this manner, investment decisions impacting strategy are reflected through changes in the business portfolio of the firm, which is akin to the use of portfolio model by strategic planners within multi-business firms (see Hedley, 1977; Haspeslagh, 1982). Being sensitive to only one aspect of the phenomenon - shifts in the business mix, the findings will be biased to only reporting that aspect of strategic redirection. A measure based on portfolio shifts will not capture changes in the competitive standing of the firm's businesses. In addition, organizational and cultural changes that may have strategic significance but do not manifest themselves as portfolio shifts also elude detection. In developing a first stage measure of a heretofore unmeasured phenomenon, a certain degree of measurement error is unavoidable. The existing bias in relying on portfolio shifts to capture strategic redirection is a trade-off for a readily available means by which to capture strategy shifts across firms from secondary source data.

To operationalize strategic redirection, shifts in the mix and emphasis of businesses within the portfolio were measured using the extent of change in the relative size of the core business to the firm. The core business can be defined according to Rumelt (1979) as the firm's largest discrete business that can be managed independently of its other activities. Despite the diversity of the Fortune 1000 many firms still possess a sizable core business. It's preeminence as the largest business means that strategic activity within the portfolio such as acquisitions, divestitures, as well as capital investment in existing businesses will most likely impact the relative standing of the core business as shown in Figure 1. As a result, a measure such as relative change in the core business may serve as a good surrogate for strategic change within the portfolio.

Insert Figure 1 about here

The use of a measure that focuses on the core business also has its precedence in the diversification research stream. The Wrigley/Rumelt diversification taxonomy was based on the delineation and relatedness of the discrete product-market activities within the firm. The development of this diversification typology relied on the delineation of what constituted the core business for the firm; its relative importance to the firm; and the nature of the linkages between the core business and the other activities of the firm. Shifts in the importance of the core business and its relation to the newly entered domains of the firm were used as a basis for identifying diversification strategies.

While both economists and policy researchers utilize a similar definition of the core business, their operationalization of this variable differs. Much of the economic research relies on the Standard Industrial Classification system to delineate industries. However, there are numerous problems associated with using the S.I.C. categories as a means of defining discrete businesses within a diversified firm. Markets are not delineated by any single principle and thus are not equidistant from each other in terms of substitution or mobility of resources. The weaknesses of the S.I.C. categories in measuring industries are further exasperated because data is collected at the plant level and then aggregated to an industry level. Business linkages and interdependencies in technology, marketing, or other areas are not reflected. As a result, a S.I.C. reflection of a firm's portfolio may bear little resemblance to a corporate view of a firm's business activities.

Within policy research both Wrigley and Rumelt found that each company had a unique history and thus developed its own pattern of relationships among technologies, products, and markets. What was a discrete business for one firm was often an integral and non-separable part of a larger business in another firm. Similarly, the PIMS data base was generated without any consideration for S.I.C. codes by compiling business level data on the basis of markets defined by the firms providing the information.

Since the 1973 requirement by the SEC for line of business disclosure in financial reports, data on individual business activity has become more available and reliable. For this study the core business was defined and measured by the single largest business in terms of revenues as reported in the firm's line of business disclosure in 1973. While the firms followed their own independent method of ascertaining strategic business groups, for most of the firms used in this study, the largest business group identified by the firm in its LOB disclosure could be delineated by a single four digit S.I.C. code industry or a group of similar four digit S.I.C. codes. Thus the actual definition of business groupings was very similar to the concept of the core business used by Wrigley, Rumelt, and Montgomery. What differs is how the size of the core business was ascertained. Rumelt relied on delineating product-areas from data in firm prospectuses. Montgomery ascertained product revenue data from the EIS (Economic Information System's Establishment) database which uses employee data to ascertain corporate sales data by four digit S.I.C. grouping. Due to both data availability and strategic relevance this researcher chose to rely on firm provided line of business data on its portfolio of businesses.

The prevailing strategy measures as well as the proposed measure for strategic redirection are described in Table 1.

Insert Table 1 about here

Each of the measures in Table 1 were developed to capture a specific type of strategic change. While the S.I.C. measures can adequately capture diversification within the economy as a whole, the Wrigley/Rumelt typology more accurately describes diversification as defined by the firm (Montgomery, 1982). However, both the S.I.C. based and categorical measures of diversification were developed to measure the phenomenon of single business firms diversifying into multi-business firms (and in the case of Wrigley/Rumelt classifying their specific diversification strategy). Their period of analysis was the acquisition/merger activity of the 1960s and early 1970s where most of the activity centered on diversification. While diversification is still an ongoing trend, the majority of the Fortune 500 are now multi-business firms and it is the nature of strategic restructuring within diversified firms that requires a different measuring approach.

For example, Gould Corporation's transformation of a firm with several SBUs focused within the automotive/industrial sector to a firm with a completely different set of businesses centered within the electronics industry. The Wrigley/Rumelt diversification taxonomy would still define Gould as a Related Linked Diversifier today, yet the core business has been divested and a new set of core skills have been developed around which the other businesses are clearly linked.

In developing a measure for corporate strategic change it is important that the variable used has strategic significance. The external financial community views the strategy of a firm in part on the basis of the accounting data reported in the financial statements. In addition, management's perception of the firm's strategic portfolio and how the firm's strategic

posture is communicated to the investing public are reflected in the way the businesses of the firm are delineated in the financial reports.

While the level of aggregation may differ considerably across firms, the measure of interest is relative strategic change at the corporate level. Due to the different levels of diversity and size between firms, it is highly unlikely that any two firms would agree of an absolute measure of change. For example, a \$50 million acquisition may be a significant change for a firm with total sales of \$300 million while insignificant to a \$5 billion revenue company. By relying on relative change within the core business over time the measure of strategic change can be compared across firms.

Conceptually it would be difficult to arrive at a measure that would capture all aspects of strategic redirection and still lend itself to data gathering. However, utilizing a surrogate measure: shift in the business mix as measured by relative change in the size of the core business, this study will be able to capture change within the multi-business portfolio which can be compared across firms yet have strategic meaning within a firm.

RESEARCH FRAMEWORK

Hypotheses

The purpose of this study was to examine various factors which may influence or initiate investment decisions that lead to a redirection in corporate strategy within large firms.

Within the diversification and strategy literature there has been sufficient evidence to indicate that industry factors such as industry growth rates may have a direct effect on choice of strategy (Gort, 1962; Berry, 1975; Bass, Cattin, & Wittink, 1978; Guth, 1980). Gort found that low growth in the principal activities of the firms tended to exert a positive influence on their attempts to diversify. In addition, Salter and Weinhold (1979) found

that firms active in the merger movement of the late 1970s operated primarily in mature, slow-growing businesses. For purposes of this study, only the real rate of industry growth for the core business was examined. It is expected that firms with low growth rates for their core industries will de-emphasize their core business by investing in other business opportunities. On the other hand, firms with high growth rates for their respective core industry, will chose to focus on their core business.

A firm's financial performance may also act as a precursor to change. If the firm's current financial performance falls below historical performance or below the average performance in the industry one might expect the firm to re-evaluate its strategic position and re-invest the firm's resources in more favorable areas. Furthermore, a firm facing a profitability crisis may face severe external pressures from shareholders and the financial community to change its strategic course. It is expected that firms with financial performance below the core industry average or below historical performance, will decrease their stake in their core business by either disinvesting the core or by investing more heavily in other business opportunities.

While lack of industry growth and substandard financial performance may spur management to re-evaluate strategic investments, a firm may be very satisfied with the profitability of its core business, but nonetheless pursue a course of strategic redirection. This change in strategic direction may be initiated due to the generation of spare financial resources. From a portfolio standpoint (BCG, 1969; Day, 1977; Hedley, 1977; Henderson, 1979), the firm's "cash cows" generate more cash than can be utilized by its other existing business units.

The availability of excess resources enables the firm to pursue investments in areas outside of its traditional domain. As an example the

huge cash throw-off from operating in the tobacco (Miles, 1982) and oil industries, has enabled many of these firms to enter new domains. It is expected that firms with significant positive cash flows will exhibit a greater tendency towards strategic redirection.

Besides internal financial and industry considerations, changes in the patterns of investment decisions may also be a reflection of top management. Management's influence on strategy can take place either through direct substance intervention (Andrews, 1970 and Ansoff, 1965) or through changes in structural context within the firm (Bower, 1970 and Quinn, 1980). Based on the succession literature (Carlson, 1962; Helmich and Brown, 1972; Reinganum, 1985) insiders would be more inclined to maintain the organizational status quo than in bringing about dramatic change. Management turnover wherein outsiders are brought into the organization should result in a greater propensity towards strategic change.

The model tested in this research involves direct relationships between strategic redirection as measured categorically and each of the individually hypothesized influences on the decision to redirect as shown in Figure 2.

Insert Figure 2 about here

Data Base

In order to fully examine the nature of strategic redirection, line of business data as well as economic and financial variables related to the industries and businesses of the firm were collected for a random sample of 200 firms from the Fortune 1000 for the time period 1973 - 1981. The 1970s and 1980s were deemed appropriate due to dramatic changes in the industrial environment during this period including the increased merger activity that started in 1974. In addition corporate data on business level activities was not fully publicly disclosed until after 1971.

Because the 200 firms were drawn randomly from the Fortune 1000, they represent a cross section of the economy. Service firms and financial institutions are not included in this population of firms. A variety of industries are represented - from energy to electronics; health care to household appliances; forest products to food processors; metals to motor vehicles, and so forth. The number and diversity of the industries in which these firms participate are representative of the Fortune 1000 population at large. Of the initial sample of 200 firms, 10 firms were eliminated due to data limitations. The remaining 190 firms ranged in size from General Motors Corporation with sales of \$63 billion in 1981 to Instrumentation Laboratory with sales of \$123 million in 1981.

The variables used in this study were operationalized as shown in Table 2.

Insert Table 2 about here

FINDINGS

Description of Strategic Redirection

The magnitude of strategic redirection as measured by percent change in the importance of the core business during the time frame (1973-1981) is widespread. Within the sample, 62 percent of the firms experienced a statistically significant change in the importance of the core business wherein the size of the core business had increased or decreased by more than five percent of total sales by 1981.

Types of Strategic Redirection

In analyzing the linkage between the economic factors and strategic redirection, firms were divided into five groups according to the extent of change in the size of the core business and the direction of these changes. These groups are shown in Table 3.

Insert Table 3 about here

Radical redirected firms experienced a 30 percent or more degree of change in the relative size of their core businesses. Moderate redirected firms fell in between these firms and those firms exhibiting no differences in their core business from 1973 to 1981.

Empirical Results: Industry Growth Rate

As can be seen in Table 4, core industry growth rate was significantly different for the various groups of redirection only at the .07 level. Pairwise contrasts indicate that there are statistically significant differences between the mean industry growth rate for firms that chose to re-focus extensively and all other firms in the sample.

Insert Table 4 about here

Empirical Results: Firm Financial Performance

A variety of measures were used to detect the existence of a financial performance crisis during the 1970-1973 period. These include Return on Equity, Return on Sales, Earnings Per Share in conjunction with relative profitability measures such as ROE for the firm compared to average core industry ROE. None of these measures proved to be significant statistically in explaining the degree or existence of redirection.

Empirical Results: Cash Flow

The mean cash flow for the 1973-1977 period was compared to the mean total asset base for the firm during this time period. In addition cash as a percentage of working capital was also compared and yielded similar results. As can be seen, the overall ratio of cash to total assets was significantly

different for the different categories of strategic redirection. Based on the above mean values, non-redirectioned firms have on average a higher cash to assets ratio than redirectioned firms for the 1973-1977 time period. However the absolute numerical difference in the cash/assets ratio between the groups is meaningless. The values for cash/total assets between the five strategic groups were all within the range of 8 to 13 percent, a very insignificant spread. Based on these rather small differences in the availability of cash to the firm it seems highly suspect that these differences although statistically significant are at all meaningful.

Insert Table 5 about here

Empirical Results: Top Management Turnover

While at the level of chairman, executive turnover does not appear to be significantly related to strategic redirection, when examining the office of the CEO and President there does appear to be a relationship as shown in Table 6. For firms pursuing extensive redirection either by refocussing on their core business or by de-emphasizing their core business, the majority of these firms have experienced executive succession in the positions of CEO, President, and COO. On the other hand, firms with no strategic redirection are the most inclined to have experienced no turnover within their executive group. Thus while we would expect turnover to be a random occurrence within the sample, the data indicates that at the level of CEO and President, turnover is a far more frequent occurrence within firms having undergone significant redirection in their strategy regardless of the direction pursued.

Insert Table 6 about here

Empirical Results: Top Management Background

Top management background was measured by ascertaining whether the current office holder was from within the firm, i.e. promoted to his/her current position from a history of service in the firm, or from outside the firm: i.e. promoted to his/her current position from a history of service outside the organization.

As can be seen in Table 7 there are significant differences in the organizational background of the top management team between redirected firms versus non-redirectioned firms. Specifically, top management is more likely to have come from outside the firm in organizations undergoing extensive redirections by either a refocussing or de-emphasis strategy. Whereas firms with no redirection were predominantly managed by insiders.

Insert Table 7 about here

DISCUSSION

A dominant theme in explaining organizational strategic decision making and performance has been to examine economic determinants. Much of the diversification literature within industrial organization economics as well as business policy has researched such economic factors as industry concentration, profitability, and growth as well as firm profitability, size, growth, and market share. In addition the PIMS based research explaining firm performance has focused on firm and market economic characteristics. The focus of these research streams has been to utilize economic determinants to explain firm strategy or performance.

Based on the findings presented here economic factors such as core industry growth rate or firm financial performance did not serve to explain the phenomenon of strategic redirection. Firms that redirected strategically experienced both high and low core industry growth rates. Intel had a growth

rate of 21% in its core industry, semiconductors and Maytag had a growth rate of 0.8% for its core industry, household appliances. Despite these different growth rates, both firms did not redirect strategically. In addition, redirected firms included both high and low financial performers. The oil industry represented in the sample by such firms as Mitchell Energy and Development and Texas International with 1977 ROEs of 28.1% and 26.2%, respectively, both chose to redirect.

In light of these results, economic determinant such as core industry growth rate and firm financial performance alone were not good factors by which to explain strategic redirection. Knowledge of the core industry growth rate or the firm's financial performance and its competitive position within the industry does not by itself give much confidence as a predictor for strategic redirection. However, these findings should be interpreted cautiously for two reasons.

First, the measure for core industry growth rate based on a four digit S.I.C. code may be misleading. While economic and policy researchers have all previously relied on this measure of industry growth, it may not be an accurate depiction of the growth opportunities available to the firm in its core business. Even within low growth industries there can be pockets of high growth within the industry. Wine coolers within the wine industry, and luxury cars within the car industry are just two examples of high growth areas in stagnant industries. Firms positioned to take advantage of these high growth niches within their core industry, may strategically focus on these opportunities rather than de-emphasize their core business. Similarly, within high growth industries not all firms are positioned to take advantage of the growth within the industry. Thus industry growth rate may not reflect the overall attractiveness of the industry to the firm.

Secondly, overall corporate financial performance can be a confounding variable by which to explain strategic redirection. To begin with this accounting measure does not exhibit a whole lot of variance. Firms by and large manage to show very little fluctuation in their financial performance over time. In addition the majority of businesses are diversified in nature and thus their overall corporate financial performance is a reflection of their overall portfolio mix. It may not be corporate financial performance that leads to redirection, but specific business level performance. Future research can address this shortcoming by examining individual business unit performance and its association with subsequent redirection.

The availability of cash resources to the firm also did not prove useful in explaining strategic redirection. In fact the data displayed a reverse relationship, i.e. firms with higher cash/assets ratio exhibited no strategic redirection. Thus the cashflow view of why firms might seek to redirect their strategic portfolio was not supported by the data.

While financial and economic factors failed to provide much explanation of the phenomenon, top management composition proved to be an important precursor to strategic redirection. As Hambrick and Mason (1984) have argued more research needs to be conducted on the upper echelon within the firm and the content of strategy. By examining the top management group this study contributes to our understanding of the role of the strategist in strategic redirection. Based on this study, it appears that management turnover as well as executives brought in from outside the firm are highly associated with major changes in the relative size of the core business within the firm's corporate portfolio. The importance of the findings indicate that while environmental conditions may provide the impetus for strategic change, without a change in strategic perspective brought about by new executives, strategic

redirection is less likely to occur. Based on these findings, further exploration of the link between the top management constellation and strategic redirection may prove to very fruitful. The role of top management may serve to explain why firms faced with somewhat similar economic environments react differently strategically.

In investigating strategic redirection, this study has made a rough, but first pass at measuring a complex phenomenon. The measure arrived at examines only a subset of the actual phenomenon, i.e. shifts within the business mix as captured through changes in the importance of the core business. The nature of the concept, however, can only be researched well by looking at a piece at a time. By focussing on a narrow, but precise measure of strategic redirection, we are able to investigate the phenomenon empirically. The bias introduced by using this rudimentary measure exists across the sample and does not affect one firm more than another. By relying on secondary line of business source data to capture shifts in strategy we cannot be sensitive to all aspect of the phenomenon. However, we cannot observe the size of our measurement error. Internal organizational changes that are not manifested in the core business are not defined within our measure of the phenomenon. This study has addressed just one facet of a complex phenomenon but has nonetheless contributed to our understanding of a previously unexplored concept.

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TABLE 1
Measures of Strategic Change

	S.I.C. based Diversification <u>Measures</u>	Wrigley/Rumelt Diversification <u>Taxonomy</u>	Miles/Snow Strategic <u>Typology</u>	Strategic Redirection <u>Measure</u>
Unit of Measure	4 digit S.I.C. Industry	Discrete Business Units	Strategic Posture	Shifts in Business Mix
Ease of Collection	Easy	Time Consuming	Difficult	Time Consuming
Type of Measure	Continuous	Categorical	Categorical	Continuous Collapsible
Reliability of Data	Excellent	Good	Subjective	Good
Source of Data	Plant Level Aggregated	Plant Level Aggregated Corporate Level Linkages	Business Level	Corporate Level
Objectivity	Quantitative	Quantitative/Qualitative	Qualitative	Quantitative/Qualitative
Focus	Broad Industrial Groupings	Firm & its Pattern of Diversification	Strategic Activity at the Business Level	Corporate Portfolio Activity
Strategic Relevance	Operational Focus	Operational/Market Focus	Business Focus	Corporate Focus
Managerial Focus	Questionable	Single Bus. Yes Multi Bus. No	Business Level	Corporate Level

FIGURE 1
Shifts in Corporate Strategy in Terms of the Portfolio

<u>Portfolio</u>	<u>Focussing Strategy</u>	<u>De-Emphasis Strategy</u>
Core Business	INVEST	DISINVEST
Non-Core Business Mix	DISINVEST	INVEST

FIGURE 2
Hypothesized Relationships

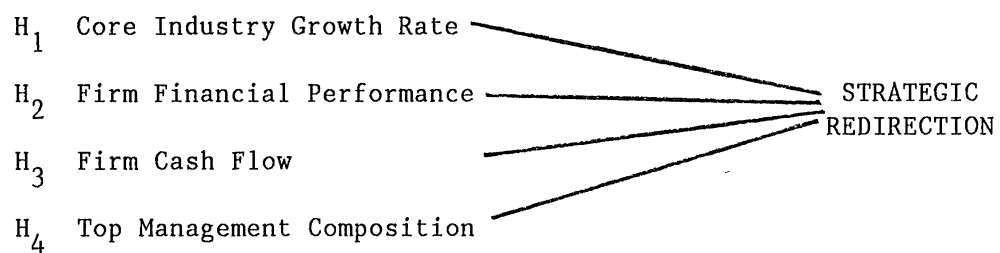


TABLE 2
Operationalization of the Variables

<u>Variable</u>	<u>Measured By</u>	<u>Data Sources</u>
<u>Nature of the Core Business</u>		
Core Identity	Largest business in 1973 4 digit S.I.C.	Annual Reports Moody's Indus. Handbook
Core Industry Growth Rate	Core industry growth rate	U.S. Industrial Outlook
<u>Firm Financial Performance</u>		
Firm Fin'l Perf.	ROE, ROA, ROS	Annual Reports
Firm Perf. vs. Industry Perf.	ROE firm vs. ROE industry	Fortune Annual Industry Survey
Core Fin'l Perf.	ROS 1973	Annual Reports
Core Perf. vs. Industry Perf.	ROE core vs. ROE industry	" " Fortune, Forbes
<u>Firm Cash Flow</u>		
Cash Flow	Cash/Total Assets Cash/Working Capital	Annual Reports " "
<u>Top Management Composition</u>		
Turnover	Managerial succession	Forbes, Fortune, Wall Street Journal,
Background	Insider/ Outsider	Annual Reports, 10Ks, Dun & Bradstreet

TABLE 3
Types of Strategic Redirection

	<u>Firms</u>	
	<u>number</u>	<u>percent</u>
Radical Refocussing		
Core Bus. increased by 30% or more	11	6%
Moderate Refocussing		
Core Bus. increased by less than 30%	38	20
No Strategic Redirection		
Core Bus. did not change	38	20
Moderate De-Emphasis		
Core Bus. decreased by less than 30%	59	32
Radical De-Emphasis		
Core Bus. decreased by 30% or more	<u>41</u>	<u>22</u>
	total 187	100%

TABLE 4
Core Industry Growth Rate and Strategic Redirection

ANALYSIS OF VARIANCE

SOURCE	DF	SUM OF SQRS	MEAN SQR	F-STATISTIC	SIGNIF
BETWEEN	4	149.11	37.276	2.1781	.0732
WITHIN	181	3097.6	17.114		
TOTAL	185	3246.7			

ETA= .2143 ETA-SQR= .0459

STRATEGIC REDIRECTION	N	MEAN	VARIANCE	STD DEV
(1)DE-EMPHASIS	41	2.3461	17.744	4.2123
(2)MODERATE	59	2.7353	9.7714	3.1259
(3)NO S.R.	37	3.6057	25.241	5.0240
(4)MODERATE	38	2.9429	13.017	3.6079
(5)RE-FOCUSSING	11	6.2291	43.083	6.5637
GRAND	186	3.0717	17.550	4.1893

CONTRASTS

PAIRWISE STRATA	DIFF	F-STAT	SIGNIF
(1)DE-EMPHASIS			
(2)MOD	-.38916	.21406	.6442
(3)NO S.R.	-1.2596	1.8030	.1810
(4)MOD	-.59680	.41044	.5226
(5)RE-FOCUS.	-3.8830	7.6411	.0063
(2)MODERATE DE-EMPHASIS			
(3)NO S.R.	-.87042	1.0067	.3170
(4)MOD	-.20764	.58229	-.1 .8096
(5)RE-FOCUS	-3.4938	6.6131	.0109
(3)NO S.R.			
(4)MOD	.66278	.48119	.4888
(5)RE-FOCU	-2.6234	3.4099	.0664
(4)MODERATE RE-FOCUSSING			
(5)RE-FOCUS	-3.2862	5.3829	.0215

TABLE 5
Cash/Total Assets and Strategic Redirection

ANALYSIS OF VARIANCE

SOURCE	DF	SUM OF SQRS	MEAN SQR	F-STATISTIC	SIGNIF
BETWEEN	4	.04023	.01006	6.1067	.0002
WITHIN	133	.21906	.00165		
TOTAL	137	.25929			

ETA= .3939 ETA-SQR= .1552

STRATEGIC REDIRECTION	N	MEAN	VARIANCE	STD DEV
(1)DE-EMPHASIS	38	.08636	.00114	.03382
(2)MODERATE	39	.11397	.00127	.03571
(3)NO S.R.	21	.12890	.00219	.04684
(4)MODERATE	30	.08966	.00273	.05227
(5)RE-FOCUSSING	10	.07791	.00575	.02398
GRAND	138	.10074	.00189	.04350

CONTRASTS

PAIRWISE STRATA	DIFF	F-STAT	SIGNIF
(1)DE-EMPHASIS			
(2)MOD	-.02761	8.9093	.0034
(3)NO S.R.	-.04254	14.863	.0002
(4)MOD	-.00331	.11122	.7393
(5)RE-FOCUS.	-.00845	.34286	.5592
(2)MODERATE DE-EMPHASIS			
(3)NO S.R.	-.01493	1.8477	.1764
(4)MOD	-.02431	6.0824	.0149
(5)RE-FOCUS	-.03606	6.2829	.0134
(3)NO S.R.			
(4)MOD	.03924	11.547	.0009
(5)RE-FOCU	-.05099	10.693	.0014
(4)MODERATE RE-FOCUSSING			
(5)RE-FOCUS	-.01175	.62883	.4292

TABLE 6
Strategic Redirection and Top Management Turnover

<u>Strategy</u>	<u>Chairman Turnover</u>	
	<u>No Turnover</u>	<u>Turnover</u>
Extensive Refocussing	49%	51%
Moderate Refocussing	54	46
No Redirection	76	24
Moderate De-Emphasis	53	47
Extensive De-Emphasis	46	54
Overall	57	43

Chi-Square 8.00
Significance level: .09
Degrees of Freedom = 4
N=189

<u>Strategy</u>	<u>CEO Turnover</u>	
	<u>No Turnover</u>	<u>Turnover</u>
Extensive Refocussing	49%	51%
Moderate Refocussing	53	47
No Redirection	79	21
Moderate De-Emphasis	53	47
Extensive De-Emphasis	46	54
Overall	57	43

Chi-Square 9.98
Significance level: .04
Degrees of Freedom = 4
N=189

<u>Strategy</u>	<u>President Turnover</u>	
	<u>No Turnover</u>	<u>Turnover</u>
Extensive Refocussing	40%	60%
Moderate Refocussing	25	75
No Redirection	58	42
Moderate De-Emphasis	62	68
Extensive De-Emphasis	36	64
Overall	37	63

Chi-Square 11.00
Significance level: .03
Degrees of Freedom = 4
N=189

TABLE 6 continued
Strategic Redirection and Top Management Turnover

<u>Strategy</u>	<u>COO Turnover</u>	
	<u>No Turnover</u>	<u>Turnover</u>
Extensive Refocussing	35%	65%
Moderate Refocussing	27	73
No Redirection	58	42
Moderate De-Emphasis	29	71
Extensive De-Emphasis	27	73
Overall	35	65

Chi-Square 11.19
Significance level: .03
Degrees of Freedom = 4
N=189

TABLE 7
Strategic Redirection and Top Management Background

<u>Strategy</u>	<u>Chairman Background</u>	
	<u>Insider</u>	<u>Outsider</u>
Extensive Refocussing	67%	33%
Moderate Refocussing	81	19
No Redirection	90	10
Moderate De-Emphasis	74	26
Extensive De-Emphasis	56	44
Overall	75	25

Chi-Square 12.7
Significance level: .01
Degrees of Freedom = 4
N=189

<u>Strategy</u>	<u>CEO Background</u>	
	<u>Insider</u>	<u>Outsider</u>
Extensive Refocussing	50%	50%
Moderate Refocussing	84	16
No Redirection	87	13
Moderate De-Emphasis	70	30
Extensive De-Emphasis	56	44
Overall	73	27

Chi-Square 13.7
Significance level: .007
Degrees of Freedom = 4
N=189

<u>Strategy</u>	<u>President Background</u>	
	<u>Insider</u>	<u>Outsider</u>
Extensive Refocussing	50%	50%
Moderate Refocussing	72	28
No Redirection	82	18
Moderate De-Emphasis	71	29
Extensive De-Emphasis	47	53
Overall	68	32

Chi-Square 11.9
Significance level: .018
Degrees of Freedom = 4
N=189

TABLE 7 continued
Strategic Redirection and Top Management Background

<u>Strategy</u>	<u>COO Background</u>	
	<u>Insider</u>	<u>Outsider</u>
Extensive Refocussing	44%	56%
Moderate Refocussing	75	25
No Redirection	82	18
Moderate De-Emphasis	74	26
Extensive De-Emphasis	46	54
Overall	67	33

Chi-Square 18.4
Significance level: .001
Degrees of Freedom = 4
N=189

Strategic Redirection and Top Management Background
Predictive Association
Goodman-Kruskal Lambda for Predicting Redirection

Chairman Background	.286
CEO Background	.263
President Background	.290
COO Background	.312