STRATEGIC DECISIONS IN THE HOME BUILDING INDUSTRY:
FACTORS RELATED TO COMPETITIVE ADVANTAGE

by

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ABSTRACT

Five diverse companies in the home building industry were studied using an analytical framework taken from contemporary strategic planning literature. Their strategic planning processes were analyzed to identify the strategic determinants that contributed to the success of the companies, and yielded a competitive advantage.

The results showed that the three successful companies had the following characteristics: clear and articulated generic strategies; clearly defined values and systematic use of analytical material to inform the decision making process. The successful firms also addressed strategic implementation issues. The results further showed that none of the firms had a strategic planning staff; that all of the firms made decisions based largely upon judgement of the principals and, successful or not, were opportunistic and entrepreneurial; and that strategies based upon local or national product differentiation or strategies focused by buyer, product and/or local market were the most successful, possibly because of the fragmented industry context in which the firms worked.

The thesis concluded that firms gain competitive advantage by clarifying and articulating their generic strategies in order to position themselves in the industry and with buyers; by clarifying values to develop the more creative and unique products necessary for product differentiation; and by informing the decision making process with analysis and technical information. All of the firms used only an informal and ad hoc strategic process; all blended learning, probing, experimentation, analysis and the judgement to form strategies. A lack of a formal planning process with a planning staff and a written strategic plan did not prevent firms from forming successful business strategies. The thesis also concluded that success in the home building industry takes more than entrepreneurial talent - it takes a clear strategic perspective and strategic discipline.
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Kathy Weremiuk graduated from the University of Michigan in Philosophy in 1968, and from Boston University Law School in 1973. She has been a member of the Massachusetts Bar Association since 1973.

She has six years of experience in the home building industry as the former executive director of a non-profit development company. In that capacity, she took a new organization and made it a stable company, as well as successfully building single family houses, rehabilitating one-hundred units of distressed rental housing and restoring a mixed-use building that is on the National Register of Historic Places. Her work won the 1986 annual awards from the Victorian Society of America, N.E.C. and the Historic Neighborhoods Foundation as well as Citations for Achievement from the Massachusetts House of Representatives and Senate in August, 1986.
CONTENTS

Page
1 Introduction

Chapter 1 Literature Review

Section 1 Review of the Strategic Planning Literature
   a. The Classical Concepts of Corporate Strategy
   b. Early Contributions of the Portfolio Analysts
   c. Criticisms of the Strategic Planning Process
   d. Strategic Planning in the 1980s

Section 2 Analytical Framework
   a. The School of Competitive Strategy
   b. The Futurists
   c. The Incrementalists

Chapter 2 Industry Context

Chapter 3 Case Studies

Case Study # 1 The Small Home Builder
Case Study # 2 The Small High-End Builder
Case Study # 3 The Mid-Size Condominium Builder
Case Study # 4 The Mid-Size Multifamily Builder
Case Study # 5 The High-Volume, Large Multifamily Builder

Chapter 4 Analysis of Data

Section 1 Summary of the Results
   a. Success of Firms
   b. Clear and Articulated Economic Strategy
   c. Clarifying Values
   d. The Strategic Decision Making Process
   e. Strategic Implementation

Section 2 Other Findings

Chapter 5 Conclusions

Appendix A Components of an Industry Analysis
Appendix B Identification on the Major Strategic Decisions Occurring in Industry
Appendix C Interview Protocol
Appendix D Case Study 2: Acquisition Decision of the Multinational Buyer of Authentic Homes
Appendix E Case Summary Matrixes 1-13
Introduction

This paper examines the strategic decisions of five firms in the home building industry in order to see which strategic factors contribute to the success of the firms, and yield a competitive advantage.

The home building industry, for purposes of this paper, is defined as all residential builders and developers in the United States who build or remodel dwelling units that are permanently attached to the land. According to the National Association of Home Builders (NAHB) the industry specifically includes builders and developers of single family homes, rental multifamily developers, condominium builders, contract home builders who build on an owner's land, land developers, and residential remodelers and rehabilitators. The NAHB excludes mobile home builders, and commercial, industrial and institutional developers, builders, and rehabilitators because their product is neither dwelling units nor a close substitute for dwelling units.

The first chapter of the paper surveys the strategic planning literature, starting with the core concepts of corporate strategy through its early portfolio applications to the three parallel trends that have emerged in the 1980s. These three trends are: the futurists, the incrementalists and the competitive strategists. The chapter examines key concepts of each trend in order to build a theoretical framework for the case studies and analysis chapter.

The second chapter discusses some of the industry-wide problems which companies face. This chapter is not an industry analysis and does not
attempt to develop the industry information that firms should to consider when making strategic decisions. (See Appendix A for more detail about the components of an industry analysis.)

The third chapter presents five case studies of very diverse companies. The companies range in size from a small builder with 15 starts a year to one of the 50 largest home building companies in the country, with over 2000 starts a year. The case studies are based on a person-to-person interview technique and cover the companies' histories; their present situations; their organization and the values of the principals; their decision making structures and strategic planning processes; the generic strategies chosen; competitors; risk profiles; a history of strategic decisions (entry into the industry or into new products, vertical integration, capacity expansion, and the contemplated exit decisions contemplated), and a summary of strategy. (The identities of all of the companies are disguised.)

The fourth chapter presents the case study data in a summary matrix which is analyzed through the theoretical lens developed in Chapter 1. The analysis identifies the factors which distinguish the strategic practices of the successful firms. The analysis specifically looks at articulated generic strategies, clear values, strategic process, use of technical data in decision making, and entrepreneurial talents.

The fifth and last chapter draws conclusions from the data and proposes generalizations about the relative roles played by entrepreneurship and strategy in successful firms in the industry.
CHAPTER 1 - LITERATURE REVIEW AND ANALYTICAL FRAMEWORK

Introduction

The first section of this chapter surveys the strategic planning literature. It starts with the classical concepts of strategic planning. It traces the discipline through its first applications in diversified companies; examines the criticisms that emerged from the early planning applications; and looks at three parallel trends that have emerged in the 1980s in the discipline of strategic planning. The three trends are broadly defined as the futurists, the strategic incrementalists, and the competitive strategists.

The second section of the chapter examines concepts from each of the current trends in detail to develop a theoretical framework for the case studies and analytical chapters that follow.
Section 1 - A Review of the Strategic Planning Literature

a. The Classical Concept of Corporate Strategy

Strategic planning was only a forty-year-old discipline in 1987. It emerged from two separate strains of thought: program planning initiated by the Department of Defense in World War II, which gave birth to the yearly budget; and an academic effort in the 1950s at Harvard University to develop a separate discipline of overall corporate strategy.

In the literature, the concept of corporate strategy applied to the entire business enterprise. The corporate strategy of a company defined the businesses in which a company competed, preferably in a way that focused its resources and converted its distinct competencies into a competitive advantage for the firm.

Corporate strategy was an organizational process in many ways inseparable from the structure, behavior and culture of the company in which it took place. The interdependence of purposes, policies and organized action were seen as crucial to the pattern of strategic decisions that formed the particularity of a firm's individual strategy. Some aspects of this pattern remained unchanged over a long period of time; for example, a decision to produce only high-quality, differentiated products might form the core of the company's special accomplishments. But, in response to changes in the corporate
environment and in order to remain profitable, other aspects of strategy had to change, like choices of product lines, production processes, financial vehicles, and markets served (Andrews, 1987, p. 14).

The organizational process of corporate strategy was looked at in terms of strategy formation and strategy implementation and in the early literature strategy formulation was seen as a rational process.

As a logical activity, strategy formation focused on identifying opportunities and threats in the company's environment; attaching some estimate of risk to the alternatives; and making an appraisal of the company's strengths and weaknesses and an assessment of the resources available. The risk profile of the company depended in part upon the company's profit objectives. These two elements constituted the economic side of the strategic decision making.

Later, two other elements were brought into the strategic equation: what the chief executive and his or her immediate associates wanted to do (i.e., their personal values and preferences apart from financial considerations), and what the company felt it should do to fulfill its obligations to other segments of society. The elements of preferences and values constituted the non-economic side of strategic decision making, and the planners were left to reconcile any divergence between values and optimal economic strategy (Andrews, 1987).

Strategy implementation was seen as a series of subactivities that were primarily administrative. It was important to examine these activities to determine if the organization served the strategy chosen, or the strategy was being subverted. Strategic implementation was filtered through the company's organizational structure and relationships, information systems, coordination of work, standards of
measurement, motivation and incentive systems, control systems, and recruitment and personnel development systems; it also was reflected in the leadership role in the company.

**Strategic management** was management of the organizational **process of strategy formation** within an organization, and was distinct from decision making itself. The aim of strategic management was to develop a process or framework that allowed the company to look from its present situation into the future, while retaining unity in the corporate effort. Strategic management involved recognizing and reconciling uncertain environmental opportunity, clarifying corporate capabilities and resources, recognizing submerged personal values and aspirations to social responsibility, and moving the decision making process through the organization.

**Opportunism** was seen as the principal counter force to strategic management. It was a philosophy and practice that accepted opportunity as the basis for management action, rather than a continuous process of strategic decision making. Decisions from an opportunistic process were characterized as either unplanned, intuitive, or a response to environmental pressures, as opposed to disciplined decisions resulting from a planning process.

A *summary statement of strategy* for a corporation included decisions about product lines; services; markets or market segments; channels through which markets were reached; means of financing; profit objectives; level of risk and level of return sought; major policies for important areas such as marketing, manufacturing, labor relations and R&D; the intended size, form and climate of the company; the extent of forward and backward integration chosen; and social contribution.
Theorists were aware that it was always possible to create an apparent strategy from a summary of a company's past strategic decisions, and were very interested in whether the strategy was the result of a conscious planning process, or was the patterned result of responses of individual executives to environmental pressures, competitive threats, and entrepreneurial opportunity.

A *business unit strategy* was less comprehensive than corporate strategy and defined the choice of product or service and market for the individual businesses. A business unit strategy applied to both single businesses and businesses within a larger firm. A business strategy was a determination of how the company would compete and how it would position itself among its competitors.

The concept of *portfolio strategy* was developed to assist the diversified company in determining the businesses it would compete in; how to allocate the parent's resources among the various businesses it owned; and when to sell. Corporate strategies, business strategies and portfolio strategies were all outcomes of the process of strategic management.

*Strategic decisions* were described as decisions that were effective over long periods of time, and which committed or refocused significant portions of the company's resources. Strategic decisions were usually not isolated decisions, but were part of the pattern of decisions that defined the company's corporate strategy.
b. Early Contributions of the Portfolio Analysts

Strategic planning first took hold in large diversified companies. Early planning efforts were primarily directed at the needs of top managers of diversified companies and did not address the needs of individual business unit managers.

Many consulting firms entered the strategic planning field in the 1970s to assist diversified companies in addressing the economic side of the strategy formation. "In one way or another, their proposals were all tools for portfolio planning based on the notion that a diversified company could be likened to a portfolio of stocks" (Porter, 1987, p. 18).

Each consulting group seemed to stress a different aspect of economic strategy as a basis for advise. Arthur D. Little (ADL) used the life cycle as the key variable by which to gauge industry attractiveness and competitive position. The Boston Consulting Group (BCG) popularized the experience curve, which identified relative market share as the primary variable. BCG promoted the cost-leadership strategy for all companies based on a view that the company with the largest volume would have a competitive advantage of lower-costs. BCG also popularized the growth-share matrix; the annual market growth and the relative market-share of each business unit in a portfolio was positioned on the matrix. The basic premise of the growth-share matrix was that growth and profitability were tightly linked. McKinsey & Company developed the attractiveness-strength matrix to enumerate a wider variety of critical success factors. McKinsey was the first of the consulting companies to look at both industry attractiveness and
business (Hax and Majluf, 1984, Chapters 6-11).

The early planning techniques highlighted single aspects of attractiveness or competition, gave dubious advice, and have been discarded. Portfolio planning was also largely discredited when diversified companies experienced widespread failure in acquisitions made through application of portfolio theory, and divested in the early 1980s. However, the consulting groups made an important contribution to our understanding of the economic side of strategic planning. The concepts of the experience curve and cost-leadership have survived. McKinsey's concepts of industry attractiveness, business strengths, and competitor analysis (when applied to business units instead of portfolios) became the economic strategic planning concepts of the 1980s.

c. Criticisms of the Strategic Planning Process

In the 1970s, strategic planning was a "fad." Many businesses adopted a formal planning process and installed a strategic planning department. Strategic management was often divided between top management, whose role was limited to issuing planning guidelines which specified goals to be met and information required in plans, and the planners, who gathered information and produced thick planning books complete with five years of financial projections. This very formal conception of the strategic planning process quickly became bureaucratic and often did not work. The strategic plans were easily ignored or sabotaged, and often were not implemented. Despite the major
commitments of time, and a substantial investment of finances for planning staffs, strategic thinking seemed to get lost in the process.

These early planning process failures created a great deal of dissatisfaction with strategic planning. Many strategic planning departments were dismantled, often with a great deal of glee. In the early 1980s, it was fashionable to see the strategic planning process as the source of industries' troubles (Porter, 1987). Other determinants of corporate success replaced strategic planning as the "newest fads." They included corporate culture (Schwartz and Davis, 1981), entrepreneurism (Stevenson and Gumpert, 1983) and Japanese management techniques (Kotler, Fahey and Jatusripitak, 1985).

A trend began emerging in the literature as early as the 1960s that reflected industry criticisms of the formal planning processes. Several authors conducted studies among successful managers to look more closely at how they actually made decisions. As early as 1967, Edward Wrapp, in his classic article, "Good Managers Don't Make Policy Decisions," argued forcefully that the formal planning model did not describe the process by which decisions were actually made. His research led him to describe successful managers as opportunists who "muddled-through" the strategic decision-making process, borrowing bits and pieces of master plans without becoming personally committed to an articulated strategy in an effort to get parts of their own plans implemented (Wrapp, 1967).

Henry Mintzberg also tried to explain why effective managers seemed to revel in ambiguity and why analytical planning techniques had so little success at the policy level. In his 1976 article, "Planning on the Left Side and Managing on the Right," Mintzberg utilized
scientific discoveries about the logical, linear, sequential capabilities of the left-brain, and the more holistic, intuitive and relational information processing capabilities of the right-brain. He hypothesized that the important policy processes of managing an organization relied to a considerable extent on the facilities identified with the right brain. With his left-brain right-brain analogy, Mintzberg explained the reliance by top managers on verbal information, intuition, and judgement, and described their decision making process as more intuitive and discontinuous than planned, linear and sequential. Mintzberg said that strategic planning was not the best approach to policy formation, which was an intuitive, rather than intellectual, activity. But he did not dismiss the need for good analytical input into policy decisions. He saw a firmly established role for analytic ability at the operating and middle levels of most organizations (Mintzberg, 1976).

Other authors described the consensus building that managers engage in to implement decisions. "Successful managers didn't rely on the brilliance of a strategic plan to win organizations into responding, but rather act logically and incrementally to improve the quality of information that went into key decisions; actively worked to overcome the personal and political pressures resisting change in their organizations; deal with the varying lead times and sequencing problems in critical decisions; and build their organizations' awareness, understanding, and psychological commitment necessary to effective strategies" (Quinn, 1980, p. 39).

Research was also conducted on the role of values and preferences of key managers in strategic decisions. The premise that there was
purely economic strategy, uncontaminated by the personality and goals of the decision maker, of the persons closest to him or her, and the employees who had to carry out the strategy, was challenged by Alan W. Rowe in "the Myth of the Rational Decision Maker." Rowe concluded that preference was inevitable. In any complex decision where personal or behavioral factors apply, the individuals' preferences would dominate the results, with a single factor usually forming the basis for a personal preference decision and an analysis developed around the decision to support the preference. Rowe took the position that one needed to understand and accept the role of preference to understand business decisions. The desirable side of preference was that it built the commitment of the executive and others for the chosen strategy (Rowe, 1974).

The work of Wrapp, Quinn, Mintzberg, Rowe and other early incrementalists made a substantial contribution to the strategic planning field by valuing the actual experiences of managers, and attempting to theoretically explain those experiences. Their work recognized that the key managerial processes were enormously complex and had to be described in terms of judgement and preference, as well as analysis, and modeled in a non-linear (not sequential) fashion.

d. **Strategic Planning in the 1980s**

Three separate trends in strategic planning emerged in the 1980s. The **Competitive Strategists** built upon the more rational and analytical tradition of classical strategic planning theory and the analysis of
economic strategies begun by the portfolio theorists. The competitive strategists, resisting a growing industry response to reduce strategic planning to yearly discussions of major issues, emphasized the need to engage in a formal planning process that combined strategic thinking and strategic implementation. While strategic plans were still recommended for every business unit, the new emphasis was on training line managers to think strategically; on industry-specific analysis using environmental trends to help forecast industry changes and opportunities; and on articulating the specific strategy being followed by a company in order to analyze whether in fact it is delivering a competitive advantage for the company in its industry.

The Futurists came from a more off-beat tradition that had some of its origins in the planning efforts for the Apollo space missions. As consultants, the futurists assisted businesses in developing creative and integrative strategies by conceptualizing a vision of what they would like the future to be like. They concentrated on clarifying values as a prelude to strategic planning processes, and scanned a wider range of environmental information than the competitive strategists in order to gain a breath of images of potential futures. In the futurists theory, clarifying values allowed for advantage by helping companies to be proactive (not reactive) to changing environments.

The third trend, Strategic Incrementalist, evolved out of the work of Wrapp and Mintzberg, and a group of researchers at McGill University. They synthesized the rational and experiential aspects of strategy formation by valuing both deliberate and emergent strategies. Mintzberg argued that only acknowledging a deliberative model and denying that strategies form and emerge in response to evolving situations, distorted
the connection between action and learning. Mintzberg argued that the metaphor of crafting strategy helped **clarify the actual strategic process** and was a more appropriate model of how strategy was formed. "Crafting" explained the connection between the decision maker's involvement, experience and mastery of detail, and his or her ability to know the capabilities of the organization deeply enough to able to intuitively know and rationally express what direction to take an organization (Mintzberg, 1987).

All three of the schools of thought seemed to be developing independently of each other.

Outside the continuum of strategic theorists a school of critics was emerging who saw no competitive advantage in clarifying economic strategy, clarifying values or better understanding the strategic process. This group saw "hustle as strategy", and "doing things well" as providing businesses with competitive advantage. Strategy and strategic thinking were discarded entirely in favor of entrepreneurial pursuit of opportunity (Bhide, 1986).

**Section 2 - Analytical Framework**

This section of the paper examines in greater depth the concepts developed by the futurists, the strategic incrementalists and the competitive strategists. It borrows concepts from each school of thought in order to develop a conceptual framework for the case studies in Chapter 2, and is later used as the theoretical basis for analysis in Chapter 3.
a. The School of Competitive Strategy

Michael Porter lead the trend to focus strategic planning on competitive strategy. Porter provided a practical but comprehensive framework to help firms make sound economic strategic decisions. The components of Porter's methodology were:

- industry analysis to determine industry attractiveness to investors;
- analysis of the company's competitive position;
- analysis of current and potential competitors;
- identification of the sources of competitive advantage and selection of a specific strategy;
- specific actions to implement the strategy chosen (Porter, 1980 and 1987).

(Porter's concept of industry analysis is discussed in more detail in Appendix A.) What follows is a detailed discussion of the concepts that will be relied upon in the case studies and the analysis sections of this thesis. The concepts to be discussed are generic strategy, competitive position, competitor analysis, and selection of strategy. (Specific strategic decisions facing existent firms in industry are elaborated upon in Appendix B.)

Generic Strategies - Sources of Competitive Advantage

Porter identified three internally consistent generic strategies which could be used singly or in combination to advantageously position a firm in its industry. These strategies were: overall cost-leadership, industry-wide differentiation, and focus. In order to choose a generic strategy, a firm had to understand its competitive position, i.e., its cost position, and who its buyers were and what they valued (Porter,
The **overall cost leadership strategy** aimed at achieving the low-cost position in the industry through a set of functional policies aimed at this basic objective. Low cost relative to competitors was the advantage the firm used to achieve above-average returns by driving less efficient competition from the field. This strategy depended upon a high market share or the advantages of favorable access to raw materials.

In a **differentiation** strategy the firm aimed at creating a product or service that was perceived industry-wide as unique. Differentiation did not allow the firm to ignore costs, but low-cost position was not the primary target. Instead, differentiation was aimed at lowering the buyer's sensitivity to price, and at increasing profit margins in order to reduce the power of suppliers. Achieving differentiation sometimes precluded gaining high market-share.

The **focus** strategy required concentration on a particular buyer group, segment of product line or geographic market, rather than penetrating the entire industry. The focused firm aimed to serve a particular target very well, and each functional policy was developed with that goal in mind. The strategy rested on the assumption that the firm would able to serve its narrow target more effectively or efficiently than competitors who were competing more broadly. The aim of focusing could be achieving low-costs for the narrow market segment chosen, or differentiation, or both. Again the focus strategy traded market-share or sales volume for profitability.

A firm that failed to develop in one of these directions was stuck **in the middle**. It would be at a competitive disadvantage because it
would not be able to compete for the price-sensitive customer without bidding away its profits, and it would lack the differentiation necessary to win the high-margin business.

**Competitor Analysis**

Competitor analysis was a component of strategy formation. In order to be successful and beat the competition, a business needed to know what its competitors were doing in order to advantageously position the firm, as well as distinguish themselves from their competitors. The four component parts of a competitor analysis were: future goals, current strategy, the competitors' capabilities, and assumptions about itself and the industry.

For competitor analysis to be helpful to a company, it needed to include all significant existing competitors and potential competitors that might enter the industry.

**Selection of Strategy**

Before a firm was ready to select a strategy, it needed to make an assessment of the attractiveness of its industry, look at the opportunities for competitive advantage, make a competitor assessment, and make an assessment of its own competitive strengths. Only then was the firm ready to make strategic decisions.

Porter divides strategic decisions into the initial positional choice between the three generic strategies (i.e., low-cost leadership, diversification and focus (above)) and what he described as the four
major strategic decisions occurring in existent firms in industry (i.e., vertical integration, major capacity expansion, entry, and divestment). For more detail see Appendix B (Porter, 1980, pp. 254-361).

b. The Futurists

Clarifying Values: The futurist movement clarified values as a prelude to strategic planning. The right-brain activity of imagining the way to a preferred future was a methodology for releasing creative energies and motivating organizations to set positive, future-oriented goals. Future-oriented goals were opposed to short-term, symptom-curing goals designed to relieve the pain caused by current problems. Futurists thought that the formal strategic planning process addressing symptoms of problems, and was unlikely to produce more than copy-cat strategies. They recommended that the futuring process proceed planning in order to release the creativity and energy necessary for creative strategies, as well as to create the commitment on the part of those participants who would see the strategy through. They recommended that as large a group of people as possible participate in the futuring process to add additional energy and create a shared strategy. Clarifying values also gave an initial sense of direction to an organization and provided the basis for later feedback, motivation, and renewal.

One of the key distinctions futurists made was between proactive and reactive strategies. Preferring was seen as developing a proactive posture of "what do we want to do" rather than a reactive psychology of
adapting and fitting in. Proactive strategy involved a clarification of values, and the drafting or revising of the organizational mission statement.

The futurists placed emphasis on the diagnostic analysis of alternatives and saw value in developing several paths to arrive at desired goals. Another concept stressed by futurists was leaving room for experimentation or rehearsal before locking-in final plans. They developed a process to "connect images to action"; this paper refers to that process as probing.

Managers who participated in a futuring process got their data about the future by: reflecting on the past themes and events; reviewing plans and policies that have not been fully implemented; looking at surveys of customer needs and expectations; reviewing current operations and accomplishments; reviewing policies and goals of superiors; and reviewing trend data and scanning the goals and successes of others.

c. The Incrementalists

Strategy could be either deliberate and emergent: The incrementalists freed us from the view that there was a single best way to make a strategy. Deliberate and emergent strategies formed the two ends of the continuum along which the strategies crafted in the real world were found. The extent to which strategies were deliberate or emergent depended to some extent on cognitive preference of the firm. Some strategies approached deliberate, some approached emergent, and many fell at intermediate points. The more deliberate strategy
formation process fostered controls, and the more emergent process fostered strategic learning. Pushed to the limit, neither approach made much sense because all firms needed to couple learning with control.

Strategies were both plans for the future and patterns of past decisions: An organization could have a pattern or realized strategy without knowing it, let alone making it explicit. Researchers were freed from having to look for expressions of past intention (which even if found, were suspect), and could make better sense of the complexity and confusion found in reports of past decision making: the endless meetings, debates between deciders, dead ends, foldings and unfoldings. Researchers did not have to look for the black ink on a written "strategic plan" to describe a past strategy, and did not have to dismiss out of hand the actions of excellent managers who reported allowing strategies to develop gradually through the organization's actions and experiences rather than think through everything in advance.

Strategy was better explained by the model of crafting than strategic planning: The metaphor of crafting evoked traditional skill, dedication, and perfection through mastery of detail, and gave value to the connection between the thoughts and actions of decision makers.

Crafting strategy required wisdom: In order to develop a strategy, a strategist needed: to know the business; to be able to have the kind of peripheral vision to pick up things that others missed; to be able to take advantage of events as they unfolded; to be able to detect the subtle discontinuities that might undermine the business in the future (a kind of strategic thinking that tended to atrophy in long periods of stability); to be able to detect emerging patterns and help them take shape; to help new strategies emerge; and required the wisdom to be able
to reconcile change and continuity and to know when to promote change and when to promote stability (Mintzberg, 1987).

Strategic reorganization happened in cycles or brief quantum leaps: The incrementalists did not believe that strategy formation was continuous because they saw strategy as rooted in stability, not change. While they acknowledged that particular strategies might always be changing marginally, it seemed equally true that major shifts in strategic orientation occurred very rarely. Organizations seem to need to separate in time the basic forces of change and stability, reconciling them by attending to each in turn. Focusing on strategy continuously was the wrong methodology and, in fact, desensitized the organization when it needed strategic change.

Effective decision making at the policy level required good analytical input: The incrementalists saw a clear role for analysis and hard data in forming good strategies and giving companies advantages. Studies showed that managers synthesized rather the analyzed data and preferred soft to hard data: verbal communication, especially meetings over written communications like reading and writing and soft, speculative inputs like impressions, feelings about people, hearsay, and gossip. Therefore, in order to achieve better decisions, planners had a clear role to play feeding hard data and analytical information to top managers at the front end of decision making even, if the information had to be fed verbally (Mintzberg, 1976).

Strategic planning will not produce creative strategies: The incrementalists reduced formal strategic planning in stature to programming existent strategy. To manage strategy was to synthesize or craft thought and action, control and learning, stability and change.
Because strategic planning was not a process of synthesis, strategic planning was not a means to create new or creative strategies, but a means to program a strategy already created, and to work out its implications formally. Companies that used strategic planning risked copying the strategies of their competitors (Mintzberg, 1987).

The next chapter presents the context in which firms currently operate and make strategic decisions in the home building industry. The analytical framework in Chapter 3 is applied to five companies in the home building industry in order to understand their strategic planning history.

**Works Cited - Chapter 1**


Porter, Michael E. *Competitive Strategy: Techniques for Analyzing*


Chapter 2 - Industry Context

Home building firms work in an industry that is badly fragmented, highly cyclical, and very competitive. The industry has problems of chronic oversupply, and since 1987, has experienced an absolute decline in the number of yearly housing starts and sales. This chapter provides a sense of the industry context to better understand the strategic decisions of firms in the case studies.

The home building industry is very fragmented: The conditions that cause industry fragmentation are; low overall entry barriers; site-specific production that results in high transportation costs; an absence of economies of scale because of erratic sales fluctuations; no real advantages of size in dealing with suppliers and buyers; some diseconomies that give smaller firms an advantage; diverse markets with fragmented buyer tastes; a local regulatory environment and a new industry. While the presence of any one of these factors can fragment an industry, most of them apply to home building to some extent (Porter, 1980).

Fragmentation gives firms a sense of being at the mercy of forces around them (i.e., interest rates, cost of land, cost of labor, federal monetary policy, federal housing policy), and often encourages a failure on the part of firms to address strategic issues. They hope that
entrepreneurial talent and pursuit of opportunity will be enough. However, just the opposite is true. Firms need clearer generic strategies and more strategic discipline in a fragmented industry just to avoid serious mistakes.

Common strategies in a fragmented industry are; product differentiation, and focus by product type, by customer type, and/or by geographical area. However, firms may find it difficult to differentiate products and achieve a "brand identity" because each buyer purchases so few homes and the home purchase price is so high relative to the buyer's income. It is also common to see firms try to combat fragmentation by keeping staffing costs down to a bare minimum. Firms also try to create economies of scale through greater capital intensity, greater financial sophistication, and by recognizing industry trends early.

In the home building industry, some strategies do not work. The less successful strategies tend to be completely opportunistic and undisciplined, aim at industry dominance 1, require too much centralization, or rest the entire future of the firm on the success of a completely new product type.

The home building industry is a very cyclical industry: In the forty years since World War II, there have been seven distinct cycles, with the time between highs and lows ranging from 10 months to three and one-half years, and with production falling off by as little as thirty three percent and as much sixty-four percent (National Association of Home Builders, 1986, p. 59). But according to data supplied by the National Association of Home Builders, smaller firms do not leave the industry during down cycles, they just tend to stop building (Biggers, 1987).
leads to inflated expectations about the potential of the upswings.

The home building industry is very competitive: There are a large number of competitors because of low overall entry barriers, all of whom are trying to preempt the market. There is an absence of market leaders who can retaliate against aggressive overbuilding because of fragmentation. New entries add to the problem because they seek a part of the market-share held by incumbents. Additionally, the large number of competitors and the long project lead time makes market signaling less effective because firms can not keep up with the signals of so many competitors.

The Home building experiences problems of chronic oversupply: The problems of oversupply are more acute in industries like home building that are cyclical in nature, and/or in industries where it is difficult for firms to achieve product differentiation. The long lead time from idea to product makes oversupply more likely because it requires that firms base their decisions to increase volume on projections of demand and

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1 Ned Eichler, in his fascinating study of merchant builders, explained why dominance was not a strategy of even the largest builders. According to Eichler, "Not even the largest firm has any of the advantages of dominant firms in other industries. Little or no capital is required for plant and equipment, money to buy land, install improvements, build houses, and pay overhead has been increasingly available to smaller operations at a cost only marginally higher than that of the largest firms. What little technology that exists is available to all. No large firm has a dealer network, supplier arrangements, a national reputation, or any other characteristic that gives it a meaningful edge over smaller firms. Merchant builders vie with each other by trying to make better judgements about site selection and product choice and by maintaining better control over all activities, principally construction and marketing" (Eichler, 1982, p. 269).
competitive behavior far into the future, or pay the penalty of not having product available if and when the demand materializes.

It is standard practice in the home building industry to base new capacity decisions on market studies which provide some estimates of future demand and some information on the current output of competitors. These market studies are not sufficient because they report only on what competitors are doing and do not predict the moves their competitors might make based upon the competitors' expectations about the industry and their goals. Without better competitor analysis and a good predictive mechanism, firms lack an overall picture of the industry supply and demand balance, and cannot escape the adverse consequences of overbuilt cycles.

Likewise, lenders may contribute to overbuilding by making capital available to all comers, making it possible for marginal projects to be built.

Absolute Decline: There has been a absolute decline in the numbers of housing starts and the numbers of new homes sold in the last ten years, a trend that is projected to continue into the future because of changing demographics. For example, in 1977, which was a good year there were 1,987,000 starts and 819,000 homes sold. In 1986 , another good year, there were only 1,806,000 starts and 750,000 homes sold, and 1986 was the best year since 1978. Starts dropped as low as 1,014,000 in 1981. (Biggers, 1987). Uncertainty accompanied this decline and there has not been an orderly retreat of firms from the industry.

The competitive nature of the industry, the absolute decline in sales
and recurrent cycles all combine to detract from the attractiveness of the home building industry. The competitive industry structure tends to drive down profit margins. The frequency of market cycles makes it possible for firms that blunder to incur substantial losses by being caught holding unsold homes or apartments for long periods of time. In the 1980s established firms have tended to diversify, both within and outside of the industry, to maintain their profit margins and combat the cycles (Adams and Mcluster, May 1987).

WORKS CITED


Chapter 3 - Case Studies

Introduction to the Case Studies

I selected the strategic decisions confronting firms in the home building industry as my thesis topic because I was intrigued by comments made by three home builders who spoke to my class at MIT in 1987. All three spoke of their own experiences and organizations. One speaker discussed the "necessity" of developing in-house construction skills, another focused on the competitive advantage of in-house management capability in rental housing, and the third speaker acknowledged making the decision to enter the multifamily rental business in the Northeast because the difficult regulatory environment presented entry barriers for competitors. This thesis provides an opportunity to develop those experiences into case studies. This chapter includes five case studies of firms, including the firms of two of the guest lecturers whose comments sparked my interest in this research. The names of the firms, the principals, and major projects have all been altered to protect the firms.

My research model was taken in large part from a work by Daft, "Learning the Craft of Organizational Research" (1983). Daft argues
that formal qualitative and quantitative research techniques may not produce significant research. Rather, he says,

"Significant research grows out of experience and mastery of the attitudes that make up the research craft. The craft is enhanced by respect for error and surprise, storytelling, research poetry, emotional involvement of the researcher, common sense, firsthand learning and exchanges with research colleagues (Daft, 1983, p. 340).

The research process for this thesis did not begin with full blown comprehensive theories to be proved or disproved, but with some hunches.

Strategic planning theory provided a theoretical framework for my research. A few key concepts provided the building blocks around which the strategic stories of the five contemporary home builders were woven. The concepts were the firm's history and present capabilities, managerial values and preferences, organizational structure and the strategic planning process, competitive environment, generic strategy, and the four strategic decisions (vertical integration, capacity expansion, entry and exit).

The firms were chosen for several reasons. For the sake of the researcher's convenience they were all located in the Northeast. To facilitate access to decision makers, the firms were members of the MIT Center for Real Estate Development and/or the Massachusetts Association of Home Builders. To find stories worth telling all five were firms ones with a "good reputation" and were viewed by their peers as successful, assuming that success, however defined, indicated a history of good decisions.

To present a diversity of generic strategies, the firms represented the major groupings of companies in the industry: the small home builder
(25 or less starts a year), the small high-end home builder (25-50 starts a year), the mid-sized condominium builder (100 plus starts a year), mid-sized multifamily developers (projects of more than 150 new units or 75 rehabs units a year) and the high-volume large multifamily developers (1000 plus starts a year).

Because the research was confined to the Northeast, the reader will not get a picture of the strategic decisions of the very large single family home builders (5000 starts a year) whose strategies are based on economies of scale and low-cost position. High land prices have kept the volume builders out of the Northeast.

I studied only firms that had their roots in the home building industry or related industries; four of the firms were single business firms with 95% of their business in the home building industry, and one firm was a related business firm that diversified into home building from commercial real estate development, a related industry. The related firm was included because of the current interest in home building by office developers facing an overbuilt office market.

The research technique for the case studies was person-to-person interviews. The proprietary nature of planning information eliminated questionnaires as an information-gathering method. A survey could not provide answers to non-quantitative questions about decision making.

Prior to the interviews I read extensively about the history of the industry and current trends, and interviewed several industry participants to probe further into the current industry context.

The interview protocol was largely adapted from the strategic planning literature. It is included in Appendix C. As much as possible, representatives from each company were asked the same questions.
Whenever possible I conducted a preliminary interview with a senior staff person to gather factual data in order to make the most productive use of my time with the decision makers. I then conducted a second interview with at least one key decision maker in the firm to investigate the firm's strategy and strategic decision making process. During this interview, I tried to find out what the decision makers had wanted to do, what strategic decisions they had made, why they made them, what information they used, and what they would have done in hindsight.

The methodology was not without difficulties. It was impossible to get a complete picture because I had only a limited amount of time with the decision makers, and seldom had time with all of them. Much of the information I requested was proprietary, and therefore unavailable to me. The home building industry is very opportunity-based and fragmented. This limited the type and quality of planning information that firms typically use. None of the firms had written strategic plans or records of key decisions. Nor did home builders use strategic planning concepts in their conversation. They tend to talk about the land they bought, and why they bought it, rather than their firm's quest for "market-share" or "product differentiation." Therefore, the case studies are necessarily limited descriptions of a very complex process.

Both the analytical framework and the findings are refined common sense as expressed in the following quotation:

"We come from common sense, we work for a long time, and we give back to common sense, refined, original and strange notions that enrich what we know. We come to new things....that we already know" (Oppenheimer, 1958, p. 129).
Company Description: North Shore Homes was a small home building company that built ten to fifteen houses a year. John Daugherty, the founder and President of North Shore Homes, envisioned his company in an industry grouping with 95% of the other home builders. North Shore Homes built only custom homes for the mid-market in three towns on North Shore, specializing in energy-efficient homes and devoting considerable attention to detail. In 1987 the company employed seventeen people.

Company History: North Shore Homes began in 1974 during the bottom of a home building cycle. In Daugherty's words, "We had nowhere to go but up." The firm was formed as a partnership between Daugherty and his brother. They employed three carpenters and built homes on finished lots for other developers and owners. The firm's lack of capital kept them from taking advantage of the federal home building programs which Daugherty said only worked for volume builders. The firm built for first-time home buyers, and Daugherty remembers that their average turnaround time from raw land to finished product was less than one year, with approvals taking them only two months in 1974, and that it was possible to complete the paper work and still have six hours in the day to "pound nails."

North Shore Homes remained small in size. The firm rejected
opportunities that required expanding staff in order to keep administrative costs down. The firm operated locally, within an hour's drive of Daugherty's office. This allowed them to build a local reputation and become familiar with the buyers.

The firm's flexibility and low overhead kept its prices competitive until the affordability crisis of the 1980s forced the firm to change its target buyer group from first-time to mid-market buyers and necessitated a product change to attract the new buyers. The new product was well designed and energy-efficient. North Shore Homes was able to compete with larger developers because they could build on scattered lots. They also built on the smaller subdivisions on the Cape.

All homes were pre-sold to avoid the market risk. The firm did not land bank, preferring to stay liquid. Occasionally the firm made phasing agreements with towns to obtain necessary permits. North Shore Homes offered second mortgages to their buyers to increase sales, and the mortgage income helped smooth over the bad part of cycles. By the mid-1980s, Daugherty was in a better cash position. This allowed him to completely avoid the complexities and expense of borrowing by taking out a personal line of credit that was collateralized against other assets. North Shore Homes did not need to joint venture.

North Shore Homes vertically integrated into development in the 1980s to expand the company without expanding personnel. The firm backward integrated into land development because its profits were being squeezed by increasing regulatory costs. Daugherty said,

"The builder today has to deal with the state consumer protection statute's triple damage penalties, the Wetlands Act, the state
sanitary code, zoning regulations, and new town regulations. The increased regulation adds over $30,000 to the price of a house, and affects affordability."

There were much greater profits in land development. The firm sold developed lots to "smaller builders who don't have the patience to go through the permitting process." The decision to sell lots signaled a strategic shift out of home building for the firm.

During the downturn of the early 1980s, North Shore Homes also started diversifying into office buildings. The firm bought office buildings and rehabilitating them. The decision was made to buy an office building rather than raw land because rental property had an income stream to offset financing costs. North Shore Homes was willing accept initial rental losses if they could see a clear income stream after four years. Daugherty believed that the diversification into commercial buildings helped the housing business survive the down cycles. The firm made as much profit on one office building in 1987 as it made on fourteen homes. Daugherty said, "I had to diversify. I couldn't survive as a single home builder." Daugherty saw North Shore Homes completely diversified out of home building by 1997. He said, "Many good builders will be out because there is too much competition."

**Values and Preferences of Principal(s):** Daugherty was college-educated and he approached his business professionally. He preferred to build for the first-time homebuyer, and had sympathy for "the average hard working guy." He believed in energy conservation. In the 1980s, Daugherty become an active lobbyist to combat the increasing regulatory problems that were squeezing the first-time buyer out of the
market. Daugherty served on the local planning board, and on the State Zoning Board. He said that when he began his business, he did not see lobbying as part of his job.

**Organizational Structure and the Planning Process:** Daugherty and his brother remained partners. Daugherty spent all his time on permitting and other project management issues, and his brother supervised construction. Decisions were made informally, usually by Daugherty. The partnership worked well because they gave each other a great deal of latitude. There was no formal planning process, and most decisions were made in response to environmental pressures.

North Shore Homes had difficulty retaining competent staff. Despite receiving increased salaries, fringe benefits and profit sharing, most employees left after a few years to go into business for themselves.

To stay abreast of business cycles, Daugherty paid attention to the fluctuation in the discount rate, the price of lumber, the number of housing starts, interest rate fluctuations, the federal deficit and federal monetary policy, and the relationship of the yen to the dollar.

**Generic Strategy:** North Shore Home's initial strategy was a focused-cost leadership strategy. The firm was focused by market, and developed a set of policies to keep costs down and prices low by keeping the firm small, localized and flexible. A clear shift in strategy did not accompany the shift to mid-market buyers and a more differentiated product. The firm was competing with a more expensive product for what
had become the new low-end of the market. All of the firm's
cost-leadership policies remained in place. The new strategy was not
successful. Rising costs forced the firm to bid away its profits to
retain its buyers.

Evaluation of Strategy

The firm's strategy was implicit, largely intuitive and shared by
both partners although there was a dominant decision maker. Decisions
were made on the basis of informal probing of the market and the
judgement of the decision maker.

The initial strategy reflected the partner's personal preference
for a specific buyer group. Subsequent strategies reflected an interest
in energy conservation, and drew upon the president's sense of fair play
and political skills.

The core strategy exploited the market opportunities available to a
small builder starting without a lot of money. The major strategic
decision to diversify into office buildings was made in reaction to the
economic downturn of 1981. The decision to shift buyer groups was a
reaction to the subsequent affordability crisis. Increased capital
resources allowed the company to be more proactive and allowed it to
exploit opportunities in land development.

The shifts in buyer group, into commercial development and into
land development, were consistent with the core no frills pattern. The
scale of the office buildings were similar enough to homes that North
Shore Homes merely shifted its crews over to the office buildings,
giving them work in down times.
The firm's core strategy was successful until the affordability crisis of the 1980s forced the firm to change its buyer group target to mid-market. This niche was not as profitable for the company because there was more competition for that buyer group and fewer potential buyers. The company's profits diminished because of the increased cost of land, materials and the changing regulatory environment. The firm collaborated with other builders to reverse some of the regulatory decisions that had created the crisis. The results of the political response are not yet known. The decisions to develop land and diversify into office buildings have been financially successful and chart the future direction of North Shore Homes.

Case Number 2 - The Small High-End Builder

Company Description: Authentic Homes was a small company building colonial homes and condominiums for the luxury market in three historic and exclusive Massachusetts towns. Authentic Home's residential business catered to a market segment just below the high-end; in 1987 this meant homes priced just under $600,000. Residential development was 70% of Authentic Homes' business. The other 30% of the business was colonial, retail and office condominiums. The company was fully integrated and handled all aspects of their product including land development, architectural design, construction, interior design, sales and management. The president's business partner (and wife) also owned
and operated an antique furniture store adjacent to the company office.

Authentic Homes employed twenty-seven people and had a business volume of 10 million dollars in 1986; they expected to do between twelve and fourteen million dollars in 1987. In 1986 they started fifteen retail condominiums and ten homes; in 1987 they started fifteen custom homes and fifteen office condominiums as well as starting the infrastructure on a fifty-four unit residential subdivision.

**Company History:** Authentic Homes was founded in the late 1940s by Mark Miller. His father and father-in-law were builders of traditional colonial homes and Miller inherited their interest in colonial architecture and their concern for authenticity. Miller's wife, an interior designer shared his passion. Although Miller was a flyer during and after World War II, he believed that a building career was inevitable. Miller financed his business by working as a printer at night. He started with a goal of building four houses a year, which he reached in the early 1950s.

Miller's business quickly grew and was soon at fifteen to twenty-five starts a year. His product was a very traditional Georgian house, similar to the authentic Georgian houses first built in Massachusetts in the 1780s. Miller believed that "a traditional home had a wider appeal than a contemporary house because a traditional house was acceptable to a person with contemporary taste, but a contemporary house wasn't acceptable to a person with traditional taste." Miller was proud that his houses were the only ones in the area that featured granite hearths.

Miller quickly discovered that his real skills were in planning.
He recruited his brother, a field superintendent, to start a construction company and soon had seven carpenters on the payroll. The construction company also sold construction services to other developers for residential, commercial and rehabilitation jobs. In 1962, Miller incorporated the business. He added an architectural staff and an interior design company run by his wife. Miller quickly learned how to borrow money and was appointed to several bank boards. He also dabbled in lending to customers; this was profitable in the economic downturns.

Authentic Homes developed a profitable market niche building colonial homes for wealthy buyers in a limited geographic area. Authentic Homes' products were not identical, ranging in architectural style from Georgian to early Victorian, but were easily identified with Authentic Homes. The company had an excellent reputation for providing a quality product which included authentic colonial interior finish, landscaping and management services. Authentic Homes was concerned with custom quality control and, therefore, did not expand production beyond fifty units. Miller said that, in his opinion, a twenty-five unit limit was much safer.

Miller was able to use his knowledge of the market to develop new product lines: the first residential condominiums in the area in 1971; mixing single detached homes and residential condominiums with the amenity of grounds management in 1977; the first office condominium in New England in 1980. Miller's good name moved his innovations through the town meeting process and helped the firm acquire land.

The firm did not conduct market surveys. Miller felt that surveys were not needed because they operated in a small area where traditional
homes were accepted. To limit risk, all projects were introduced and proven on a small scale and product exposures were kept to eighteen months. The company did not emphasize financial controls.

The Miller family, through a separate company, retained a percentage of units in every complex developed. The units retained were usually the last sold and allowed the family to enjoy the benefits of equity appreciation.

Miller was cost-conscious in spite of building for a high-end market. He could estimate the costs on a project within a ten percent margin of error. The firm historically had access to capital through Miller's banking affiliations, and in recent years projects were funded internally out of retained earnings.

Miller was very careful not to expand out of his defined geographic market, likening his approach to a bullet. Although sometimes it was hard not to yield to a shotgun approach because of all the opportunities presented to him.

Miller said that he encountered competition twenty years ago but he outperformed them. He became so confident of his abilities that in the past he had sold finished lots to builders trying to copy his product. Miller felt that the difficulty of doing business in the Northeast was a blessing in disguise, keeping out many potential competitors.

In 1987, the local competition was insignificant. Authentic Homes' main competitor was a small developer in the $625,000 to $700,000 range. Another competitor was an "interloper" doing infill work. Of greater concern was a local land developer whose poor work resulted in the planning board passing new restrictions.
Vertical Integration: Authentic Homes' vertical integration into construction, architecture, interior design and management served the company's strategy of providing an architecturally unique product to a high end market. The balance between internal advantages and internal costs was struck by selling surplus construction, interior design and management services on the market.

Internal Entry: Authentic Homes' entered the office condominium market successfully in 1981. Authentic Homes was able to avoid high entry costs by utilizing existing staff, and developing an office product was not substantially different in scale or design from its Georgian home. The firm "slid" into this decision in the 1970s when the interest rate rose dramatically to 18%. Authentic Homes needed an even less price-sensitive market that could withstand the high interest rates. Authentic Homes' good local reputation gave it special advantages in pioneer the office condominium concept.

Miller created a new market niche for him company. He discovered that there was a market among professionals for small offices in buildings with a "colonial look." There was no similar product and no competition. The suburban office developers were not offering small floor plans. While marketing the first project, Miller discovered that the smallest units sold the best and that 800 square feet was the most salable unit size. He incorporated this information into subsequent projects, and later taught a course on the concept at a leading design school.

The office condominium business had a positive effect on the residential business; it evened out the downturns. The entry was
profitable. The generic concept for entry was similar to Authentic Homes' residential strategy: offer a superior product; discover a new niche; introduce a market innovation; and piggyback on the already-existing design, construction, interior design and management staff.

**Authentic Homes' Exit Decision:** In 1985, Miller, acting on his own, sold the firm to a British multinational, Albert McUsher, P.L.C., for personal reasons. When the sale occurred, the firm was profitable and sales were strong. According to Miller,

"It had a lot to do with my age. I wanted to set my family up while they were in their prime. The firm wasn't on the market. I didn't believe that there was a market for builders. I hadn't decided to sell. It was just the opposite. They came to me. I guess I had built a name over the years. They bought my inventory, but not all of my assets. I'm satisfied with what I got. I don't know that my family agreed. I thought it was the right thing to do and I did it. I guess the British were happy. We made them a whole lot of money last year. They bought a winner."

The sale to McUsher, changed the firm's strategy. According to Miller,

"There isn't too much they add to us. They keep pushing for more volume, a 20% increase a year. And their money has strings attached. If our British friends keep looking for volume, we will lose what we have."

**Values and Preferences of the principal(s):** Miller said that he learned the lesson of stewardship and applied it to his dealings with his family, his community and his church. Miller contributed to the community through civic activities, and donated construction services to the town for several projects. He said, "I don't have to earn X number
of dollars come hell or high water." He took pride in the fact that people came back to him for their second and third homes, and was also proud of surviving in the home building business for over 40 years.

Organizational Structure and the Planning Process: Before 1985, Authentic Homes was a privately held corporation. Miller and his wife were the owners, although Miller was the more aggressive decision maker. Around 1980, Miller's daughter and her husband joined the company. According to Miller, his daughter took an aggressive interest in the company and decisions were made on the basis of discussion and negotiation.

In 1985, Miller entered into an agreement to sell to a British company, McUsher, over a four year phased buy-out period. All family members were retained. Miller received performance incentives and agreed to sit on the Board of Albert McUsher Homes, USA during that period.

The management plan called for controlled decentralization; Miller provided the business plan and according to their gentlemen's agreement, Miller had full authority to run the company. McUsher supplied the financial controls, production targets and access to financial resources and centralized audits. (See Appendix D for more detail on the British multinational and their acquisition decision.)

Evaluation of Strategy

Authentic Homes had a clearly articulated and coherent strategy which was a perfect example of Porter's generic focus-differentiation
strategy. They provided a unique product for a high-income buyer segment in a very localized market. The differentiated product allowed the firm to cater to less price-sensitive buyers who would pay more for quality. The firm's vertical integration into construction, architecture, interior design and management were strategic decisions that flowed from product differentiation. The core strategy was applied to all product types. And the company was very disciplined about rejecting opportunities that conflicted with its strategy.

The strategy was crafted by Miller and his wife over time rather than being formulated in advance. The strategy was shared between Miller and his wife, and Miller functioned as the dominant decision maker. Analytical material was used but decisions were made on the basis of judgement rather than formal analysis. The exit decision was based on Miller's values and ethics and was apparently made by Miller alone. The introduction of Miller's daughter and son-in-law changed the basis upon which decisions were made in the firm. Decisions which fit clearly into the company strategy were unanimous, otherwise they were made by discussion and bargaining between the parties.

Decision making changed even more when the firm was sold to an English company. Strategy was no longer shared, and the basis of the decisions had more analysis than judgement.

Initially, McUsher's acquisition goals indicated an appreciation of the focused/differentiated strategy Authentic Homes had been pursuing over the years. However, by 1987 there were indications of divergence, as the McUsher strategy was becoming substantially different from the focused strategy of Authentic Homes. The new McUsher strategy was neither clear nor explicit. The centerpiece of the strategy appeared to
be throwing cash at growth and establishing a beachhead for McUsher in the U.S. (See Appendix D for more detail.) This indicated a future change in strategic direction for Authentic Homes.

The focused/differentiated strategy was appropriate for a family business and reflected the aesthetic values and preferences of the Miller family. Miller's exit decision reflected his sense of stewardship toward his family. The discipline to stay small will probably not be appropriate for a British multinational looking to invest substantial amounts of cash in the U.S.

Authentic Homes' strategy was proactive. The company's innovations were always well-timed, well-crafted and based on an understanding that people would pay for good design, even in downturns, if the product was right.

Much of the organizational infrastructure to support the strategy was in place within the Miller family, and additional family members were brought in to provide the new management needed for the expansion. However, Authentic Homes did not develop a financial and accounting infrastructure as it grew.

Authentic Homes was a successful and profitable company and survived forty volatile years in the home building industry. The company experienced peaks and valleys which required strategy shifts and refocusing of the companies efforts every ten years. Authentic Homes emerged out of each downturn a more stable and profitable company, able to beat its competition and provide a quality product.
Case # 3 - The Mid-Sized Condominium Builder

Company Description: Sullivan and Smart was a national developer of suburban office buildings headquartered in Massachusetts. The company was founded in 1965 and achieved some early successes. By 1970, the company had grown to fifty employees.

In 1970, Sullivan and Smart's officers decided to diversify into the residential business as a large-scale luxury condominium developer. From 1970 to 1980, S&S built five major developments, four luxury condominiums and one luxury rental project, and became one of the largest condominium developers in the state.

S&S averaged over 100 starts a year and had a business volume in excess of $15,000,000 a year. While they aimed at a 15% to 20% profit margin, they did not achieve it until the last project.

The company left the home building industry in 1891 in order to attend to the needs of their office business, which had grown to 300 employees and had opened four regional offices.

Company History: The decision to enter home building was made to generate cash for the firm's primary office development business. According to Sullivan,

"We made the decision to get into condominiums because we thought we should diversify. In 1970 the office market was flat and we
thought we shouldn't have everything in office buildings. We thought that we could bring in cash flow from the sale of condominiums, and that we could shelter the income with unused tax shelters from our office buildings. And the business cycles for residential and commercial run counter to each other."

S&S's generic concept for entry into residential development was to offer a superior product. The firm used existing staff and organizational resources and did not incur special investment costs to enter the condominium market.

Condominiums were a new product in 1970. The concept, invented in California in 1964, was almost unknown in Massachusetts in 1970. The firm expected no competition. Motivated primarily by the enthusiasm of Sullivan, the past-president, S&S decided to pioneer the product. The product was so new that S&S had to hire an outside expert to assist their attorneys in drawing up condominium documents.

The firm's reputation enabled them to locate sites in the "nicer" communities. S&S had the job of introducing the condominium concept into the towns they worked in. To win local acceptance of condominium developments, the firm placed an emphasis on architectural quality and site design. The firm invested substantial executive time and attention into the new venture. Sullivan personally handled the approval and zoning process.

S&S's target market was empty nesters in Boston's most exclusive suburbs who were moving down from lovely five and six-bedroom homes. S&S found the buyers somewhat price-sensitive because the buyers did not understand why a new condominium costs more than their beautiful, old, large homes. Buyers usually had to sell their existing homes in order to buy S&S's product which caused problems during the disintermediation.
period in the 1970s when no mortgage money was available, and S&S's potential buyers could not sell. This forced S&S to get involved in financing.

A great deal of emphasis was put on pre-marketing techniques; phone and door-to-door surveys were used to discover the buyers' needs. A pre-marketing and sales team was set up.

S&S's first effort was a 150-unit complex built on an old manor site. The project had great market acceptability but S&S got into some financial difficulty. The build-out took three instead of four years because of disintermediation; construction delays caused some buyers to break their purchase and sale agreements, and S&S had problems with custom quality control.

Although all of S&S's projects were well received and attracted prestigious buyers, S&S paid a tuition on its first four projects, none of which met profit expectations. S&S's last project won a National Association of Home Builders/Better Homes and Gardens Yearly Award for the Best Residential Projec, because of its architectural excellence and environmentally sensitive site plan.

**Vertical Integration:** S&S developed an in-house construction firm, and a management company. For its work, S&S received a construction fee and a management fee but the primary motivation to start the construction company was strategic.

"We couldn't deliver a quality product unless we controlled the construction. We were trying to deliver seventy luxury homes a year, one a week, and there was a lot of finish work in those homes. We weren't just looking for efficiencies when we set up our construction company, we were also concerned with controlling the subcontractors. Many of the skills in the trades were terrible."
Over the years the company solved all of the construction problems of residential development except custom quality control. They had to bring in an outside construction company with a good finish reputation. That company was Authentic Homes.

All of the projects were developed as joint ventures with banks. The banks also earned fees on the end user mortgages. S&S's policy of joint venturing their condominium developments with banks, a form of quasi integration, increased S&S's access to mortgage money during the disintermediation crisis.

The Exit Decision: S&S was a successful condominium developer when it made its exit decision in 1980. Sullivan said,

"We had finally made it after seven years: we had a competent staff; good joint venture partners; we had won a design award; we had presidents of companies living in our units; we were making money; we were the largest builder of luxury housing in the Boston area; we received more good publicity for our housing than we ever had for our office buildings.

But the residential business was incompatible with the commercial business we were in. Our office business had gone through the recession in the mid 1970s, and we had to let go twenty percent of our staff. At the same time we had opened four regional offices. We had to come to grips with a commercial business that wasn't as strong as it needed to be."

In 1980, the S&S executive committee voted to leave the residential housing. After finishing the build-out on the last project the residential staff was absorbed into the office business.

Organizational Structure and the Planning Process: The planning process prior to entry was described by Sullivan:
"We had done some planning. We had our organizational chart, and we had done the cash flows two years in advance. We thought a lot about where we wanted to work. We looked at a lot of locations. When we took on another project, we made sure it fit our company's requirements, and that became a business plan."

It took the company seven years to develop a "first-class team" consisting of a marketing manager, a project manager and a construction manager and a secretary. All of the team members were hand picked for their ability to make decisions in the field, and none came from the commercial side of the company, although most had commercial as well as residential project responsibilities. The residential business administratively remained a part of the overall company, and team members were supervised separately by the vice presidents of marketing, construction and project development.

Decisions at S&S were made by an executive committee that was composed of the President, the Chairman, the head of the Construction Company, the head of property management and the heads of the regional offices.

Values and Preferences of the principal(s): S&S developed condominiums to generate cash flow for their commercial real estate business.

"We hadn't capitalized our company, and we needed cash to support a large organization. We wanted to make a product that we could put on a production line to develop cash. We mistakenly thought condominiums were just like office development because all the units could be concentrated in a few buildings."

The President liked residential development:
"It was very personal and human. There was lots of satisfaction because ninety-five percent of the people were wonderful. The rezonings and community part of the business was fun. It was a very high-profile effort to be the first in the community."

S&S was also a "quality" office builder. The company wanted to extend its reputation for quality into the residential field and the president felt a social responsibility to leave the environment better than he found it.

Support for the residential developments never spread outside a narrow group of people inside the company. Sullivan was the only executive committee member who was personally involved. He said that he had always thought that the company would grow to be more enthusiastic about home building, but it did not.

The difference between office and residential development was partly responsible for the lack of enthusiasm. Building a 150-unit condominium project in three buildings was not like building three office buildings; it was more like building 150 separate homes. Office development was much more profitable and involved much less work. Office development took place during conventional working hours; the buyer, most often a man, made a business decision to lease space. The residential business took place twenty-four hours a day, seven days a week; the buyer, often a woman, made a personal decision to buy a home, which was often the family's most expensive purchase; officers of the firm were contacted at home by buyers at all hours and were named as co-defendants in law suits brought by the condominium associations against the firm. The fact that the law suits were ultimately insubstantial did not make them less vexing.
Evaluation of Strategy

The firm had an clear and articulated strategy. It was a volume producer of a specialized luxury product. Porter would describe its generic strategy as stuck in the middle. Volume builders are usually cost leaders and cater to price-sensitive buyers, delivering a lower price through economies of scale and special relationships with suppliers. Builders of differentiated products usually try to cater to a price-insensitive buyer by delivering unique products at very high prices, which in turn make them less vulnerable to suppliers. They sacrifice volume for high margins. S&S was stuck-in-the middle because it had to trade its profits to deliver its luxury finish on a production schedule. In the process S&S became vulnerable to the contractors, and also less responsive to its buyers, limiting the amenity package it offered to buyers to keep prices in line.

The firm had a dominant decision maker in 1970, and most executives shared the goal of generating cash for the primary office business. During the ten years the firm implemented the strategy, enthusiasm for the residential business waned. The residential business never became more than a very peripheral part of a much larger firm.

Decisions were made in a formal executive committee, and used financial projections, market studies and other planning materials. Strategic decisions appeared to be made on the basis of judgement, discussion and preference.

The chosen strategy was appropriate for the parent firm that was in the business of building high-quality, large office structures at substantial profit.
Sullivan's values and vision were reflected in the strategy. The condominium developments were beautiful, sensitively handled the environment, and were a credit to the name of the firm. The emphasis on satisfying buyers was a reflection of Sullivan's and the marketing director's values. S&S stayed in residential development through four financially weak projects because the president was enthusiastic about housing, and the company left the business, in part, because the other executive committee members preferred to not be in the housing business any more and because Sullivan's enthusiasm waned.

The firm's strategy was proactive. The firm sought out opportunities that fit its strategy. The firm's entry decision was a good example of exploiting an environmental opportunity, in this case an opportunity to pioneer the condominium concept.

The decision to diversify into residential development was a drastic change for the firm. Residential housing was more difficult than office development because it was more labor intensive and less profitable. The firm made an initial strategic mistake in expecting the businesses to be similar, and not putting separate organizational infrastructures in place to provide for the high risk of a discontinuous strategy. The company paid a tuition in its first four residential projects for having to learning a new business.

The strategy was not successful. The diversification into residential development did not generate cash and help smooth out the business cycles of the parent. Even though by 1981 the residential business began to show a profit, the discontinuity between the two businesses diverted too much executive energy and attention from the primary business.
Case #4 - The Mid-Sized Multifamily Developer

**Company Description:** The Kimberly Company was formed in 1984. By 1987, it was an established mid-size multifamily developer involved in several ventures, including rental housing, high-end and low-end condominiums and land deals. The firm was building its first 140 units of rental housing and had a total of 600 units in various stages of development. Its business volume was in excess of ten million per year. The company's small staff consisted of the president, the senior vice president and several project managers. It was not vertically integrated because the principals of the firm made a explicit decision to keep the staff lean. The firm aimed for 20% profit margins on its residential product and 39% on its condominiums.

There were some early indications of success. Kimberly Company created a tremendous amount of value in their land purchases; and they were the only company able build new rental housing.

**Company History:** Kimberly Company had two operational partners and one investment partner. All three brought substantial experience to the table. The president had spent twenty years working in the rental housing industry, including several years as a partner with a large New England based developer. The senior vice president had ten years of experience in the real estate business working for two major new England developers, and had masters' degrees in both architecture and
engineering. The investment partner worked in an advisory capacity to
pension funds. All three had experience in land acquisition. The
company was well capitalized.

The first year was spent probing markets and exploring various
opportunities and products. Within a year the firm had locked into a
strategy of developing rental housing in the beltway areas. Several
tracts of land large enough to support rental projects of 150 or more
units were purchased. A product prototype was developed. It was a
differentiated, variable apartment unit with a high amenity level. It
had separately metered units to facilitate condominiums if necessary.

Values and Preferences of the principal(s): The partners emerged
from a housing mold and wanted to become involved in rental housing.
Additionally, all three partners wanted to take pride in their product,
and were willing to leave profits in the business to leverage the
company.

They preferred a regional business and had turned down lucrative
opportunities in other regions because they did not want to "get
murdered by the time change." They looked for opportunities to build
several buildings in a localized market to better leverage their
experience.

They were comfortable taking the market risk, but were not
comfortable taking some financial risks, and developed strategies to
hedge or share those risks. They were willing to land bank, but were
not willing to get extended doing it. And they always considered
alternative uses when they purchased land.
Organizational Structure and the Planning Process: The senior vice president explained,

"I spent a lot of time thinking about the market, changes in the industry, our talents, different markets and products to fit those markets. And we talked a lot between ourselves about what we were prepared to do. The secret of being a good investor is knowing yourself. We did a lot of analysis and then we probed into the market. We didn't have agreement at first about what to do so we spent the first year probing other products and then we came back to rental housing. We looked at regional shopping centers, at suburban office, at land in off-center markets, at industrial space, at manufactured housing and at rental housing until we found our niche. We had a sense of our risk profile which was critical for decisions."

After locking in the strategic direction, and acquiring land, the firm started the process of building their organization. The senior vice president said,

"I wouldn't change any of the strategy, but it always takes longer than you think. Once you get the strategy and get over the issue of raw product, you have to build the organization and that's the tough part...anticipating what and who you need in staff, and when. I think about hiring people who have different skills from me, for example I'm not a controller. I hired someone with a big-eight accounting background whose personality I thought would fit."

Strengths and Weaknesses: The firm identified three of its competitive advantages: experience in large-scale rental housing finance, being well capitalized, and an ability to predict what was going to happen in the market.

The Kimberly Company saw itself as a "Mercedes builder and not an IBM Clone builder." Because each of their projects was somewhat different, it could not attain cost efficiencies through duplication. For example, it was doing 200 units of new construction with a density of six units to an acre and at the same time doing a rehab of a 140 unit
historic mill at a density of twenty-two units per acre. Instead, the firm tried to build a strength in being very facile and being able to continuously differentiate projects, while remaining focused on large multifamily buildings and becoming very good at what it did.

The Kimberly company cared a lot about its buyers. It conducted more surveys than other firms because the president had a background in marketing, and surveys made him more comfortable with the market risk. It used telephone preference surveys. Its apartment product was developed and redeveloped from survey data.

The biggest industry problem in 1987 was finding land. Kimberly Company's acquisition experience and capitalization give them an advantage over competitors. The firm was willing to joint venture to share risk. Their rental projects were syndicated. They had a group of investors that they knew, and they offered their investors value. The investors did not have an especially strong position with the firm because of the limited number of investment opportunities open to them on the market.

The partners preferred market transactions for construction, architectural, and management services, and paid premiums to secure subcontractor services when necessary. The firm had to be facile about product and it put no strategic premium on vertical integration. The partners felt that unless the firm was doing huge projects or had terrific deals, it was hard to carry overhead and survive the downturns. Instead the partners developed close relations with a limited number of very good consultants and used them repeatedly. Repeat relationships gave the firm the bonus of access to two or three top providers of each service.
Competitors: The firm paid attention to competitors. Staff regularly viewed competitors' products, and both staff and the principals paid close attention to attempts by out-of-state firms to enter the New England market. Their long-term strategy involved beating their competition; the short-term strategy was built upon expectations of competitors' actions and the effect that competitors' product would have on the market. For example, Kimberly Company expected a glut of condominium product around the $178,000 price in 1987 because of a state program which allowed developers to bypass local zoning and density regulations in return for building a percentage of "affordable housing." Therefore, Kimberly Company was pricing its products both below and above that figure to avoid being caught in an overbuilt market.

The Entry Decision: The partners of the Kimberly Company were all well connected in the industry. Between them they were able to identify, analyze, and probe a wide range of markets and products in their search for a reproducible product.

Substantial entry barriers existed for entrants into the rental housing industry in 1985-86: high land costs; the absolute limit of available, buildable land, and the difficult Northeast regulatory environment. The rental housing industry was in disequilibrium because of land costs and the Tax Reform Act of 1986 which eliminated tax losses as a source of project value. The barriers discouraged competitors despite strong, readily actualizable, demand for rental product. The Kimberly Company saw an opportunity in the disequilibrium.

Entry involved a significant investment of capital to purchase
land. It also required an initial investment to staff a new organization and front pre-construction costs. However, costs were no higher for the Kimberly Company than for industry incumbents. In fact, because they identified the opportunity early, the firm's partners were able to buy land at a value in 1984 that made "the numbers work" in 1987. No other company was able to build rental housing in 1987, and the firm enjoyed an advantageous position.

The generic concept for entry was: to fold profits back into the company to gain market share; to attract renters by offering a superior unit; and to hedge the financial risk by developing alternate strategies if interest rates rose sharply making rental development impossible.

The supply-demand situation in the condominium market was different from that of rental housing and there was much more danger of overcapacity. Therefore, the Kimberly Company monitored the condominium market closely.

The firm did not expect any retaliation from incumbents either in the condominiums or rental housing. The partners left their former firms cordially, and retaliation was not the industry norm.

In conclusion, the entry was a success. The firm did not incur any extraordinary costs that would diminish its future profitability.

Evaluation of Strategy

The firm had a clear and explicit strategy. The principals closely monitored industry trends to exploit a temporary disequilibrium to the firm's competitive advantage. It relied on rising entry barriers to protect the firm and make its investments more profitable. This
strategy was focused by product, location, and by buyer. The high
demand for rental product allowed the firm to differentiate their
product rather than go for a cost-leadership position.

The strategy proactively created a competitive advantage. The firm
did not have a written strategic plan and the strategy chosen resulted
from a long period of strategic thinking, discussions, analysis, and
probing the market. The strategy was the negotiated result of the
probing period and was shared.

The main strategist in the firm was not the dominant decision maker
because of larger capital contributions of the other partners. The
method of decision making included initial analysis, judgement and
extensive discussions and bargaining between the partners.

The values and preferences of the partners had a great deal to do
with determining the initial direction of the firm. Many of the values
were economic. All three partners had a cognitive preference for
analysis.

The strategy fully exploited the environmental opportunity that
existed. While the strategy was proactive, a great deal of room for
experimentation and further crafting of the strategy was built into the
planning and implementation process.

The strategy chosen lowered risk and was consistent with the
backgrounds and experiences of the partners. Having chosen the
strategy, the firm embarked "on the hardest part," putting the necessary
organizational infrastructure in place.

To date, the strategy has been successful in creating a competitive
advantage for the company. The company seized an opportunity and, at
least temporarily, locked out its competition.
Case Study #5 - The High-Volume, Large Multifamily Developer

Company Description: In 1987, Finnerty, Malloy and Kendall (FMK) was the 37th largest builder in the country. It was the only New-England-based company on the Builder Magazine "100 Largest Companies List for 1987" (Builder, May 1987). The company's revenues grossed 110 million dollars; had 2237 housing starts, 717 condominiums, 1520 rental units, and another 3000 units in the pipeline; three projects that were in excess of 100 million dollars, two market rate condominium developments of over 1000 units, and a 200 million dollar, mixed-income rehabilitation of a 1400 failed housing project.

FMK built developments in California, Massachusetts, Florida, Maryland, Washington D.C., New York and Virginia. It employed 500 people, with a development staff of 35 and a central office staff of 80. It also had a North Central regional office. Financial controls and accounting for all of the regions were centralized in the New England office.

It built condominiums in large, well located, planned unit developments which customers associate with quality. It also had the capability of doing large multifamily rental projects with a threshold requirement of 150 units to enable the company to syndicate. FMK was willing to accept margins under 10% on large volume projects.

It was a fully integrated company with construction, management,
syndication, and mortgage banking spun off into separate companies under
the FMK umbrella but was not involved in either land development or
architectural services. FMK was also diversified into non-residential
development (hotels, offices, convention centers) on sites adjacent to
its housing developments.

Company History: FMK was founded in 1971 by Tom Finnerty. Finnerty
obtained ten years of experience building market rate rental housing
with his brother's real estate company. In 1968, Finnerty ended a short
political career, narrowly losing a state representative seat in one of
Boston's Irish neighborhoods. He became interested in the new federal
and state low-income housing programs, an interest his brother did not
share.

Michael Malloy gained ten years experience at the Federal Housing
Administration as an appraiser and a development consultant with a
speciality in government programs. Both Finnerty and Malloy had an
interest in apartment development and both wanted to apply the luxury
approach to subsidized housing. It was no surprise when Finnerty asked
Malloy to join him as a partner in 1971.

Jim Kendall joined shortly afterwards. His background was in
accounting. He brought extensive experience structuring real estate
syndications as well as construction and management oversight
experience, a commitment to good financial management, and an ongoing
association with his former top-eight accounting firm.

The new company was very entrepreneurial and the partners started
with very little cash. The company's strategy was to build expertise in
both large scale market rate condominium projects and government
assisted rental housing.

In the early 1970s, state and federal housing programs presented a unique opportunity for developers with little cash. Risk was minimal because loans were non-recourse, and available for 98% of costs. A developer only had to finance 2% of the project. By utilizing syndications, a little-known vehicle in 1971, a company could sell limited partnerships for an additional 20% to 25% of the mortgage proceeds. FMK thus financed 120% of the costs and created a 20% profit margin for themselves. In return for the cash, FMK gave its limited partners tax shelter benefits, a share of project cash flow, and 50% of the residuals. FMK protected its 50% of the residual with excellent management and maintenance services because it saw itself as a long-term equity holder.

In 1974, FMK built Queen Mary's, a 450-unit mixed-income development. The idea of mixed-income development originated with the new head of the Massachusetts Housing Finance Agency (MHFA) rather than FMK, but Queen Mary was the first successful one in Massachusetts.

Building upon Queen Mary's success, FMK won a competition in 1976 to redevelop a failed housing project, King's Road. King's Road was an eyesore, 80% vacant, with minority tenants. The finished, 400-unit project surpassed many market-rate developments in terms of amenities, design quality and beauty. FMK made promises to the minority tenants and kept them; existing tenants were returned to new apartments. The development was well maintained and FMK entered a joint venture partnership with them and applied some of the syndication benefits to social service programs.

All three partners worked on King's Road and it gave FMK a national
reputation as a unique firm capable of revitalizing failed housing projects. Although projects of this sort are not common in the industry, FMK has since been offered five similar opportunities of the same or larger scale.

In FMK's first condominium project, a 150-unit development in a seashore resort community, the firm applied the same formula of quality design and quality management. FMK started its construction company with the objective of having the resort "look like a FMK project."

The resort project was FMK's tuition as a market rate developer, and profits from the earlier successes with government assisted housing saved the company. According to Malloy,

"The condominiums sold like gang busters in 1972, but when interest rates choked off sales in 1973, we carried fourteen unsold condominiums for eighteen months and lost over $600,000. We syndicated Queen Mary and sent the money down to the Cape. We were only one of two builders on the Cape who didn't go broke in 1973. We later sold out three more phases down there and we were ahead of the market."

Although the company had always been open to growth, in 1977 the partners made a series of decisions that enabled the company to grow to the national level: FMK expanded its government business to take advantage of a new federal rental housing program, the section 8 program; FMK expanded regionally, setting up a Mid-Atlantic division and it developed a centralized financial control center for all the companies, a service that costs FMK $750,000 in $1987 dollars. Different partners evaluated the decision to became a national real estate company differently because being national put a tremendous cash flow pressure on the company to generate eight million dollars a month to finance its ongoing construction. It made FMK vulnerable to shifts
in the economy.

**Strengths and Weaknesses:** In the early government-assisted deals, the company did not need to develop a cost-conscious policy as there was an incentive to inflate the costs in order to increase syndication benefits. Kendall's familiarity with syndications gave FMK an early advantage.

While there was always unmet demand for low-income housing, the ability to meet that demand was limited by the availability of government subsidies. Because they allocated the subsidies, government agencies were FMK's early "buyers" and were interested in well-designed, well-built and well-managed developments which FMK delivered better than their competition. To produce a high-quality subsidized product, FMK frequently reinvested part of their profits into the projects. The firm's philosophy was "even if we make less on each project, we will get more projects and prosper."

Another "buyer" in government-assisted housing was the tenant's association, which was often given final say in developer selection by the governmental authorities. In addition to good management, tenant groups were interested in developers who would joint venture with them, sharing syndication proceeds and applying them to tenant services. FMK fit the bill.

At some point in the early 1970s, the company formed its own management company to support this development strategy. The management company was also a profit center, charging FMK a standard 5% fee for its services.

The construction company served the same strategic purpose--FMK saw
a competitive advantage in controlling all aspects of construction. Although construction earned a 6% fee on projects, in fact the development effort often supported the construction company, paying the construction fee first to maintain the large bonding capacity of the construction company. FMK tolerated the need to carry core construction staff on its payroll in downturns in order to provide a reliably high-quality product. Any inefficiencies between the FMK construction price and a market price were monitored by Kendall.

**Competitors:** FMK relied on market studies for information about its competitors. Market studies were done on a project-by-project basis. To avoid overcapacity, FMK chose to build in the New England and Mid-Atlantic markets where large parcels of land were scarce, and thereby hoped to eliminate the overbuilding and cut-throat competition common in faster growing markets like Florida.

FMK beat their competition with their unique mixed-income products. Therefore, in government-assisted work, FMK maintained a collegial attitude toward competitors.

**Contemplated Exit Decision from Government Assisted Housing Projects:** FMK did not leave the government assisted rental sector in the early 1980s when most federal programs were dismantled by the Reagan administration.

All of the federal housing programs enacted in 1970s had been harshly criticized in the press as being too expensive. They were very liberal programs and the country was becoming more conservative. When President Reagan was elected in 1980, he quickly began to dismantle the
federal housing bureaucracy; by 1981 the only subsidized units available were under old programs. "Everyone jumped in to get the last units as they recycled through the system" (Smith, 1987). There was some uncertainty as to how successful the president would be with Congress, but Reagan's landslide victory in 1984 made it crystal clear that the federal government was out of the housing business. Many firms left government-assisted housing, including many of the largest New England rental housing developers.

At the same time pockets of opportunity remained: rental development with new state subsidies that replaced federal ones; and rehabilitation of failed housing projects and HUD distressed housing. The agency buyers were somewhat price-insensitive because government entities that owned failed developments needed to act and they needed positive results.

There were strategic exit barriers for FMK that kept them from leaving this part of the industry: a loss of corporate image, a loss of construction work, a loss of ties to government financing agencies, and a loss of the interrelatedness of FMK's total strategy because it was in both ends of the large development market.

Also emotional barriers existed for the partners who were personally identified with the early successful mixed-income projects. FMK had strengths, and was well positioned to exploit the remaining pockets of opportunity.

FMK reinvested and took a leadership position in government-assisted housing by undertaking the Kennedy Point project in 1981 and two other failed housing projects, as well as actively competing for new state subsidies. FMK created a separate division to
undertake the work.

As a part of the decision to stay, FMK undertook Kennedy Point, the company's largest project to date, a 200 million dollar, revitalization of a 1400-unit failed housing project into luxury mixed-income housing. FMK's joint venture partner in Kennedy Point was an association of 400 low-income, minority tenants. FMK's investment of 18 million dollars was a substantial portion of the firm's assets. FMK expected to be repaid in the future and receive a 6% to 8% profit on total project costs.

According to Malloy, the decision was made for the following reasons and without a formal process:

"We really thought it was over in 1981, and we were exploring becoming a national acquisition and syndication company. We would have had to make a commitment to be a national company and hire a lot of people and be on the road. We probed and found out that becoming a national syndicator was not for us. Kendall was busy with construction and management. Finnerty was on the Cape and I didn't want to travel. When Kennedy Point came along, we got involved in it. Finnerty loved Kennedy Point. He was from the area and he had been committed to doing something (positive about Kennedy Point) from the 1960s."

The decision to stay in government-assisted housing was understood by senior staff as an entirely consistent decision with the past pattern of decision making:

"The principals at FMK never discussed leaving this segment of the industry. They always believed that the change in federal government housing policy was part of a cycle and that the federal government would come back into housing. They had gone through the elimination of other federal housing programs in the 1970s and the sky had not fallen in. They had also become diversified as a company which in hindsight everyone understands helped tide us over" (Smith 1987).

Values and Preferences of the principal(s): The values of the
partners shaped the firm. Those values were: a willingness to work with government programs in spite of the red tape; a commitment to do high-quality work for low-income people; a willingness to retain thirty-three percent low-income people in "luxury" mixed-income developments; and an interest in holding and maintaining the developments for the long-run rather than milking them over the short-run. According to Malloy,

"The firm's philosophy was "We can do it better" and we took the high road. We wanted to establish a good reputation in the (low-income) field using good architects and good construction techniques. The first project that we built that we were really proud of was Queen Mary in 1974. It all started as a commitment to do something first rate. The project was well located and well designed. We spent a lot of time picking the color of the brick and thinking it was a 100 year decision. When the bidding came up for the failed housing project in 1976 (Kings Road), we weren't going to get into it. MHFA called up and asked us to enter saying that the tenant group had been over to see Queen Mary and liked it. We did and built Kings Road. MHFA was my expertise and we knew we could do it."

Decisions were also shaped by the partner's preferences.

"Finnerty's background was in market rate housing. He liked market rate and he liked the Cape. So when he got a call in 1971 asking if he wanted to buy an old girls camp on the Cape, he went down and tied it up."

Organizational Structure and the Planning Process: FMK was a privately held corporation. Finnerty was the president, the major stock holder and the ultimate decision maker in the firm. Initially, major responsibilities were divided between the partners; construction and management became Kendall's responsibility. Malloy was in charge development, and Finnerty was responsible for the overall direction of
the firm.

In 1977, the firm hired a treasurer who was responsible for developing a business plan for the firm, and overseeing its centralized control system. The treasurer produced a yearly plan which projected the company's business for three years. It reflected some decisions and provided the raw information upon which other decisions were made. The treasurer viewed decision making as continuous and realized that decisions were not always made for economic reasons.

"Because FMK was privately held, the partners did not have to answer to shareholders, and financial considerations were not the first or only criteria upon which decisions were made. Decisions were made based upon social considerations, reputation, the need for investment for future growth, and financial reasons" (Lord, 1987).

Malloy left FMK in 1987 to go off on his own to "be a small company again" (Malloy, 1987). When he left, the company was reorganized; two development departments were formed, government-assisted housing projects and private development, and a vice president named for each; a two-tiered executive committee was set up in which the partners formed the top tier, and the treasurer, vice president of government-assisted housing and the vice president of private development formed the second tier. Decisions were still made by the partners but with the executive committee playing a part in the formal decision making process. Formal strategic planning took place during a two-day annual retreat.

FMK's national reputation in mixed-income revitalizations allowed the firm to recruit an experienced staff from government service that was politically adept and could deal with the intricacies of rental housing finance, tax-exempt bond financing, and syndications.
Evaluation of Strategy

The company had a clearly articulated strategy which guided its work for twenty years. It was a national firm with a differentiated mixed-income rental product that was nationally unique; the firm was active in both large scale market rate planned unit developments and large scale government-assisted housing in order to be less susceptible to cycles in either. It remained in rental projects for the long run. It was integrated into construction, management and syndication to support its strategy, and was open to growth and willing to put the necessary infrastructure in place to support growth. FMK found a niche for itself in the subsidized housing market where it did not have to be cost-competitive, which is consistent with a differentiation strategy.

The initial strategy was a product of the vision, experiences, aesthetic standards and strong sense of social responsibility of the partners who were able to shape a new industry opportunity to their "sense of what ought to be." That same sense of values kept FMK in the public housing field after many of the easier opportunities disappeared in 1981.

The large scale projects on which the firm started were appropriate for the professional experiences of the partners. Personal preferences affected the location of their ventures. The strategy was shared by the partners, the executive committee and the staff, and was reflected in their recruitment practices. The dominant decision maker was also the major stockholder. Decisions seemed to be made on the basis of
judgement of the partners even though the company systematically
developed analytical and planning materials to inform its decisions.
This may reflect the cognitive preference of the partners. FMK did not
operate from a written strategic plan.

The firm's strategy was proactive and guided the firm to
opportunities. The strategy appeared to be crafted by the decision
makers as they learned from experiences, refining the strategy in the
good times and probing other strategic alternatives in the bad.

The decisions to vertically expand, to take on larger and larger
projects, and to stay in and reinvest in government-assisted housing
rather than exit in 1981, created no discontinuity with previous
strategic decisions; the strategic options that represented
discontinuity were rejected. The firm created a financial
infrastructure to support its strategy and hired additional staff and
reorganized as necessary.

The firm was very successful. Starting without cash, it held a 50%
interest in a very large portfolio of well-maintained and well-managed
rental projects and become one of the largest home building firms in the
country as well. Its early investments were nearing maturity and the
firm looked forward to free and clear ownership of its inventory. It
was able to bear its competitors, and meets its profit expectations.
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Case # 5


Smith, M., vice president, government-assisted Housing, Finnerty, Malloy and Kendall, Interview by author, July, 1987, Boston, Massachusetts.


Malloy, M., president, Michael Malloy Enterprises; past-partner, Finnerty, Malloy and Kendall, July, 1987, Boston, Massachusetts.
Chapter 4 - Analysis of Data

Introduction to the Analysis

In this chapter the data gathered in the case studies is analyzed through the theoretical lens developed in Chapter 1. It begins by identifying which firms were successful and asks whether there was anything in their strategy or strategic process that distinguished them from the less successful firms and could be construed as a factor contributing to their success.

In order to compile the data from the cases, 12 matrixes were developed. (See Appendix E). On the horizontal axis of the matrix are the five firms in the order in which the cases were presented. Firm 1 is North Shore Homes; firm 2 is Authentic Homes; firm three is Sullivan and Smart; firm 4 is the Kimberly Group and firm 5 is FMK. (This order also ranks them by size beginning with the smallest firm at 15 starts a year, graduating to 50, 100, 150 and 2000 starts a year in that order). The horizontal axis lists some of the questions from the case study protocol found in Appendix C. The matrixes are filled in with answers supplied by the firms.

The results are summarized in the matrixes below. For purposes of simplicity, the summary is divided as follows: success of the firm;
articulation of economic strategy; clarity of values; the strategy formation process and strategic implementation.

Generally, in the summary, factors were identified that were:

- present only in the successful firms;
- present in all of the firms;
- identified only in the less successful firms;
- not identified in any of the firms.

The companies studied were very diverse. They ranged in size from a small builder to one of the largest home building companies in the country; in age from 3 to 40 years old; in sales volume from 6 million to 99 million dollars a year; in employees from 17 to 500, and in project size from a single unit to a thousand-unit planned-development. The companies were involved in most aspects of home building: single family detached, condominiums developments, rehabilitation of older structures, and syndicated rental projects. The companies served markets that were local, state-wide, regional, multi-regional, national and multinational. The companies themselves were representative of many organizational forms: family businesses, professional partnerships, privately held corporations and publicly traded companies. (Because all of the firms were headquartered in the Northeast, the large merchant builder was not studied.) The results were surprisingly clear despite the tremendous diversity in the firms studied.
a. Success of Firms

Three of the five firms, #2 (Authentic Homes), #4 (The Kimberly Company) and #5 (FMK) were clearly successes in all five categories. They: made their profit margins; stayed in business; were able to beat their competition; were able to deliver a quality product; and met their own business goals. All of the firms were able to hold their own competitively and deliver a quality product. This level of success seemed necessary just to stay in business.

The two least successful firms, #1 (North Shore Homes) and #3 (S&S), experienced profit squeezes and had to bid away profits to maintain quality and hold their customers. S&S left the industry in favor of its more profitable primary business, and North Shore Homes maintained profitability by diversifying out of home building, and was considering leaving the industry entirely.

<table>
<thead>
<tr>
<th>SUCCESS MATRIX</th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criteria for Success</td>
<td>made profit margins</td>
<td>squeezed</td>
<td>yes</td>
<td>seldom</td>
<td>should</td>
</tr>
<tr>
<td></td>
<td>...still in business</td>
<td>deciding</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td></td>
<td>...beat competition</td>
<td>held own</td>
<td>yes held own</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td></td>
<td>...delivered quality product</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td></td>
<td>...met business goals</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
</tbody>
</table>
b. **Clear and Articulated Economic Strategy**

The three successful firms had a clear and internally consistent generic strategy, focused by buyer, product, and market. All three focused on buyers who were relatively price-insensitive (i.e., high-income buyers, renters, and government agencies who sponsored low-income housing, respectively). Two of the firms achieved unique products, and the third tried to differentiate its rental product in terms of quality and sensitivity to the buyer. Authentic Homes had a local market, the Kimberly Group a regional market, and FMK a national market, but with a concentration in two contiguous regions.

The two less successful firms had strategic problems. North Shore Homes attempted a focused, cost-leadership strategy, and tried to serve the more price sensitive buyer by staying flexible, small and local. That generic strategy proved difficult to achieve when land, labor, materials, and regulatory costs rose higher than buyers' incomes. North Shore Homes was currently attempting to switch to a higher income buyer with a more differentiated product, but was trading away profits to attract them. FMK got stuck-in-the-middle, attempting to be a volume producer of luxury housing. They ended up trading away profits to produce a luxury finish on a production schedule, and did not achieve the high margins of smaller luxury builders.

All of the companies delivered quality products, and had entrepreneurial ability. None of the firms articulated their strategy through a formal strategic planning process. Vertical integration generally complemented the firm's core generic strategic choices.

It was interesting to note that while all of the firms expanded
capacity, only one made a clear strategic choice to grow. We found that only one firm analyzed its competitors, and that none developed competitor profiles.

<table>
<thead>
<tr>
<th>ECONOMIC STRATEGY</th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Components of Strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...written strategic plan</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>...clear and internally generic strategy</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...quality &amp; attention to detail</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...entrepreneurial hustle</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Strategy Chosen</td>
<td>focused</td>
<td>focused</td>
<td>stuck-in-middle</td>
<td>focused</td>
<td>focused</td>
</tr>
<tr>
<td>...price-policy</td>
<td>cost-lead</td>
<td>unique</td>
<td>diff.</td>
<td>diff.</td>
<td>unique</td>
</tr>
<tr>
<td>...customers were price-insensitive</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...market</td>
<td>local</td>
<td>local</td>
<td>state</td>
<td>regional</td>
<td>national</td>
</tr>
<tr>
<td>Strategy Problem</td>
<td>lost</td>
<td>stuck-in</td>
<td>low-end</td>
<td>middle</td>
<td>custom/volume</td>
</tr>
<tr>
<td>Were Other Strategic Decisions Consistent With Generic Strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...vertical integration</td>
<td>yes &amp; no</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...capacity expansion</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>yes</td>
</tr>
<tr>
<td>Analyze Competitors</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>yes</td>
<td>no</td>
</tr>
</tbody>
</table>
c. Clarifying Values

The futurists claimed that firms would be able to develop more proactive and creative strategies by clarifying their values, and developing their sense of mission. In all of the firms, the strategies chosen reflected the founders' values and professional experiences, although to different degrees. Two of the successful firms, Authentic Homes and FMK, had the most clearly defined values and sense of mission. Both of the firms developed unique products (authentic Georgian homes and high-quality, low and mixed-income housing, respectively) which flowed from the founders' values, and both had a process for renewing those values from time to time. In the third successful firm, the Kimberly Group, the founders had a cognitive preference for "good business practices," and their creative strategy flowed from these values and their mastery of the field.

The successful firms allowed some room for experimentation or rehearsal, both through probing the market and by starting with a prototype later copied at a larger scale.

We found that there was a dominant decision maker in all of the firms. We found a shared strategy in all but one firm, S&S, and we found that S&S's exit from the home building industry flowed from a lack of enthusiasm for home building and a shared opinion that involvement in home building was detracting from the firm's primary business. Having a shared strategy may be a necessary factor for success.
The successful firms were all proactive. It is interesting to note that one of the less successful firms, #3, S&S was also proactive.

<table>
<thead>
<tr>
<th>CLARIFYING VALUES</th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Was There a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...dominant decision maker</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...shared strategy</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Did the Strategy Reflect</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...decision maker's exp.</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...decision maker's values</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Were Values Clarified</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>was strategy proactive</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...was strategy creative</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...was product unique</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>...experimentation built in</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

**d. The Strategic Decision Making Process**

The examination of the decision making process was guided by the incrementalists who claimed that strategy was better explained with the metaphor of crafting, or muddling through, than with the metaphor of a deliberate planning process as claimed by the early rational, classical strategic planners. The cases showed that no firms used a strategic planning process; and that all of the firms crafted their strategy through
knowledge of their industry, experience, probing the market, and using soft data.

The three successful firms used more analytical data in their decisions than the other firms. However, only the Kimberly group systematically used analytical data, as well as judgement, in its decision making.

The results showed that all of the firms exercised strategic discipline, and did not chase opportunities too far afield from their chosen focus once their basic strategy was locked in. Only the British multinational that bought Authentic Homes seemed to lack strategic discipline. The case studies showed that only at crisis points, when the old strategy showed signs of crumbling, did the firms seem to reconsider their basic strategy and look in entirely new directions.

<table>
<thead>
<tr>
<th>REALISTIC STRATEGIC PROCESS</th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Was Strategy formulated through</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategic planning process</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>soft data</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>analytical material</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>knowledge/experience</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>probing market</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>identified opportunity</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Basis of Decisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>judgement</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>and analysis</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>Exercised S. Discipline</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

83
While strategic implementation was not included in the theoretical framework in the literature review in Chapter 1, the cases raised the issue. All three successful firms put an infrastructure in place to support their strategy; they clearly designated responsibility and authority, and later developed a recruitment policy to support it.

Generally, the successful firms recruited on the basis of their strategy: Authentic Homes recruited people interested in Georgian and Victorian design, the Kimberly Group recruited people from the top professional schools and firms, and FMK recruited people from the public sector with good finance or political skills.

Good financial controls were instituted by the larger companies, and were more a function of size than an overall determinant of successful strategic implementation.

<table>
<thead>
<tr>
<th>IMPLEMENTATION</th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy Reflected In</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...infrastructure</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...recruitment policy</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...anticipated risks</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Developed Financial Controls</td>
<td>no</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>
Section 2 - Other Findings

Capital Investment and Accumulation. At inception, only one of the firms, the Kimberly Group, had access to capital. In 1987, all of the firms had accumulated capital and developed equity positions in some of their projects. (Matrix 1 & 2, Appendix E.)

Preference and Organization. All of the founders had professional roots in the building trades or the real estate business, and in all firms except one, the founders' preferences and sense of civic responsibility affected the strategy of the firm. All of the firms (except the British Multinational) were privately held firms which generally allow a freer rein to preference. (Matrix 4, Appendix E.)

Strategy Formation Process. All of the firms had dominant decision makers who were generally, but not always, the majority partners. Additional strategic input came from other partners and executive committee members. Whenever there was more than one partner, or an executive committee, decisions were negotiated by means of discussion. No firms had planning departments or used consultants to help prepare strategic plans. Only one firm, the largest, had instituted yearly strategic retreats. The three largest firms used market studies and financial projections to make decisions, and the largest firm used a three-year business plan as well. Generally, the inputs into decision making became more formal and analytical as the firms grew larger. (Matrix 4, Appendix E.)

Focused Strategies. All of the firms were focused by buyers, aiming at a mid-to-high-end buyers. Four of the firms had focused markets. The
fifth firm was nominally nation-wide, but only had offices in two contiguous regions. Location was partially determined by personal preferences (travel-time and lifestyle) of the principals. All of the firms attempted a differentiation strategy. This may be the result of choosing firms headquartered in the Northeast region, where land, materials, labor and regulatory effects were very expensive. A different region might have shown more variety in focused strategies. (Matrix 5, Appendix E.)

**Competitors.** Two of the firms were worried about new entrants into home building. The smallest builder worried about the carpenter-turned-builder who experienced no real entry barriers, and the newest multifamily builder was worried about potential national competitors coming in with cash to scale the high entry barriers in the Northeast. Two of the firms had the luxury of having triumphed over their competition and therefore having only a few, stable current competitors.

Only one firm knew more about their competitors than some of their names, current projects and capabilities. The firms generally did not know their competitors' intentions, financial results, goals or vulnerabilities. None of the firms worried about competitor retaliation, although most were worried about overbuilding. The smaller builders monitored overbuilding by knowing the local markets' absorption potential very well, and the larger builders supplemented personal knowledge with professional, in-house market studies. All of the firms felt that being in the Northeast was a good brake on regional overcapacity because land was scarce and expensive. (Matrix 6, Appendix E.)

**Risk Profiles.** All of the firms, except the smallest, took market risk and built on speculation. All took some financial risk, although
generally not for an extended period of time. Land banking was seen by all as very risky, and even the firm with the highest risk profile would not get highly leveraged on land. Joint venturing was a function of size; the larger firms joint ventured and the smaller firms did not.

The smaller firms were generally looking for larger profit margin, than the larger firms who seemed to be trading volume for margin. (Matrix 6, Appendix E.)

**Vertical Integration.** All of the firms that integrated vertically received both an economic benefit and a strategic benefit. Most of the firms incurred some administrative costs and had to monitor inefficiencies. Generally, the decision to integrate seemed more strategic than economic, and was generally done to pursue a differentiation strategy. (Matrix 8, Appendix E.)

**Entry into Industry.** Firms generally entered the industry (and new markets) with advantages and new products. They did not expect retaliation. Only the newest firm encountered high entry barriers which it used to its advantage. The only entry that was not profitable was based on an erroneous assumption about the similarity of the commercial real estate sector and the home building industry. (Matrix 9, Appendix E.)

**Capacity Expansion.** Although all of the firms grew, only one made a conscious decision to be open to growth. The major component of their decision to grow was to put in place a centralized system of financial controls rather than engage in the systematic analysis of competitors' capacity recommended by the competitive strategists. (Matrix 10, Appendix E.)

**Acquisition Decision.** There was only one acquisition decision in the
cases. Acquisition of home builders was rare. The acquisition (Authentic Homes) was profitable for the buyer because the seller, who had non-economic reasons to sell, undervalued the company. (Matrix 11, Appendix E.)

**Exit Decisions Contemplated.** All of the firms except the youngest firm had contemplated exit decisions. Authentic Homes and North Shore Homes found new niches for themselves in periods of decline within the remaining pockets of demand in the industry. Authentic Homes prospered and North Shore Homes was still contemplating exit. FMK reinvested during a period of decline and took an leadership position in the industry. S&S's and Authentic Home's owners left the industry for non-economic reasons during good times. Even in times of decline, preference seems to play a large role in exit decisions. principals who wanted to leave, left; and principals who wanted to stay, stayed and found a remaining pocket of demand to work within. Generally, the industry was easy to leave. (Matrix 12, Appendix E.)
Chapter 5

Conclusions

Having a clear, articulated and internally consistent generic business strategy is a distinct competitive advantage in the home building industry. Coherent business unit strategies distinguish the successful from the unsuccessful firms in the home building industry. The firms that have clear generic strategies are able to remain profitable while firms without a coherent generic strategy are unable to hold their customers and negotiate with suppliers without bidding away their profits. This is true regardless of size of the firm, initial access to capital, or industry segment. An articulated economic strategy helps firms become and stay profitable, beat their competition, meet internal business goals, and avoid serious blunders, despite serious problems in the home building industry.

Business unit strategies once formulated do not need constant revision, although they need to be updated from time to time. Strategies among the successful firms were locked in early. These firms experienced periods of strategic stability, when strategic implementation was more important to the firms' successes than new strategy formation. Updating
and revising of strategies usually happens in the home building industry during the down side of industry cycles.

Clarifying values gives firms a competitive advantage in the home building industry by helping firms achieve a differentiation strategy and develop products that are perceived by buyers as unique and for which buyers will pay higher prices. This holds true for firms that are attempting a national or local differentiation strategy. Firms in which the principals have clarified their values are able to utilize their sense of "the future as they would like it to be" to develop creative products and creative strategies. This is especially important because it is difficult to create the name identification necessary for differentiation in the home building industry. Firms with clarified values can proactively lead the market with their products, because their products flow from their values, rather than from trend data available to everyone in the industry. The values that inspire the strategies are not easily copied, and neither are the strategies. Additionally, some customer loyalty is established because the clarification of values (when communicated to customers) helps establish the integrity of the company and its products.

A formal strategic planning process which requires a planning staff and a written strategic plan, is not a necessary factor for the strategic success of a firm. The strategy formation and decision making process in the firms studied tended to be informal and ad hoc. The informal process did not detract from the successful firms' ability to develop, or evolve a clear and internally consistent generic strategy.
Most of the strategic processes in the case studies built in learning from experience, experimentation, and reliance on the informed judgement of a single decision maker. It would be fascinating to delve further into this topic.

There is a competitive advantage for firms that infuse the informal and ad hoc strategic decision process with good technical data and analytical information. Good analytical and technical information and analysis can make decisions more strategic by supplying decision makers with information that accurately predict future demand, future moves of competitors, future costs, new preference trends, and help firms understand industry trends more quickly. Good analytical information is especially important for firms that are not able to achieve product differentiation and need to quickly understanding industry trends to focus their products to a specific buyer, or to a local market. To be effective, analytical information does not necessarily need to be written because decision makers typically respond better to verbal information.

Firms do not need comprehensive written industry analyses, complete competitor profiles or written strategic plans before they can act, but they need to learn to systematically gather the information that goes into these analyses and think about it strategically. Written industry analyses, competitor profiles, and five-year written strategic plans can take an ongoing firm years to produce even where the firm has good access to data.

In reality, this kind of comprehensive analysis is more than the lean, opportunity based firms in the home building industry can or will do
before starting a venture. This analysis requires rigorous planning before any probing could undertaken, and could be a straight jacket that prevents a firm from learning from its own experiences. On the other hand, merely jumping in, without any parts of a plan in place to be tested, and relying entirely on experience could lead to disaster. Somewhere inbetween these two extremes is a more realistic planning process and a more appropriate mix of learning and analysis. But how much analysis a firm needs, given the cognitive preference of the decision makers and the size of the firm, is the topic of another thesis.

Aggressively pursuing opportunities and paying close attention to details will not give firms a competitive advantage in the home building industry. The home building industry is an opportunity-based industry and all of the industry leaders value entrepreneurial talent. It is very seductive to believe that being opportunistic, delivering a quality product and mastering operating details is a sufficient strategy, but it is not. If "hustle" were a substitute for a clear generic strategy, all of the firms we studied would have been successful. But the analysis showed that they were not. The less successful firms were less competitive because they vigorously pursued unclear and muddled strategies. In order to make a profit and beat the competition, the decisions makers in the home building industry need to be both strategic and entrepreneurial.
Appendix A

Components of an Industry Analysis

Industry analysis was Porter's starting point in that he thought that the viability of the company's whole industry was as important to a company's success as the company's own strategic position. Porter attempted to capture the richness of the industries and developed what he called the five fundamental forces in industry competition which together determined the strength of competition in an industry and the industries profitability. The factors were: threat of entry, intensity of rivalry among existing competitors, pressure from substitute products, bargaining power of buyers, bargaining power of suppliers and government as a sixth force affecting the other five.

Porter distinguished the forces of competition from the many short-run factors that could affect the profitability of all the firms in an industry, like fluctuations in the business cycle or material shortages. The major technological, physical, economic, social, and political changes were discussed in the context of the fundamental competitive factors and not treated separately.

Porter focused industry analysis on competitive forces because increased competition worked to drive down the rate of return on invested capital until it reached a floor rate of return below which investors would not invest. The more competitive an industry was, therefore, the lower its profitability was and its attractiveness to investment. In a perfectly competitive industry, the rate of return was approximately the yield on long-term governmental securities adjusted upward by the risk of capital loss.
Appendix B

Identification of the Major Strategic Decisions Occurring in Industry

Vertical integration was described as the creation of technologically distinct production, distribution, selling or other economic processes within the confines of a single firm. Vertical integration involved a decision by the firm to utilize an internal or administrative transaction rather than a market transaction to accomplish its economic purposes. For a firm to find the strategically appropriate level of vertical integration involved a balancing of the economic and competitive advantages of vertical integration with the economic and administrative costs of adding a new process.

Capacity expansion involved a decision to commit resources far into the future based on specific expectations of future demand and future competitor behavior. The strategic issue in capacity expansion was described as how to add capacity to further the objectives of the firm in hopes of improving competitive position and market share while avoiding industry overcapacity. Overcapacity was described as most problematic in industries like real estate where demand is cyclical and products are not differentiated.

Entry into a new business was described as occurring through internal development or acquisition. The economics of entry rest on fundamental market forces. If market forces are working perfectly, in an economic sense, no entry decision can yield an above-average returns because the new entrant must invest more than incumbents to overcome entry barriers and meet the retaliation of incumbents. Therefore, a successful entry strategy requires finding a market situation where the firm has special advantages, the industry is in disequilibrium, and ineffectual retaliation is expected from existing firms.

Entry through acquisition has different economics because acquisition does not add a new firm to the industry. The critical point in the acquisition decision was that the price for an acquisition was set in the market. An efficient market worked to eliminate any above-average profits from acquisitions because a seller would set his or her price based upon the expected value of continuing to operate the business. A successful acquisition strategy required that the buyer has a chance of earning above-average returns on its investment through adding value to the acquired company, buying in an imperfect market, or identifying a seller who has set a low expected value on continuing to operate the business.

The decision to exit an industry usually came as a result of shrinking profit margins in an industry that was experiencing a decline in sales over a long time. In the situation of decline, a firm had a
strategic decision to make: to exit quickly; to exit slowly and harvest the company; to take a leadership position in the industry and to reinvest to seek a profitable niche. The decision to leave should include a determination that the firm was weak relative to the demand that remained; weak relative to its competitors; that there was no profitable way to continue and that the exit barriers were low.
Appendix C

Interview Protocol

1. **Company Description**

   . What is the name of your company?
   . What year was your firm founded?
   . What market areas do you build in?
   . How many countries, states, counties do you do business in?
   . How many employees do you have?
   . How many starts and finished do you have a year?
   . What is your sales volume?
   . What are the most important operations of your firm?
   . What aspects of the home building industry are you involved in?
   . What non-residential development activities are you involved in (i.e. engineering architecture, construction, interior design, sales, law, land development, banking, syndications)?

2. **Organization of the Firm**

   . How is your firm presently organized? If a partnership, how many partners? If a corporation, how many shareholders? If a subsidiary of another firm, please describe it?
   . Have you been involved in joint venture deals? With whom?

3. **History of the Firm**

   . How old is your firm?
   . How large was it at inception?
   . How many employees did it have at inception?
   . If the firm did not have its origins in home building; which industry did it start in and when did it enter home building?
   . What market(s) did the firm start in and with what products?
   . How many starts and finishes a year did they do in the early years?

4. **Founders of the Firm and Current Operating Head**

   . Who were the founders?
   . What was their background?
   . What did they want to do and what were their values?
   . What were the social pressures they might have been responding to when they started the firm?
   . Is the operating head of the firm a salaried executive or owner?
   . What is the age and sex of the operating head of the firm?
   . What is the formal education of the operating head of the firm?
Is the spouse or another family member of the operating head employed by the firm?
What is the employment and professional background of the operating head of the firm?
What specific beliefs or values does the operating head of the firm have that have affected the direction of the firm?

5. Multinational Owner

What are the current results (sales growth, rate of return) of the corporate parent?
What are the overall goals of the corporate parent?
What strategic importance does the parent attach to the particular business unit in terms of its overall corporate strategy? Why did the parent get into the business and what does this say about the pressure the parent will place on the business units strategic posture and behavior?
What is the economic relationship between the business and others in the parent company's portfolio in terms of vertical integration, complementarity to other businesses, and shared R&D?
What are the corporate-wide values or beliefs of top management? For example, do they seek technological leadership in all their businesses, no-layoff policies?
Is there a generic strategy that the parent has applied to a number of businesses and may attempt to apply to this one?
Given the performance and needs of other units in the corporation and the overall corporate strategy, what sorts of sales targets, hurdles for return on investment and constraints on capital are likely to be placed on the business unit?
What are the parent company's diversification plans?
What clues does the parent's corporate structure provide about the relative status, position and goals of the unit in the eyes of the parent? i.e. how powerful is the part of the corporation the business unit reports too?
How is the divisional management controlled and compensated in the overall corporate scheme?
What kinds of executives seem to have been rewarded by the corporate parent, as an indication of the types of strategic behavior reinforced by the corporation?
Does the corporation as a whole have any regulatory, antitrust or social sensitivity which to affect the business?
Does the corporate parent or particular top management have an emotional attachment to the unit?

6. Strengths and Weaknesses

What does your firm do uniquely well?
What kinds of resources does your firm have in people and money?
Where is your firm weak?

7. Strategic Decision Making Process

What process does the company use in making key strategic decisions?
8. Competitor Analysis

Who are your closest competitors?
Who are the likely potential competitors?
What do you know about the recent history of your competitors?
Have new firms entered the industry recently?
What is your attitude toward competitors?
Does anyone in your company collect data on your competitors?
What data do you collect?
What information about your competitors do you use when you formulate strategy?
Are you competing with a stable set of competitors or do they change with every project?
What types of strategies have worked or not worked for your competitors in the past?
What are their current strategies?
What are their capabilities?
Where are they vulnerable? How would they respond to provocation?
How effectively can they retaliate?

9. Generic Strategy

What products do you sell?
What services do you sell?
At how many steps is value added to your product?
Do you aim for the low-cost position in the industry?
If not, what is your firm's cost position?
Who are your buyers?
What is your relationship to your buyers?
How do you determine what your buyers want and value?
Do your products have a distinctive architectural style, a distinctive level of quality?
Are any of your products unique in the industry?
Are all of your products similarly affected by price, quality and style changes?
Do you have different markets for your products?
Do you have different competitors for different products?
Could you sell off any part of your business separately?
How does your strategy aid you in your relationship with buyers, suppliers, substitute products, rivals?
Is there a set of policies against which you evaluate opportunities?
How have those policies evolved over time?
How much do the preferences and values of the principles affect which opportunities you select?

10. Risk Analysis
What are the critical factors for success in your business? How would you weigh them? In terms of internal factors, how do you evaluate yourself against your nearest competitor? How would you forecast the trends for each external factor? What risks is your company comfortable taking? What risks will you not take?

11. **Strategic Decisions:**

How has the company evolved over the years? Has the company made a decision(s) that substantially refocused the corporate energies: has the company gone into different markets; been involved in forward or backward integration; substantially expanded capacity; diversified out of the industry; left the home building industry; entered another part of the industry through internal development or acquisition?

How did your firm respond to the market downturns in 1974 and 1981? What, if anything, did you do differently to protect yourself after those cycles?

How has your firm responded to changes in information technology, banking, construction technology, demographics, changes in federal monetary policy, increased regulatory processes, increased price of land, the volatility in interest rates and the cost of capital?

12. **Acquisition Decisions**

How did you find the company you bought? Did you buy through a broker? Was it on the market? What kind of information did you gather about the company? How did you pick the region of the country? What was the price position of the company? What was its relationship to customers and what they value? Was the company undervalued? How was the value of the company determined? Were there imperfections in the market that affected the price?

Did the seller have superior information? Was the number of bidders low? Were the conditions in the economy bad? Was the company sick? Did the seller have objectives besides maximizing the price received? Did the owner have a special reason to sell, i.e., did he/she need capital, did he/she have estate problems, had he/she lost key members of management, did he have weak management? Did the purchaser have an acquisitions policy? What was it? How did the purchaser make the decision to enter the home building industry? Did the purchaser conduct an overall industry attractiveness analysis? What did the purchaser want in the company?
. Were there any issues of the values of the buying company that particularly affect this purchase?
. What unique abilities did the buyer's bring to the acquisition candidate that let the firm outbid other firms?
. Did it have a base from which to change the industry structure?
. Did the acquisition uniquely help the buyer's position in its existing business irrespective of profits?
. How successful was the acquisition for the company?
. Did they make above average profit margins?
. Was there any evidence that the buyer was acting irrationally?
. Did they target a specific strategic grouping in the industry?
. Was this the buyer's first acquisition in the industry?
. What other acquisitions did they make?
. What did they do differently in subsequent acquisitions?
. Did they sequence their entry into the industry in one group and then go from group to group?

13. **Entry through Internal Development**

. How did the firm identify the target industry for internal entry?
. Was the industry in disequilibrium?
. Did the firm have special advantages?
. Did the firm have lower entry costs than other firms?
. Did the firm have distinctive abilities to influence the industry structure?
. Were there expected positive effects on the firm's existing businesses?
. Was it a new industry, or a new industry segment?
. Did the industry or segment have rising entry barriers indicating that future profits will more than offset future costs of entry?
. Was there poor public information about opportunities in the industry?
. Was the market sending off signals to others to induce their entry as well?
. Could the firm overcome structural entry barriers more cheaply than other entrants, or did it expect less retaliation because of its assets, skills, or innovation?
. Did the firm have distinctive ability to influence industry structure, (for example, increasing consolidation in a fragmented industry)?
. What investments did the firm need to make in the new business?
. What entry barriers did the entrant confront?
. What, if any, additional investment was required to overcome the structural barriers to entry?
. What effect, if any, did the firms entry have on the supply-demand balance in the industry?
. What was the expected cost of retaliation from industry incumbents?
. Did the entry have the expected positive effects on the firm's other businesses?
. How do the costs above balance against the expected cash flows?
. Did the conditions for retaliation exist (slow growth, a commodity like product, high fixed costs, high industry concentration, incumbents who attach high strategic importance to being in the industry or had a prior history of retaliation)?

100
Was slow or ineffectual retaliation from incumbents expected?
Did retaliation occur?
What was the firms generic concept for entry (i.e. reduced product costs, buy in with low price, forego returns in the short run to force competitors to yield share, offer a superior product, discover a new niche, or introduce a market innovation)?
Was the entry successful?

14. Exit Decisions

Is or was the industry or industry segment experiencing decline in absolute numbers over a sustained period of time as opposed to a short run-cycle?
Was there uncertainty in the industry about whether demand would continue to decline?
How volatile was the rivalry in the industry?
What was the cause of decline?
What was the structure of the remaining pockets of demand?
Did the remaining pockets of demand involve price-insensitive buyers or those that had little bargaining power?
Were there any exit barriers for the company (i.e., the existence of durable specialized assets; fixed costs; strategic exit costs including corporate image, interrelatedness to the total strategy, access to financial markets, vertical integration; information barriers; managerial or emotional barriers; and government and social barriers)?
Was the industry favorable to decline in terms of low exit barriers and low uncertainty?
Did the firm have strengths that enabled it to stay in the industry?
Did the firm "need" to stay in the business?
What exit strategy did the company pursue (exit strategies are defined as investing or seeking a leadership position in terms of market share of the firms that remain; seeking a niche that will maintain high demand and allow high returns; harvesting the business by curtailing new investment but reaping the benefits of past good will; and/or divesting quickly by selling early in the decline.
Did the firm fail to recognize the decline, fall into a war of attrition with competitors or try to harvest the company without clear strengths

15. Vertical Integration

Did you decide to go into land development, form a construction company, build a design staff, form a brokerage or sales force, form a management company, form an interior design company, buy a bank?
When did you make that decision?
Had you bought those services before?
Were the principal components of that decision strategic or financial?
What were the direct and indirect benefits to your firm of being vertically integrated?
What were the costs in terms of additional administrative and management burdens?
How did you balance the costs and benefits to find the strategically
appropriate extent of vertical integration for your firm?
How consistent was the decision to vertically integrate with your overall strategy?
Did your firm adopt a policy of \textit{tapered} integration by producing some of its own requirements internally and contracting for the rest?
Did your firm adopt a policy of \textit{quasi integration}, using debt or equity investments and other means to create alliances between vertically related firms without full ownership?
Do you sell any of these services on the market?
Are there any diseconomies of integration?
How do you monitor the diseconomies?

16. \textbf{Capacity Expansion Decisions}

What were the realistic options available to the firm?
What degree of vertical integration did they entail?
Did you estimate future demand, input costs and technological changes?
How cyclical is the demand in the industry?
Did you estimate what capacity each of your competitors might add?
Did you forecast how and when each of your competitors might add capacity? Did you add the aggregate the industry capacity and the individual market shares of industry participants, and balance this capacity against expected demand?
How did you estimate demand?
How differentiated are the products in your industry?
How differentiated are your products from those of your competitors?

17. \textbf{Evaluation of Strategy}

\textbf{Clarity}
Was there a strategy?
Was there a strategic plan to gain competitive advantage or did the firm gain advantage by concentrating on operating details and doing things well and moving fast?
Did the firm evaluate its competitors?
Was the strategy clear explicitly or implicitly?
Was the strategy shared?
Was there a dominant decision maker?
How were strategic decisions made (i.e. on the basis of analysis, judgement, or the preferences of the decision makers)?

\textbf{Values}
Did the strategy reflect the background of the decision makers?
Did it reflect the values, ethics, aesthetics, preferences and sense of social responsibility of the key decision makers?

\textbf{Planning or Crafting}
Did the strategy fully exploit environmental opportunity?
What was the role of strategic planning, values, probing crafting and entrepreneurial hustle in strategy formation?
Was the strategy reactive to changes in the business environment or did it proactively create new opportunity for the company?

\textbf{Continuity or Drastic Change}
Was the strategy consistent with the previous strategy, and past and present corporate resources and capabilities?
If continuous and consistent, the organizational infrastructure put in place to execute the strategy?
If discontinuous with the previous strategy, how did the company handle the higher risk of a new strategy and did they allow for experimentation?
How often were major strategic decisions made and in response to what events?

What Was the Outcome?
Appendix D

Case Study 2: Acquisition Decision of the Multinational Buyer of Authentic Homes

Description of the Multi-National Owner: McUsher was a British company in heavy construction and minerals. They entered home building through acquisition in England in 1981 (Gray, 1985, pp. 145-150). McUsher was a blue-chip, well-known company in England, and the chairman of the board was on friendly terms with the Queen. The company experienced a 22% growth rate and a 5% before-tax profit in 1986.

The company had a corporate goal of investing 50% of its assets in the U.S. In 1980, McUsher had divested its interests in South Africa and reinvested the money in the U.S. It was looking for a steady stream of profits to replace its South African returns. The chairman of the board attached great strategic significance to its entry into the American market. Because England is such a small country, the chairman saw the U.S. as a place in which to grow. He was impressed by the high regard in which business was held in the U.S. One indication of the chairman's interest in America was the fact that he personally reviewed the American portfolio. However, the company was not accustomed to doing business in the U.S. Despite their discomfort, the top personnel in the U.S. were British with the exception of an American treasurer.

By 1986, McUsher had acquired six companies on the east coast and had three American divisions: minerals, construction and home building. Home building was by far the most profitable division, accounting for less than 25% of their investment and more than 40% of their profit. Authentic Homes was the most profitable company in the McUsher portfolio. There were no economic relationships between Authentic Homes and other companies in the home building portfolio in terms of vertical integration, or shared R&D.

McUsher wanted to be located in New England which was a slowly increasing market, unlike Florida or California. They were interested in additional acquisitions in the North East and North Central regions because they were close to England. The British company generally kept the existing management in both its British and American acquisitions and phased in their own controls. They were looking for a twenty-percent yearly growth rate and return on investment. The British parent required the business unit managers to bid against each other for capital which it loaned below prime. Aggressive unit managers seemed to be favored by the emphasis on growth.

McUsher's Acquisition Decisions: Authentic Homes was contacted through a third party. McUsher viewed Authentic Homes as a local company with a good reputation and a good product. McUsher wanted the reputation and quality image in order to be able to make a public stock
or debt offering and they liked New England.

The company was not on the market. McUsher had a policy against buying companies that were for sale because they tend to be over-valued. Representatives of McUsher visited Authentic Homes. They spent $125,000 on an audit. They thought that the products were under-priced due to a lack of market information and a clear pricing policy. They felt accounting was the only area in which Authentic Homes was weak. By McUsher's standards, Authentic Homes was completely undervalued. The value of the company was based on the inventory and good will. The "low" value set on the company by Miller was influenced by his belief that there was no market for home building companies. There were no other bidders. McUsher felt that it had better information than Miller about the company finances. It placed more value on the company than Miller did and was easily able to meet his asking price.

McUsher's acquisition policy in 1983 was: to acquire in industries they knew; to not enter flashy areas of the U.S. like Florida or California; and to prefer family-owned businesses because of the personal effort invested. Authentic Homes met its criteria and the price was right.

McUsher had not performed an analysis of the attractiveness of the home building industry in the United States. It relied on the opinions of its Board members gathered in part from reading the international coverage in British newspapers and from what they had learned from their holdings in the U.S.

McUsher felt that it could increase Authentic Homes' efficiency by installing better accounting and tracking systems as well as by adding money. McUsher wanted to retain Authentic Homes' management and structured the purchase as a phased buy-out to accomplish that goal. The acquisition was also intended to help McUsher by increasing the value of its stock on the London stock exchange.

The acquisition of Authentic Homes was very successful for McUsher. They paid Miller out in two years instead of four and showed a 22% profit. Their stock value in England increased by 50% due to the American acquisitions. Acquisition of Authentic Homes was an economic decision for McUsher and made according to their acquisition policy. McUsher had not targeted a specific strategic grouping in the home building industry for acquisition but seemed to be learning as it went. Authentic Homes was McUsher's first acquisition in the Home Building industry.

McUsher had been involved in one other real estate acquisition in the U.S. before Authentic Homes. In the early 1980s, the British company the owner of an exclusive time share project on Marco Island in Florida. They entered into this project as a joint venture partner and a lender. The project faltered and they became the owner through foreclosure. In 1986, after the infusion of substantial capital and after a delay of several years the project begun to show a small profit.

McUsher's second home building acquisition was handled by the Treasurer of the American Division. They bought B&K Homes, an aggressive young company with a small inventory and a good reputation in 1986. The president was a very innovative and aggressive thirty-seven-year-old man who wanted to be the biggest builder in the Northeast. B&K was noted for its flexibility; it efficiently built for both the low-end or mid market, and was willing to go anywhere. McUsher
bought B&K as a growth vehicle.

McUsher seemed to change strategies in 1986. They abandoned the idea of a public stock offering and therefore, valued Authentic Homes' reputation less. Rather than a steady stream of profits from Authentic Homes, McUsher wanted growth and name recognition in the U.S. and pushed their affiliates to feature the McUsher name more prominently.

Works Cited

Appendix E

Case Summary Matrixes 1-13

Summary Matrix 1

Company History: At Inception

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Home Building Products

- ...rental
- ...single family
- ...condominiums
- ...non-residential

Home Building Markets

- ...local
- ...state-wide
- ...regional
- ...national
- ...multinational

Access to Resources

- ...experience in H.B.
- ...capital
Summary Matrix 2

**Company Description: 1987**

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Summary Matrix #3

**Organization of the Firm and the Values of the Principles**

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<tr>
<td>...background</td>
<td>builder</td>
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<td>RE.prof</td>
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<td></td>
<td>energy</td>
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<td>quality</td>
<td>quality</td>
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<tr>
<td></td>
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<td></td>
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<td>and</td>
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<td></td>
<td></td>
<td></td>
<td>condos</td>
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<td><strong>business goals</strong></td>
<td>survive</td>
<td>survive</td>
<td>cash</td>
<td>do</td>
<td>grow</td>
</tr>
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<td></td>
<td>as</td>
<td>as</td>
<td>cash</td>
<td>and</td>
<td>some</td>
</tr>
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<td></td>
<td>home</td>
<td>home</td>
<td>for</td>
<td>thing</td>
<td>prosper</td>
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<td></td>
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<td>other</td>
<td>very</td>
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<td></td>
<td>well</td>
</tr>
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<td><strong>social goals and</strong></td>
<td>help</td>
<td>make</td>
<td>improve</td>
<td>good</td>
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<td>desired contribution</td>
<td>first-time</td>
<td>civic</td>
<td>environ-</td>
<td>business</td>
<td>nice low-</td>
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<td>ment</td>
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<td>tion</td>
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109
Summary Matrix #4

Decision Structure and Strategic Planning Process

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<td>DECISION MAKERS</td>
<td></td>
<td></td>
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<td>...dominant partner</td>
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<td>yes</td>
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<td>yes</td>
</tr>
<tr>
<td>...all partners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>...formal executive committee</td>
<td>yes</td>
<td></td>
<td>yes</td>
<td></td>
<td>yes</td>
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<td>SUPPORT STAFF</td>
<td></td>
<td></td>
<td></td>
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<td>no</td>
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<td>no</td>
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<td>...written plan</td>
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<td>...clear/consistent verbal p</td>
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<td>...strategic retreats</td>
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<td>no</td>
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<td>yes</td>
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<td>...organizational plan</td>
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<td>...continuous discussion</td>
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<td>...analytical materials</td>
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<td>...probed market</td>
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<td>yes</td>
<td>yes</td>
<td>yes</td>
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<td>...negotiations/principles</td>
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<td>yes</td>
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### Generic Strategy

<table>
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<tr>
<th>MARKETS</th>
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<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>...industry-wide</td>
<td>unique product</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...focused</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x product</td>
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<td>...low</td>
<td>(initially)</td>
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<td></td>
<td></td>
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<td>...differentiated</td>
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### BUYERS ATTRACTED BY

<table>
<thead>
<tr>
<th>HOW FOCUSED</th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>...by buyer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>...by market</td>
<td></td>
<td></td>
<td></td>
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<td>x</td>
</tr>
<tr>
<td>...by product</td>
<td></td>
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<td></td>
<td></td>
<td>x</td>
</tr>
</tbody>
</table>

### OTHER PRODUCTS

<table>
<thead>
<tr>
<th>...same strategy</th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
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<tbody>
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<td></td>
<td></td>
<td></td>
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</table>
### Summary Matrix §6

#### What Firms Know About Their Competitors

<table>
<thead>
<tr>
<th></th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WHO WERE THE COMPETITORS</strong></td>
<td></td>
<td></td>
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<tr>
<td>...known stable group</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>(gov't. project)</td>
</tr>
<tr>
<td>...change with every project</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>...many new entries</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>THE FIRM KEPT TRACK OF</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...some names</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>...some current projects</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>...some capabilities</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>...some financial results</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>...strategy, goals, vulnerability</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td><strong>KIND OF DATA FIRM KEPT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...full profile</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...market studies</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>...other</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<td><strong>OVERCAPACITY MONITORED</strong></td>
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<tr>
<td>...by market studies</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>and other knowledge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...through choice of NE</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>...by competitor</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ATTITUDE TO COMPEETITION</strong></td>
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</tr>
<tr>
<td>...had very little competition</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>...beat competition</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>...concerned</td>
<td>x</td>
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Summary Matrix #7

Risk Profile

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<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
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<td><strong>CRITICAL FACTORS</strong></td>
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<tr>
<td>...interest rate</td>
<td>x</td>
<td>x</td>
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<td></td>
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<tr>
<td>...land cost</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>...overcapacity</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>...flexibility</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>...govt action</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
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<tr>
<td>...economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
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<td><strong>RISKS TAKEN</strong></td>
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<td>...market risk</td>
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<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...financial risk</td>
<td>some</td>
<td>some</td>
<td>some</td>
<td>some</td>
<td>some</td>
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<td>...land banking</td>
<td>seldom</td>
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<td>sometimes</td>
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<td>...joint venture</td>
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<td>no</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
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<td><strong>PROFIT MARGINS</strong></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>...margins sought</td>
<td>20%</td>
<td>20%</td>
<td>15-20%</td>
<td>20-30%</td>
<td>6-20%</td>
</tr>
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<td>...margins achieved</td>
<td>profits achieved</td>
<td>only too takes</td>
<td>were high achieved</td>
<td>soon lower margins</td>
<td>squeezed 20s on last project</td>
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### Summary Matrix 8

#### Vertical Integration Decisions

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<tr>
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<th>1st firm</th>
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<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td></td>
</tr>
</tbody>
</table>

#### HOW INTEGRATED?

| ...engineering | x |
| ...architecture | x |
| ...construction | x x x | x |
| ...interior design | x |
| ...sales | x x |
| ...law |
| ...land development | x x x |
| ...2nd mortgages | x x x |
| ...banking | x |
| ...syndications | x |

#### COSTS AND BENEFITS OF DECISION

| ...economic benefit | yes | yes | yes | na | yes |
| ...strategic benefit | yes | yes | yes | na | yes |
| ...incurred admin. costs | no | yes | yes | na | yes |
| ...more costly than market transaction | no | yes | no | na | yes |
| ...balance/benefit & cost | good | good | good | good | good |

#### DEGREE OF INTEGRATION CONSISTANT WITH STRATEGY

| early consistancy later land dev. was new strategy | yes | yes | yes | yes | yes |

114
Summary Matrix #9

Initial Entry through Internal Development

<table>
<thead>
<tr>
<th>WHY WAS INDUSTRY TARGETED</th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>...in disequilibrium</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...new industry</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>...firm had advantages</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>...had low entry cost</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>...helped other business</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...poor information in industry</td>
<td></td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>...market signals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>...discouraging competitors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...retaliation expected</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

COST OF ENTRY

| ...investment                                                |          | x        | x        |          |          |
| ...entry barriers                                           | no       | no       | no       | yes      | no       |
| ...extra cost from barriers                                  | no       |          |          |          |          |
| ...cost of retaliation                                       | no       | no       | no       | no       | no       |
| ...add over-supply by entry                                  | no       | no       | no       | no       | no       |
| ...helped other business                                     | na       | na       | hurt     | na       | yes      |

WAS ENTRY PROFITABLE

<table>
<thead>
<tr>
<th></th>
<th>yes</th>
<th>yes</th>
<th>no</th>
<th>yes</th>
<th>yes</th>
</tr>
</thead>
</table>

ENTRY STRATEGY

| ...quality product                            | x   | x   | x  | x   | x   |
| ...market innovation                          |     |     | x  |     |     |
| ...create niche                               | x   |     |    |     |     |
| ...opp. in disequilibrium                     |     |     |    |     | x   |
Summary Matrix #10

**Capacity Expansion**

<table>
<thead>
<tr>
<th><strong>How Cyclic was the Industry</strong></th>
<th>very</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Did firm have other realistic options</strong></td>
<td>yes</td>
</tr>
<tr>
<td><strong>Did the options require different vertical integration</strong></td>
<td>yes</td>
</tr>
<tr>
<td><strong>How did the firm estimate</strong></td>
<td></td>
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<td>demand</td>
<td>market study</td>
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<td>input costs</td>
<td>analysis</td>
</tr>
<tr>
<td><strong>How did Firm Estimate Capacity of Competitors</strong></td>
<td>market studies</td>
</tr>
<tr>
<td><strong>Were the Products Differentiated</strong></td>
<td>unique</td>
</tr>
<tr>
<td><strong>Did the Supply/Demand Balance in the Industry Change with the Firm's Added Capacity</strong></td>
<td>not looked at by firm</td>
</tr>
</tbody>
</table>

**Comments:**

* While most of the firms grew, only one, FMK (the 5th firm), made a conscious decision to grow. The decision reflected in this chart is the decision made in 1981, to grow the government-assisted division by taking on a 1400 unit project.*
## Summary Matrix 11

### Entry Through Acquisition*

<table>
<thead>
<tr>
<th>2nd** firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did Buyer have a Strategy</td>
</tr>
</tbody>
</table>

**Was the Acquired Firm**

- **...on the market**: no
- **...bought at value**: undervalued

**Were there Market Imperfections**: yes

**Did the Buyer Have Superior Information**: yes

**Was the Economy Bad**: no

**Was the firm Sick**: no

**How was the Value Set**: Reputation, Inventory, Results

**Did Sellers Ask Full Value**: no

**Did the Seller Have Personal Motives**: yes

**Did The Company Make Subsequent Acquisitions**: yes

- **...same industry grouping**: yes
- **...same goals**: no
- **...same acquisition strategy**: no

**Was the Acquisition Profitable**: yes

### Comments:

* There was only one example in the cases of an acquisition decision. Acquisition of home builders is not a very common occurrence.

** Firm 2, Authentic Homes, was purchased by a British Multinational. The acquisition was generally successful because the buyer benefited from the fact that the seller had non-economic reasons to sell.

---

117
Summary Matrix #12

Exit Decisions Considered by Companies*

<table>
<thead>
<tr>
<th>STARFIRM</th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIGN OF DECLINE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>absolute decline/sales</td>
<td>decline in profits</td>
<td>no</td>
<td>no</td>
<td>na</td>
<td>yes</td>
</tr>
<tr>
<td>more than cycle</td>
<td>yes</td>
<td>na</td>
<td>no</td>
<td></td>
<td>yes</td>
</tr>
<tr>
<td>uncertainty about future</td>
<td>yes</td>
<td>no</td>
<td>no</td>
<td></td>
<td>yes</td>
</tr>
<tr>
<td>increased rivalry</td>
<td>yes</td>
<td>no</td>
<td>no</td>
<td></td>
<td>yes</td>
</tr>
<tr>
<td>cause of decline</td>
<td>gov't action/land cost</td>
<td>na</td>
<td>na</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REMAINING POCKETS OF DEMAND</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>price-incensative buyers</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
<td></td>
<td>yes</td>
</tr>
<tr>
<td>firm strong in pockets</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
<td></td>
<td>yes</td>
</tr>
<tr>
<td>firm needs to stay</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>exit barriers</td>
<td>strategic</td>
<td>no</td>
<td>no</td>
<td></td>
<td>strategic</td>
</tr>
<tr>
<td>easy to leave</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td></td>
<td>yes</td>
</tr>
<tr>
<td>STRATEGY CHOSEN</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>slowly</td>
<td>diversified</td>
<td>sold/exit/absorbed</td>
<td>remained/absorbed</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>to manage staff</td>
<td>invested/grew</td>
<td></td>
</tr>
<tr>
<td>REASON</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>still retired</td>
<td>other</td>
<td>preference</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>deciding</td>
<td>cashed business</td>
<td>reputation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>out</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Comments:

* Four of the five firms have considered exit decisions: two of the firms because the industry was in absolute decline; one for reasons personal of the decision maker; and one to tend to needs of the primary business. Only one firm left the industry. Another was sold. Two remained.
### Summary Matrix 13

#### Summary of Strategy

**SUCCESS MATRIX**

<table>
<thead>
<tr>
<th></th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Was Firm Successful</strong></td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

#### Criteria for Success

- ...made profit margins: squeezed, yes, seldom, should, yes
- ...still in business: deciding, yes, no, yes, yes
- ...beat competition: holds own, yes holds own, yes, yes
- ...deliver quality product: yes, yes, yes, yes, yes
- ...met business goals: no, had to diversify out of H.B., yes, no, yes, yes

#### Components of Strategy

- ...written strategic plan: no, no, no, no, no
- ...clear and internally generic strategy: no, yes, no, yes, yes
- ...quality & attention to detail: yes, yes, yes, yes, yes
- ...entrepreneurial hustle: yes, yes, yes, yes, yes

**Strategy Chosen**

- focused, focused, stuck-in-, focused, focused
- cost-lead, unique, diff., diff., unique
- no, yes, no, yes, yes

**Strategy Problem**

- lost, stuck-in
- low-end, middle
- market, custom/volume

---

119
Summary Matrix 13 - page 2

Summary of Strategy

<table>
<thead>
<tr>
<th></th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Were Other Strategic Decisions Consistent With Generic Strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...vertical integration</td>
<td>yes &amp; no</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...capacity expansion</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>yes</td>
</tr>
<tr>
<td>Analyze Competitors</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>Was There a ...dominant decision maker</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...shared strategy</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Did the Strategy Reflect</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...decision maker's exp.</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...decision maker's values</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Were Values Clarified</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>was strategy proactive</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...was strategy creative</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...was product unique</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>...experimentation built in</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>
Summary Matrix #13 - page 3

**Summary of Strategy**

<table>
<thead>
<tr>
<th>REALISTIC STRATEGIC PROCESS</th>
<th>1st firm</th>
<th>2nd firm</th>
<th>3rd firm</th>
<th>4th firm</th>
<th>5th firm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Was Strategy formulated through</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...Strategic planning process</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>...soft data</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...analytical material</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...knowledge/experience</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...probing market</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
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<tr>
<td>...identified opportunity</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td><strong>Basis of Decisions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...judgement</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...and analysis</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td><strong>Exercised Strategic Discipl</strong></td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td><strong>Strategy Reflected In</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>infrastructure</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...recruitment policy</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>...anticipated risks</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Developed Financial Control</td>
<td>no</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>