TRACKING STRATEGY IN AN
ENTREPRENEURIAL FIRM

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PREFACE

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INTRODUCTION

How do strategies actually form in an organization? And what effects do growth, formalization and diversification have on the evolution of strategy making in an entrepreneurial corporation? Examination of these questions within one organization using a methodology developed by Mintzberg (1979a) is the purpose of this study.

Strategy Formation in an Organization

To a large extent, research on strategy formation has relied on rationalized models of decision making. For example Chandler (1962:13) defines strategy as "the determination of the basic long-term goals and objectives of the enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals." Here strategy is a plan, a set of guidelines for actions that will be carried out in some sequential order extending into the future. Strategy is also defined as positioning, how and where the organization locates itself in its environment, or as a preception (a concept or "Weltanschaung").

Most of these "rational model" definitions focus on strategy formation as intention with little consideration of the actions and behavior of strategists.

An alternative definition has been advanced by Mintzberg (1972, 1978; Mintzberg and Waters, 1982, 1983b) where strategy is a pattern in the stream of organizational decisions and actions. Here the model is conceptualized as a process, and strategy becomes the consistency of the decision making behavior in the organizations. The focus of the model is consistency of behavior over time. Emphasis is not on the intentions but rather on realization (accomplishment) of strategy. What actually happens within the organization is what matters; i.e., How do they end up in certain positions?; How did they get there?; and How do they go about changing or maintaining their position?.

Thus, the Mintzberg model broadens the conception of strategy beyond that of strategies which are intended and realized (deliberate) to include strategies which though intended are never realized (unrealized strategies) to strategies which were never intended but which were realized anyway (emergent strategies). These relationships are shown schematically in Figure 1. Further, in this model strategy occurs within a context: the environment, and the organization's structure and leadership. At issue is the deliberateness of the strategy, and the interplay of environment, leadership and organization within the pattern of strategic change over time (Mintzberg and Waters, 1982:1):

> Today's strategies ---and tomorrow's---no matter how much they seek to alter direction, are very much rooted in yesterday's.

Given this conception, the study of strategy making becomes (1) the search for consistencies in action and (the decision making) behavior, (2) the investigation of their appearance and disappearance,

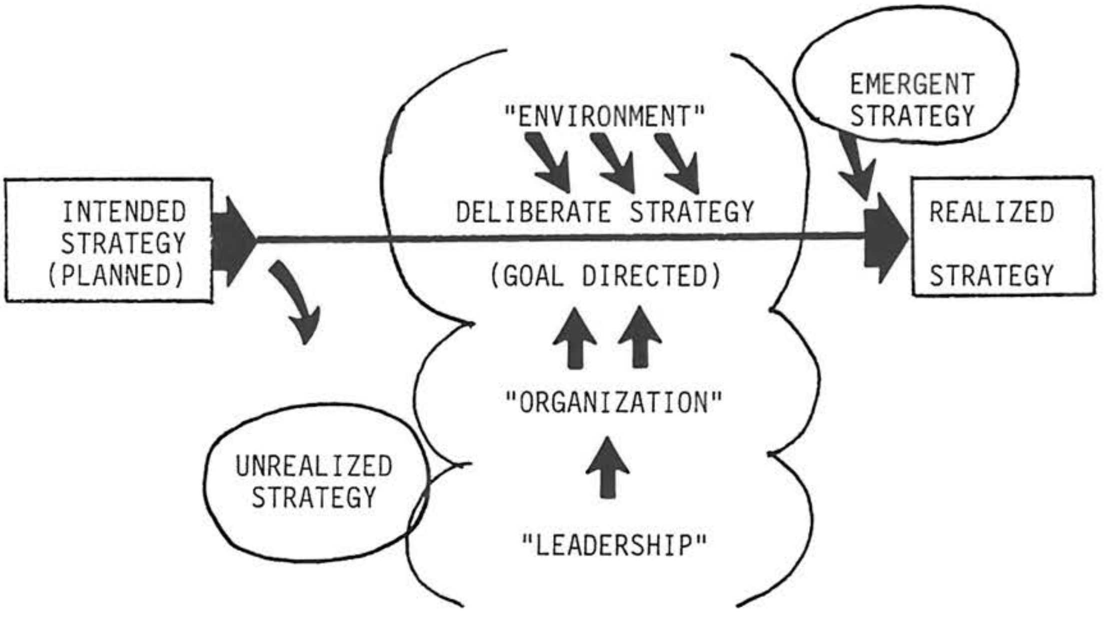


Figure 1. Relationship between Intended and Realized Strategies.

and (3) the analysis of the relationships between intended and unintended strategies.

Such a process definition and model leads to a study approach that is both descriptive and inferential. The method developed by Mintzberg for studying strategy formation requires that time be spent in the subject organization looking for traces of its strategy over long periods of time. This procedure can be divided into four broad stages:

1. Tracking decision streams over long periods of time (isolate decision/action streams in various critical areas),
2. Infer strategies (as the consistencies in such streams),
3. Infer major periods of strategy development, and
4. Investigate the forces appearing in each period (leadership, organization and environment and their role in major shifts from one period to another) and associate the findings with key theoretical propositions on strategy formation.

This method of study has been applied by Mintzberg and his colleagues in a variety of (mostly Canadian) organizations:

Company	Time Period of Study
Volkswagenwerk	1934-1974
Steinberg (retail/grocery)	1917-1974
Canadelle (women's undergarment manufacturing)	1939-1976
Sherbrooke Record (newspaper)	1946-1976
Arcop (architecture)	1953-1978
National Film Board of Canada	1939-1976
Air Canada	1937-1976
Saturday Night Magazine	1928-1971
Asbestos Corporation	1912-1975
McGill University	1921-1981

The research, begun as a project in 1971, is called "Patterns in Strategy Formation." Many of these studies of strategy formation have been reported in the literature since 1978. Two of particular relevance to this report are the Steinberg Study (1982) and Canadian Lady Study (1983a). Both are studies of strategy formation in entrepreneurial firms.

General Cinema - An Entrepreneurial Organization

For this research the Mintzberg approach to tracking strategy was applied to the study of strategy formation in General Cinema Corporation between 1960-1983. General Cinema, an entrepreneurial, high growth company, is the outgrowth of a company founded by Mr. Philip Smith in 1922. The Company, organized to build and operate movie theaters, has had a history of innovation in the theater exhibition industry. In 1935 Mr. Smith constructed and opened the first drive-in theater in the United States. The Company became one of the three largest drive-in exhibitors in the United States. Mr. Smith is also credited with opening the first shopping mall theater in 1951..

In 1960 two companies, Smith Theater Company and Midwest Drive-In, were combined to form General Drive-In Corporation.[1] Mr. Smith's son, Richard Smith, was instrumental in this decision to form a public corporation (Uyterhoeven, 1976:3):

> In the late 1950's, Richard Smith, who had assumed responsibility for developing new theater locations, noticed that the number of shopping centers under consideration was increasing rapidly. However, he found promoters, whom he asked to invest the $300,000 required for a 1,200 seat

[1]Prior to the public offering, the Smith family owned or controlled 45.3% and the Stoneman family 25.4% of the outstanding stock of the combined companies. These amounts were reduced to 34.9% and 20.0% following the offering. In 1976 these percentages were approximately 25.1% and 12.4%, the reduction due largely to a secondary issue in 1968.

> theater, reluctant to take the risk in a troubled industry in conjunction with a small private company. The 1960 merger and public offering were conceived to ease the financial impediments to growth.

The corporation began operation with 49 theaters (26 drive-ins). During the ensuing years the Company, renamed General Cinema Corporation in 1964, became the largest theater chain in the United States, as well as, by 1976, the largest independent bottler of both Pepsi-Cola and Dr. Pepper, and the largest United States soft-drink bottling company.

Today, General Cinema operates 1034 theaters at over 300 locations in 39 states and the District of Columbia. General Cinema remains the largest theater exhibitor in the United States and the world. The basic character of the Company appears in the introductory remarks of Mr. Richard Smith in the 1983 Annual Report:

> Since General Cinema became a public company 23 years ago, management's primary objective has been the creation of value. We have sought to accomplish this objective by managing General Cinema as a growth company, believing that we could create lasting value for our share-holders from a growing base of productive assets, enhanced earning power and a consistent and increasing positive cash flow.
>
> Management remains committed to this basic philosophy. The results shown in the Financial Highlights inside this overleaf demonstrate General Cinema's ability to create lasting value by consistently providing our shareholders with a total return---appreciation in the market value of General Cinema shares plus cash dividends---commensurate with that of a leading growth company.

A summary of the Company's performance for the past ten years is shown in Table I.

The 1983 Fortune 500 ranks General Cinema 317th in size, 65th in total return to investors and 83rd in ten-year earnings per share growth. Forbes' 36th annual "Survey of American Industry" ranked

TABLE I

GENERAL CINEMA 10 YEAR AVERAGE ANNUAL
COMPOUND RATE OF GROWTH (1973-1983)

Financial Indicators	10-Year Average Annual Compound Growth (Percent)
Revenues	14.3%
Operating earnings	16.2
Earnings from continuing operations excluding nonrecurring items	20.9
Net earnings from continuing operations excluding nonrecurring items:	
Cash flow from continuing operations excluding nonrecurring items	16.0
Cash dividends paid	20.2
Total assets	12.1
Shareholders' equity	15.2
Earnings from continuing operations excluding nonrecurring items	23.1
Net earnings from continuing operations excluding nonrecurring items:	
Cash flow from continuing operations excluding nonrecurring items	18.1
Common dividends paid	19.8
Book value	17.0

Source: 1983 Annual Report

General Cinema 39th in profitability for 1,008 companies judged on a five-year average return on equity.

As General Cinema's goal in the past has been growth, so it remains: (Annual Report, 1983)

> Management's continuing objective is to increase earnings per share at an average annual rate 5-10% in excess of inflation. While General Cinema's businesses are able to support that growth in the short run, we are committed to investing in our long-term future. Toward that end, the responsibility for achieving the long-term growth and diversification goals of the Company has been concentrated within the Office of the Chairman. Our search for acquisitions is focused on consumer products and services industries. Our criteria are strict and our intention is to create value for General Cinema's shareholders, not to 'conglomerate' the company. Sound corporate growth and development are among our highest priorities, and although we would prefer to acquire an entire business, we would consider a major investment in another company.

The strategies of General Cinema's growth and diversification from 1960-1983, particularly the patterns of actions employed for theaters, are examined in Chapter IV.

CHAPTER II

LITERATURE REVIEW

Different Approaches to Studying Strategy

The literature on the study of strategy may be broadly grouped as conceptual or empirical. In the conceptual literature three broad categories or approaches to the making of strategy are described: entrepreneurial, adaptive and planning. The characteristics of each mode of strategy formation are found in Table II (Mintzberg, 1973:49). A variety of typologies are to be found in the empirical literature. One such typology, proposed by Mintzberg (1979), uses five "configurations" of structure and situation, labeled as Simple Structure, Machine Bureaucracy, Divisionalized Form, Professional Bureaucracy, and Adhocracy. Mintzberg (1983d) associates the entrepreneurial mode with the Simple Structure, the planning mode with the Machine Bureaucracy and the adaptive mode with Adhocracy.

Much of the conceptual literature conceives strategy from a planning mode which focuses on the intentions of leaders---what they plan to do in the future. An alternate way of proceeding is to examine what the organization did compared with what they said they would do. This difference becomes the basis for the distinction between realized and intended strategies, as well as the basis for differing approaches to the study of strategy formation. Attention to the realization of strategy leads the researcher to pay more

TABLE II

CHARACTERISTICS AND CONDITIONS OF THE THREE MODES OF STRATEGY MAKING

Characteristic	Entrepreneurial Mode	Adaptive Mode	Planning Mode
Motive for Decisions	Proactive	Reactive	Proactive & Reactive
Goals of Organization	Growth	Indeterminate	Efficiency & Growth
Evaluation of Proposals	Judgemental	Judgemental	Analytical
Choices made by	Entrepreneur	Bargaining	Management
Decision Horizon	Long Term	Short Term	Long Term
Preferred Environment	Uncertainty	Certainty	Risk
Decision Linkages	Loosely Coupled	Disjointed	Integrated
Flexibility of Mode	Flexible	Adaptive	Constrained
Size of Moves	Bold Decisions	Incremental Steps	Global Strategies
Vision of Direction	General	None	Specific
<u>Condition for Use</u>			
Source of Power	Entrepreneur	Divided	Management
Objectives of Organization	Operational	Non-Operational	Operational
Organizational Environment	Yielding	Complex, Dynamic	Predictable, Stable
Status of Organization	Young, Small or Strong Leadership	Established	Large

Source: Mintzberg (1973:49)

attention to behaviors and actions, to what leaders actually do, not to what they say. For Mintzberg this shift in focus led to "studying strategies as patterns in streams of actions, not decisions." (Decisions precede action, and as such may or may not represent a commitment to action; therefore they are often harder to trace and may be more or less associated with the "realized" strategy.) The focus is on pattern recognition, on isolating "streams of behavior" and then identifying the consistencies in such streams as strategy. In such a context, emergent strategies, those not based on intention, become important to the overall conception of strategy formation. (Refer again to Figure 1.)

Mintzberg argues that for a strategy to be purely deliberate in an organization, three conditions would be necessary:

1. Precise intention must have clearly existed.
2. Within the organization, the intentions must be commonly articulated by all the members.
3. The "collective" intention(s) must have been realized as intended.

Entrepreneurial, planned and ideological strategies are most closely associated with deliberate strategy formation. Emergent strategies, formed out of process---the dynamic interaction of leadership, organization (structure) and environment---are less associated with intention and deliberateness.

The two ends of the deliberate strategy continuum are planned and entrepreneurial strategies. Planned strategies require high communication where intentions are clearly articulated and dispersed throughout the organization. The environment is acquiescent and predictable. Formation and implementation of strategy are separate and distinct.

Mintzberg and Waters (1982) argue that planning is not so much strategy as it is programming. Strategies are not conceived in planning processes but have their origins elsewhere, in "visions" or "borrowings" of the strategist.

The other end of the continuum of deliberate strategy, the entrepreneurial, is usually individual and "visionary." Entrepreneurial strategies require control of the organization's actions. Strategy need not be articulated or elaborated. There is less requirement of overt acceptance of the strategy by the organization. Here the formulator is the chief implementor. And as the entrepreneur strategists implement, they also learn as they are "exposed to feedback on past actions or perceive new opportunities or threats in the environment." Strategy can be reformulated (adapted), becoming a variant of emerging strategy (Mintzberg and Waters, 1983b:9):

> It is this adaptability that distinguished the entrepreneurial strategy from the planned one---the notion that a single actor can easily respond to the environment. Visions contained in individual brains appear to be more flexible than plans articulated through hierarchies. At least this should be true so long as the individual actor is able and willing to learn. In the case of planned strategy, adaptation [and emergentness] are discouraged by the articulation of the intentions and by the separation between formulation and implementation. Instead of one individual being able to change his or her mind, a whole system of commitments and procedures, in the form of plans, programs and controls elaborated down a hierarchy, must be redesigned. Thus, despite proposals for flexible planning, the fact is that organizations plan not to be flexible but to realize specific intentions. It is the entrepreneurial strategy that provides flexibility, at the expense of the specificity and articulation of intentions. Thus, in this latter case the force for deliberateness---the central actor's vision---can also be one for emergentness.

Entrepreneurial strategies tend to evolve toward planned strategy as the organization grows successful and becomes more complex, or when the leadership shifts emphasis from visions/solutions to problems to opportunities. Emergent strategies now derive primarily from process and umbrella strategies. The use of these emergent strategies offers the organization greater flexibility and ability to continue to adapt as it shifts toward greater internal coordination of its actions. It is a way of building learning into the formation of strategy in a more complex environment, which also requires more "planning." The major features of these various strategies are presented in Table III (Mintzberg and Waters, 1983b:28).

Strategy Formation in the Entrepreneurial Mode

The view in the conceptual literature of the entrepreneurial mode is "power centralized in the hands of the chief executive, whose behavior is dominated by the active search for opportunities, by the pursuit of the goal of growth above all, and by the taking of dramatic leaps forward in the face of uncertainty" (Mintzberg and Waters, 1983c).

The view presented in the empirical studies (Mintzberg and Waters, 1982, 1983a) shows the entrepreneurial organization as having a simple and fluid structure, with relatively little hierarchy or formalization of behavior, and minimal reliance on "technical" staff. And above all power resides with the chief executive officer, who exercises this power in a personal, entrepreneurial way. The predominant behavior is "controlled boldness" (solving problems rather than searching for opportunities).

TABLE III

DESCRIPTION OF MAJOR TYPES OF STRATEGY

Strategy	Major Features
A. Deliberate	
Planned	precise intentions formulated and articulated by central leadership, backed up by formal controls to ensure surprise-free implementation in benign, controllable, or predictable environment; strategies most deliberate (often mainline strategies, sometimes overrealized)
Entrepreneurial	intentions exist as personal, unarticulated vision of single leader, and so adaptable to new opportunities; organization under personal control of leader and located in protected niche in environment; strategies relatively deliberate but can emerge (can be digressive, serendipitous, inadvertent, opportunistic, or subconscious strategy)
B. Emergent	
Umbrella	leadership in partial control of organizational actions, defines strategic targets or boundaries within which other actors respond to own forces or to complex, unpredictable environment; strategies partly deliberate, partly emergent, and deliberately emergent (also target strategy)
Process	leadership controls process aspects of strategy (hiring, structure, etc.), leaving content aspects to other actors; strategies partly deliberate, partly emergent (and, again, deliberately emergent)

Source: Mintzberg and Waters (1983b:28)

The entrepreneur is not a formal, detailed planner, but rather he has a concept, a personal vision of the business. What shapes his actions is his intimate, detailed personal knowledge of the business. Key to major strategy shifts is the flexibility of this vision to elaborate and rework the conception as necessary for continued growth and success. Frequently the actual change in mind-set is triggered by only a few major events, with one critical incident causing disparate data to form a synthesis for a new strategy (Mintzberg and Waters, 1983c; 1983b:10):

> Here, typically, brief periods of conception of new strategies, when strong visions emerged as the leaders comprehended changed environments, were followed by long periods of deliberate pursuit of these visions.

The talent of the entrepreneurial mind is the ability to pursue a vision for many years and then shift when needed.

How does the executive mind function when such a shift becomes necessary? The Steinberg (Mintzberg and Waters, 1982) and Canadian Lady (Mintzberg and Waters, 1983a) entrepreneurial studies found that the key to generating strategic vision, and to changing that strategy at the right time, "is intimate detailed knowledge of the business" (Mintzberg and Waters, 1983c). This derives from the ability to spot changes occurring in the environment and to understand how they will impact the industry. Lewin (1951) suggests that the mind "unfreezes," recognizes that in fact the environment has changed and opens itself to what is happening. The mind must now change, using solutions and opportunities to create a new concept of the business---and a new strategic thrust. Once the mind has acquired a new vision, a "mind set" becomes established, totally focused on the new strategic thrust (Mintzberg and Waters, 1983c:9):

> The conception of a novel strategy is an exercise in synthesis, which is typically best carried out in a single, informed brain. That is why the entrepreneurial mode is at the center of the most glorious corporate successes.

From the study of the entrepreneurial firm of Steinberg (Mintzberg and Waters, 1982) several important observations were made about strategy formation in the entrepreneurial firm:

1. There was the presence of waves or cycles in the company's development.
2. From the simple structure configuration of the company's early years, there was gradual movement of elaboration and standardization of structure towards a more formalized configuration in later years.
3. The growth progressed unevenly.
4. Changes in strategy occurred infrequently.

Perhaps most important is the observation that as the company ages and grows in size (reaps the benefits of entrepreneurship) the entrepreneurial mode began to be captured by the planning mode.

Strategy, Structure, Environment and Leadership

Several studies in the literature examine the relationship between strategy and organizational characteristics, environment and leadership. In the entrepreneurial organization structure clearly follows strategy, particularly in the early stages of the organization's development. But as the organization grows in size, Mintzberg and Waters (1982:497) argue that "eventually strategy, to some extent at least, has to follow structure, as well as environment."

Other studies lend support to this argument. For example, Grinyer and Yasai-Ardekani (1980, 1981: with Al-Bazzaz, 1980) examined various dimensions of organizational structure and concluded (1981:479):

> Size is obviously the dominant, possibly intervening variable with respect to both diversification and macro-organizational characteristics.

Structure is linked with strategy (and diversification) through size. Grinyer and Yasai-Ardekani also associated complex structural factors with bureaucracy through the use of formalism and specialized personnel "as a means of controlling decentralized decision making authority" (1980:418). Consistent with the research study of Marsh and Mannari (1981), they found that decentralization is at the operational level while strategy is still centralized at the level of top management. Thus increases in complexity and size lead to increased structure (bureaucracy) as a means of coordination, adaptation and control (see Figure 2).

In another examination of the relationship between size, complexity and structure (administrative intensity) in 91 organizations between 1965 and 1975, Denton (1982:68) found a simple linear relationship "with size leading to complexity leading to administrative intensity."

A study by Mileti, Gillespie and Eitzen (1979) found that:

1. Size is directly associated with horizontal differentiation: growth, more complexity, and more need for labor specialization;

2. Geographical dispersion is associated with vertical differentiation; and

3. Decentralized decision making has a positive, linear relationship with geographical differentiation.

Mileti et al. (1979:738) also found that authority is not given up by top management as this differentiation occurs. Rather top management's needs for information are greater and they must place

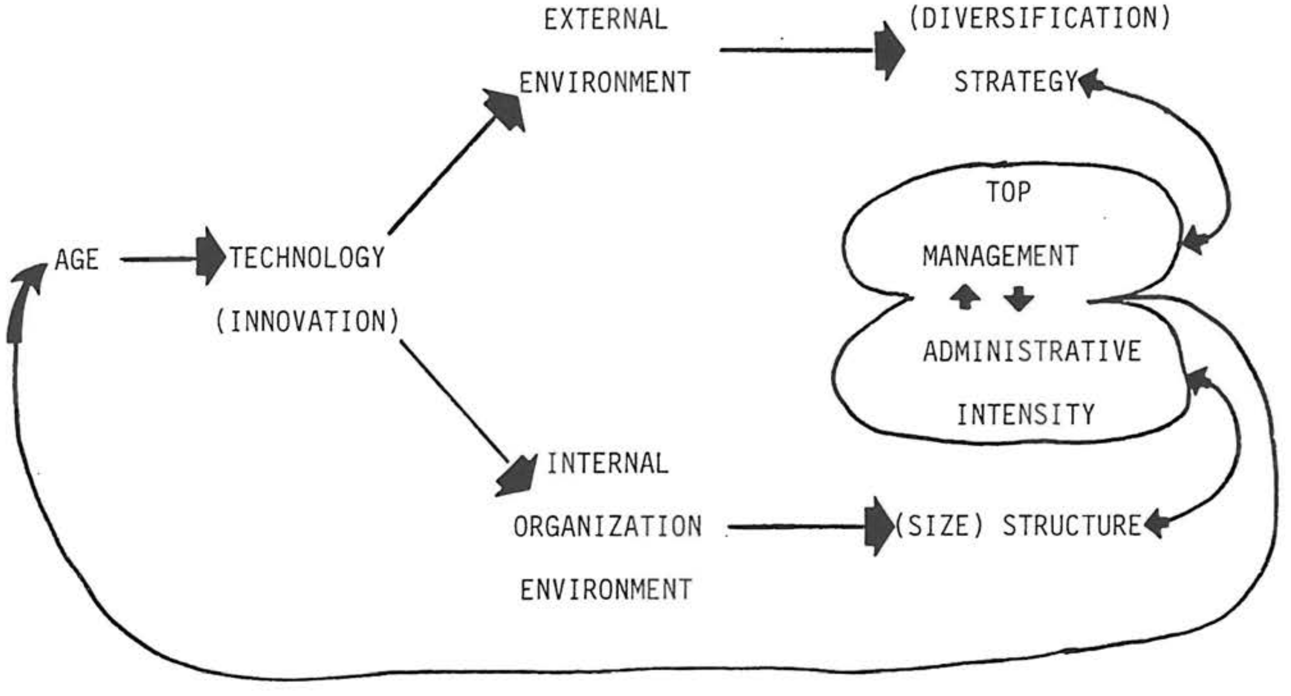


Figure 2. Relationship between Strategy, Environment, Leadership and Structure

greater reliance for information on those who have the information from that particular geographical area and its operations.

Thus structural change may follow strategy (Miller, 1982:131) or structure (bureaucracy) may resist or retard needed strategic change. Recent literature studies argue that change may be piecemeal or incremental (a few elements change at the same time) or quantum (Miller and Friesen, 1982:890):

> Successful firms are more likely than unsuccessful firms to evidence both extreme changes and no changes in structure. ...it may be useful for structural variables to increase or decrease dramatically and quickly. Incremental structural change was less likely to be undertaken by high performing firms.

Miller and Friesen (1982:871) argue that change in structure may introduce distortions and may increase the uncertainty and heterogeneity in the environment, thereby requiring "simultaneous adoption" of a number of devices for uncertainty reduction, differentiation, and integration. Because of the strong effect new innovation has on structure, size and complexity, changes which result from the innovation may require harmonious changes in structure and strategy (internal and external environmental relations). Change in the external environment, especially from innovation, may cause the organization to adopt a new strategy which, in turn, requires change in the internal environment (structure). Likewise, the organization may adopt new technology (or acquire such firms) which requires a change in structure. Grinyer and Yasai-Ardekani (1981:483) recognize the association of strategy with structure and observe that "both are attended by greater use of bureaucracy as a 'strategy of control' [Child, 1972], with age, status, size of parent company and complexity of production and design and development technologies."

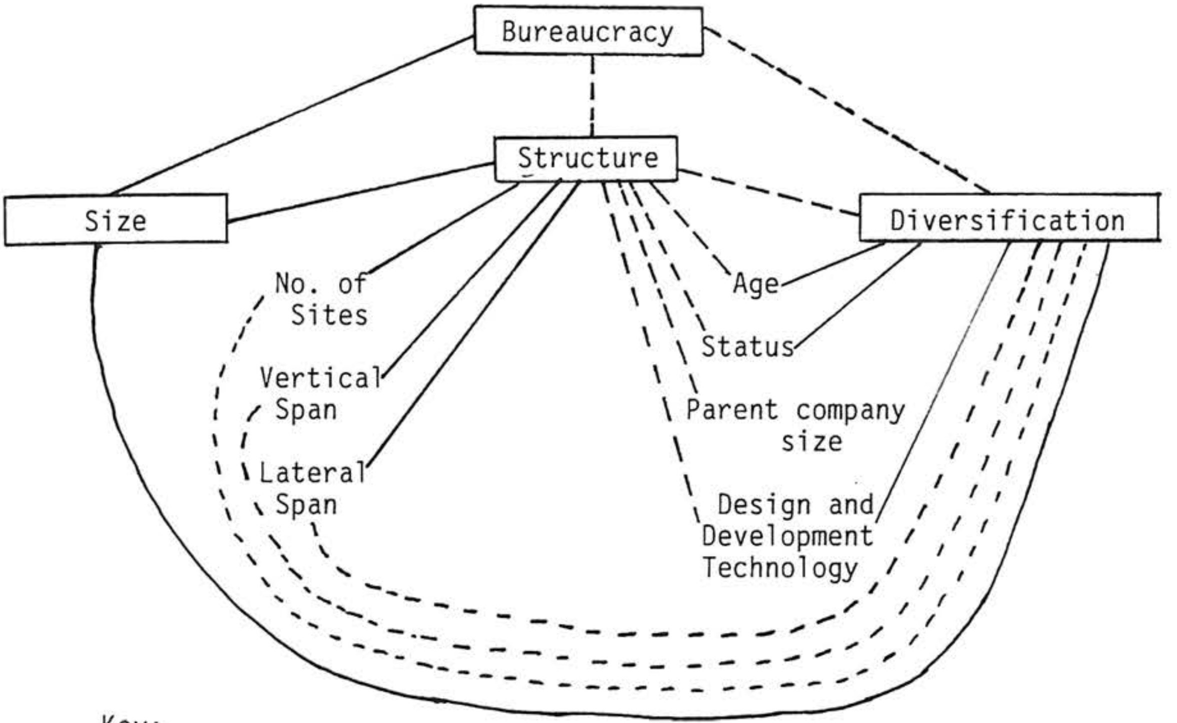
The picture that emerges, then, is that of companies diversifying as they grow older, and in the process becoming more "technologically" advanced, but above all larger (Grinyer and Yasai-Ardekani, 1981:483). Figure 3 summarizes the significant relationships between size, structure and diversification.

Some General Conclusions About Strategy Formation

Three essential themes arise from the Mintzberg et al. research. They are:

1. Strategy formation may be viewed as the dynamic interaction of environment and bureaucratic momentum, with leadership mediating between the two.
2. There appear to be distinct regularities to strategy formation over time.
3. The interplay between intended and emergent strategies relative to realized strategy may be at the heart of the strategy formation process.

With regard to the first theme, a partial explanation is that the role of leadership becomes more complex as the organization grows and diversifies. The entrepreneur in the early stages of the organization's history is most oriented toward the environment and the changes occurring in the external environment. His role is problem solving and visionary guide for innovation. As the bureaucracy grows (and seeks stability), and the structure of the organization becomes more complex (through diversification and later divisionalization), the entrepreneur must be more oriented toward mediating between maintaining the stability of the company's operating system and with the organization's adapting to environmental change. The entrepreneur assumes more responsibility for boundary spanning between the organization and its environment. As the organization continues to grow,



Key:

__________ Significant relationship independent of bureaucracy, strategy and structure.

\- - - - - - - - - - Significant relationship dependent on size.

— — — — Significant relationship dependent on size but independent of all other variables shown

Source: Grinyer and Yasai-Ardekani (1981:483).

Figure 3. Significant Relationships Between Organization Variables

a gradual shift occurs from strategy defining structure to structure resisting or reshaping strategy (Mintzberg, 1978:941):

> Strategy can then be viewed as the set of consistent behaviors by which the organization establishes for a time its place in its environment, and strategic change can be viewed as the organization's response to environmental change, constrained by the momentum of the bureaucracy and accelerated or dampened by the leadership.

As an organization becomes successful, the very success of its strategy leads the organization (members) to cling to it, and this commitment to a successful strategy may begin to act as a barrier to strategic change. Operating systems and structure shape the organization's view of strategy---often bringing it into conflict with the entrepreneurial mode. Here the skill of the entrepreneur to lead the organization to new strategy requires more complex management and mediation skills to guide bureaucratic momentum in new directions.

Regarding the second theme, the pattern of strategy change usually is in response to changes in the environment, either gradual or suddenly turbulent. Here Mintzberg's study results suggest two main patterns:

1. There is a long term life cycle to an overall strategy---its conception, elaboration, decay and death.
2. There is the presence of periodic (shorter-term) waves of change and continuity within the life cycle.

This latter pattern suggests that change, even incremental, has its bursts of activity followed by continuity. In the early stages of the organization's history, there is less bureaucratic momentum so change appears to come about more quickly. However, in later stages of a strategy (successful) "life cycle," the ability to change a strategy may require a non-incremental approach. Why might this be so?

> ...strategic decision processes in organizations are not continuous, but irregular. They must be specifically evoked; they proceed for a time; and then they terminate. Furthermore...the leadership of an organization may choose to deal with conflicting pressures for change from the environment and continuity from the bureaucracy by first acceding to one and then the other (Mintzberg, 1978:943).

Organizations early in their history frequently adopt a "gestalt" strategy, one that is unique and well integrated, which enables the organization to niche. They are usually the product of a single, visionary mind, who effects strong leadership. Frequently the strategy (niche) serves to protect the organization from competitors for a period of time. However, if competitors move into the niche, or the market moves away from it, the integration of the strategy may prevent the organization from making the necessary major changes in strategy. This becomes the strategy-makers dilemma---"the danger of incremental change versus the difficulty of global change" (Mintzberg, 1978:945).

In the third theme, central to the interplay between intended and realized strategy is the formulation (and formulator) of strategy. The most successful deliberate strategies appear to be formulated by leaders who know their industry intimately---"and who are able to predict conditions in environments that were settling down after periods of great turbulence" (Mintzberg, 1978:946). Thus once an emergent strategy becomes perceived, it becomes a deliberate strategy. And as this strategy becomes the new intended strategy, thereby "formalized" by the bureaucracy, the strategy is taken over by the operating system for implementation. In effect the strategy now has a "life of its own."

Based on the Mintzberg studies, several conclusions about strategy formation are suggested:

1. Strategy conception interacts with strategy implementation through learning and feedback. The relationship is dynamic.

2. Strategy is not fixed as is a plan, nor does it change at a pre-established time.

3. Strategy has a life of its own and is not just subject to the will of management.

4. Patterns in organizational decisions may not always be conscious.

5. Structure may not always follow strategy, but it may lead or shape the perception of viable options.

6. Contingency planning may lead to the organization explicating and adopting (fixing on) inappropriate strategy, especially when the environment is "turbulent."

CHAPTER III

METHODOLOGY

The procedure used to examine strategy formation in General Cinema Corporation and its Theater Division between 1960 and 1983 is from Mintzberg. The methodology is generally described in the literature (Mintzberg and Waters, 1982, 1983a) and in a mimeographed guide (Mintzberg and Waters, 1979) entitled "Steps in Research on Strategy Formation."

The selected organization is examined through a four-step procedure. The organization is studied intensively over the decades of its existence for its patterns of strategic change, the interplay between the entrepreneur, the environment and the organization, and the role in the strategy formation process of deliberate and emergent strategies. The nature of this methodology requires that time be spent in the organization to gather the various types of information required to track strategy across the long periods of time involved.

The four steps of the research method are:

<u>Step 1. Gather the Basic Data (Strategy Traces)</u>. The first step is the collection of basic data. Historical data is obtained to provide a chronology of the decisions and actions of the organization, along with related trends and events in the environment, and all available figures on the organization's performance. Activities during this stage include:

- Gain an overview of the organization and its industry.
- Make an initial identification of major strategy areas to guide the search for data.
- Gather available data to chronicle decisions, trends and results. (It is important to identify all available reports, documents, studies and outside information sources.)
- Conduct initial interviews with those who have extensive knowledge on the history of the organization.
- Establish a chronology of the decisions and actions with environmental trends and results. Graphically display this information.

Step 2. Infer the Patterns and Periods. The organization's strategies are inferred from the chronology with related graphs produced at the end of Step 1. Each strategy is labeled and represented on a time scale. These representations are then integrated on a common scale for the period examined, and the major periods in the history of the organization are inferred. The result is a presentation of the major strategies and their overall relationships during the periods of study.

Step 3. Analysis of Each Major Period. Here the focus shifts from period transitions to internal organization dynamics, to who were the people and the forces which shaped the strategy for each period. The strategy for the period, the forces that shaped it, the underlying causes of change in strategy, and the nature of the interrelationships among the different strategies are intensively examined. Background information on the environment, internal documents and interviews are central to this stage of the analysis.

This stage results in a descriptive report, covering each distinct period of the study. Major decisions, actions, and strategies are discussed along with the events, trends, forces that influenced the observed results, along with an overall exploration of how and why all this happened. Some theoretical interpretation is made of the strategies and the strategy formation process for the various periods.

Step 4. Theory Building. A brain storming approach by the researcher(s) initiates this step. The organization's history, and the explanations of its patterns and periods, are used to extract and induce whatever theoretical conclusions may be drawn from this investigation. Of interest are (1) the patterns of change in the strategies with the interplay of the changing environment, leadership and bureaucratic momentum, (2) the relationship between strategy and structure and (3) the role of deliberateness and proactivity in the strategy change process.

This paper presents the results of the application of the Mintzberg research methodology on strategy formation for General Cinema Corporation from 1960 through 1983. The purpose of this paper is to demonstrate how the wide array of strategies used in an organization over time can be described and analyzed. Data for this study had to rely primarily on annual reports since 1960 and other descriptive documents which summarized the history and decisions made in the early years of the organization. Two site visits were made to corporate headquarters in Boston. Additional conversations were conducted by telephone to refine the periods and descriptions of the various strategies.

CHAPTER IV

RESULTS

General Cinema history from its inception as a public corporation in 1960 was tracked. A variety of distinct strategy areas were inferred. Some strategies were from actual plots of specific decisions and actions, as in the case of theater openings. Others were inferred from the chronological listing of General Cinema events and responses to environmental trends. The results which follow were derived using the previously described methodology. These steps are summarized in Figure 4.

Strategies of General Cinema Corporation 1960-1983

The chronological listing of General Cinema events, environmental trends and responses is presented in Table 4. From this, and other documents, many major strategies were identified, along with the company's performance and structure. A series of graphs were then developed to symbolically represent this information. (Note that the horizontal dimension of the strategy graphs represent the time periods of the various activities while the vertical dimension has symbolic/ relative meaning only.)

General Cinema Growth and Performance

A historical review of General Cinema's financial performance is provided by Tables 5-8. In 1960 the Company had $6.7 million in equity.

I. COLLECTION OF BASIC DATA

- Develop historical chronology of organizational decisions and actions and important environmental trends
- Record results in graphical form

II. INFER STRATEGIES

- Identify patterns and periods
- Represent symbolically on a time scale
- Compare strategy by common scale
- Infer major periods in organization's history

III. INVESTIGATE MAJOR PERIOD TRANSITIONS

- Focus on underlying causes of major strategy changes
- Probe softer data and reports for additional information
- Interview key actors where available

IV. BUILD THEORY

- Focus on major conceptual issues
- Examine relationship--goals, strategy, environment, leadership and structure

Figure 4. Steps in Strategy Research

TABLE IV

CHRONOLOGICAL LISTING OF GENERAL CINEMA ACTIVITIES, ENVIRONMENTAL TRENDS AND RESPONSES/ACTIONS OF THE COMPANY

Chronological Listing of GCC Events	Environmental Trends	Responses/Behavioral Changes by GCC
1922 - Smith Theater Company established	Growth in public attending motion pictures	Company organized to build and operate movie theaters. Also involved in the management of theaters through Smith Management Company.
1935 - Smith (Philip) Company constructed and opened first open-air theater	Growth of open-air segment of the exhibition industry began prior to World War II	Became one of the most successful entrants into the open-air segment of the industry.
1940's		
Early	World War II - gas rationing and Daylight Savings Time	Company barely survived the World War II period.
Late	Government intervention in the industry ● Led to breaking up of the "Big Five" large movie chains' domination (Paramount, Twentieth Century Fox, Warner Brothers, Loew's and RKO) ● End in vertical integration in the industry - now divided into theater exhibition and production distribution	Expanded indoor theaters in suburban and resort locations especially Florida.

TABLE IV (Continued)

1950's Growth in outdoor theaters	Television was competing for indoor audience theaters. Drive-in theaters were expanding rapidly, attracting family and young people. (Between 1949 and 1960, drive-ins grew from 2% to 30% of theater industry.) Growth in family-oriented films.	Mid-West Drive-In Theaters became one of the largest competitors in this segment. Company increased revenues by lengthening the playing season (introduced car heaters) and by building modern concession facilities and playground areas.
1951 - Smith Theater Company built the first shopping center theater in the country - Frammingham Shopper's World	Populations were shifting/ growing in the suburbs. This population had more leisure time and interest in family recreation. Several trends were evolving: • new shopping habits • activities were accessible by nearby developing highway network • convenience - in parking/ other • rising standard of living/ more "spendable" income Growth of alternative leisure activities led to greater competition and further decline of downtown exhibitors and major film production companies. Overall decline in the indoor theater revenues, feature films and number of theaters. Continued growth in number of drive-in theaters.	Expanded drive-ins and began to move into shopping center theater development. Continued to introduce modern conveniences at drive-ins (individual car speakers and modern concession facilities).

TABLE IV (Continued)

1960 - Midwest Drive-In acquired Smith Theater Company and the combined companies went public as General Drive-In Corporation	Growth in drive-ins leveled off in late 1950's as land availability declined and land values escalated rapidly. Theater expansion shifted to shopping malls.	Company established to create access to capital markets. Used proceeds for expansion of shopping center theaters and diversification into ten-pin bowling. Position company to capitalize on suburban population growth and leisure time trends.
1961 - Expansion of theaters into shopping centers and construction/operation of ten-pin bowling centers.	Rising interest in alternative leisure time recreation. Year had poor motion picture attractions.	Expansion continued into ten-pin bowling. Goal was a balanced year around cash flow from drive-ins (summer) and bowling (winter). Company saw business as leisure time recreation, family oriented.
1962 - Company defined its business as Leisure Time Entertainment with goal of balanced, diversified growth.	Capital funding became easily available for shopping center development. Major insurance companies were willing to finance loans for theaters. Rise of twin theaters providing great variety of available films at one location with staggered times.	Company borrowed $4,000,000 in longterm debt. Company concentrated theater growth in major regional shopping centers. Drive in expansion shifted from new construction to growth by acquisition of units with established earning record.

TABLE IV (Continued)

1963 -	Changed name of company to General Cinema Corporation. Began building Cinema I and II theaters (two auditoriums, 500 and 1000-seat theaters under one roof). Bowling expansion complete. Operating at a modest loss.	Box office receipts reach a fourteen-year high for the industry. Showing more first run films simultaneously. Change in audience profile to younger, better educated and more affluent.	Company acquired Eastern Management Chain (6 drive-ins, 3 indoor). Most new construction was twin theaters; modern, comfortable, located in areas geographically accessible to suburban families with minimal other exhibitor competition.
1964 -	Sold resort theaters (unprofitable). List stock on American Stock Exchange. Bowling operation has loss for second year.	Increased competitive ability of mall theaters/shift of first run films to suburban theaters.	Company increased expansion of theaters in the southern and western regions. Place emphasis on holding competitive position and growing to 1)national theater chain and 2)largest theater chain in the industry.
1965 -	5-4 split of shares. Continued revenue growth in mall and drive-in theaters and vending/ concession, and losses in bowling.	Overall industry growth and prosperity balance shifted to exhibitors.	Acquired one drive-in theater.
1966 -	Acquired ten drive-ins	Growth of drive-in theaters over. Still profitable but limited in expansion possibilities due to land values. Many drive-ins being converted to real estate developments. Favorable economic trends plus shorter work week continue.	Closed three Bowling Centers (converted two to theaters).

TABLE IV (Continued)

1967 - Board of Directors approved program of selective diversification (20% net return on equity)	Product (film) quality and availability most essential factor in longterm profitability for the industry. Trend of acquisition of film suppliers by large corporations providing an infusion of capital, along with increased investment in film by television networks resulting in increased "product."	Cash flow available for theater expansion greater than maximum needs of the company.
1968 - Began diversification: bought soft drink bottling companies (seventeen plants in seven southern and midwestern states) and television stations (communications) 2 1/2 for 1 stock split, leased eight remaining Bowling Centers to Consolidated Bowling Corporation.	More than 50% of population is under thirty and will remain so during the next ten years. This age group is high consumer of both movies and beverages. From 1968-1973, new theaters opened at a rate of three hundred per year.	Now operate theaters in thirty states. Concentrating on construction of multiple screen theaters. To capture this market must have even more theaters located for convenience and ease of access.
1969 - Continued expansion program in theaters and beverage plants. Working capital is reduced.	New trend developing with more auditoriums and smaller seating capacity in a theater complex. Audience better educated and expect wider variety of film showings. Tight money is slowing theater expansion.	Shift construction to three and four-plex theaters with smaller auditoriums to cater to varied tastes and smaller audience market segments. Find economically healthy market areas for further expansion. Able to support 4-10 auditoriums.

TABLE IV (Continued)

1970 - Acquired fifteen theaters	Economic recession continued trend toward increased number of auditoriums and declining seating capacity.	New theaters profitable in first year (versus three years). Operate 198 units (246 auditoriums). Seating capacity has declined from 675 to 555.
1971 - Accelerate theater building program. 3-2 stock split.	Greater variety of film, decline in centralized movie-making and rise of independents in film production. Overall decline in theater revenue due to falling film product and supply and continued economic recession. Decline in attendance at drive-ins due to competition from shopping malls and decline in availability of family-oriented films.	Remodeling larger auditoriums into multiplexes. Automation of projection equipment. Greater emphasis on cost control (payroll, advertising and promotion).
1972 - Lowest gain in net operating earnings in eleven years. Loew's Acquisition (47 theaters). (Cooperative venture-Alpert's Furniture Retail Agreement for diversification.)	Higher film costs-"Godfather".	Increased theater expenses; lowest gain in net operating profit in eleven years (6%). Drop in drive-in attendance for second year in a row.
1973 - Became largest movie theater chain in number of theaters and revenue. (Also largest Pepsi franchiser and second largest independent soft drinks bottler.)	Continued downward trend in drive-in attendance. Rise in short-term interest rates. Gas shortages.	Announced intention to phase out drive-ins by leasing and sales.

TABLE IV (Continued)

1974 -	GCC now has an 8% market share for theater exhibition	General recession environment and rising fuel costs/transportation costs increases public interest in leisure activities closer to home and led to rise in attendance at movies (substitution effect). Decline in theater operating margins due to higher film costs.	Theater conversion strategy allows more films to be available at existing sites. Declining theater operating margin leads company to shift emphasis to increased concession profits through price increases and offering larger size items (with greater profit margins).
1975 -	Phased out drive-ins Continued theater expansion (40% pre-tax ROI currents)	Movie attendance up during the year, partly because of "blockbuster" movies. Overall decline in supply of major new feature films, caused in part by the continued expansion of the number of new theaters---thus requiring an expansion of the supply of films.	Restructured longterm debt, used internally generated cash flow to reduce bank debt. Continued decline of operating margins. Film rentals now 50% of box office receipts. Operating margin at 10.2% level. Entered into joint venture to help increase feature film supply (invested in some independent films).
1976 -	Increased dividend payment for tenth consecutive year (cumulative increase of 350%). Balance sheet adjustments accomplished (Debt to Total Capital is 39.5%).	Decline of attendance, revenue and profits. Lack of quality and supply of film product.	First decline in theater operating income in sixteen years. (Theater division profitability is not sensitive to inflation/recession conditions but very sensitive to the quality and quantity of film product).

TABLE IV (Continued)

1977 -	Phased out non-profitable older non-shopping center theater units. GCC ranked fourteenth in Fortune 500 return to stockholders (22.1% for ten years). Continue growth goals for company. Sunkist Beverages development.	"Star Wars" exhibited. Major increase in attendance. Several important trends continue: • increased availability of first-run movies close to where people live • continued population growth in suburbs • greater dependence of exhibition industry on first-run movies, their adequacy of supply and quality Because of continued increase in film prices and the minimum film rental guarantees, two levels of exhibition are evolving--first-run with higher admission prices and sub-run where customers pay less and wait several months to see a film.	20% increase in attendance. Now adding screens in carefully selected growth markets, especially in the Sunbelt; turning existing profitable locations into multi-screens. GCC concentrates expansion in regional shopping malls. (80% of theaters are located in malls and are less than ten years old.) GCC elects to participate in first run market with higher film costs, leading to higher attendance (73 million patrons), revenue and operating profits but lower operating margins. As result of being first run exhibitor, now developing multi-screen locations (have ten 3-plexes and six quads) to provide a greater choice of film. The length of time each feature plays is increasing, leading to less need for large auditorium size so seating capacity is being reduced in new complexes.

TABLE IV (Continued)

1978 - Extraordinary year for attendance and profitability.	Supply of commercially successful films was adequate.	87 million patrons and 9.5% operating margins.
1979 - Discontinued film financing. Continued theater expansion. Examining possible new diversification.	More film supply available and sixteen states have established legislation prohibiting blind bidding. Refreshment sales per capita have grown consistently each year for last twenty years.	Improved operating margin by selective ticket price increases, tighter operating expense controls and strong concession sales (operating margin of 10.4%). Theater growth from 207 at 107 locations in 1969 to 843 at 337 locations in 1979.
1980 - Company is building cash and borrowing capacity to position itself to make a sizable acquisition. GCC opened two 6-plex theaters.	A demographic shift to other adults -20 to 30+. The decline in the 15-20 year olds is not expected to greatly affect movie attendance. The exhibition industry is responding to the changing demographics by producing films designed to appeal to all age categories.	Use of theater (and beverage) profits to fund investment program for diversification.
	The continued proliferation of home entertainment systems (video, cable and pay TV). The growth of these systems has created additional sources of revenue for film production companies, thereby increasing the supply of film by 50% in the last 5 years. With increased supply of film, a shift toward	GCC expects theater exhibition to remain the primary vehicle for release of major film feature releases---since this offers the largest overall economic return to film producers.

TABLE IV (Continued)

1980 (contin'd)	larger multiplex theaters, more 4-plex and beginning of 6-plexes.	
Launched a series of concession merchandising promotions.	People continue to be better educated and more affluent. They want out-of-the-home entertainment. Strong movie attendance trend.	Attendance reached 88.2 million patrons at GCC theaters. Per capita sales of concession items continues to increase. Continued emphasis on control of operating costs.
1981 - Best year in history of theater division with attendance, revenue and operational earnings at record levels. GCC 5-year increase in theater attendance was 49% with an annual compound growth of 8.3% (compared to 1.8% industry).	Sixteen states now have anti-blind bidding laws. Greater expenditure by film companies on promotional activity of a a national film release.	Ticket prices were held stable to encourage attendance. Strong concession promotions to stimulate sales. Expanded bargain matinee program. Attendance exceeded 90 million.
Company in excellent financial condition. Debt to equity ratio is .77 to 1, the lowest since 1978.	Trend toward adverse economy - continued inflation, record high interest rates, new government policies, and concern with worsening recession.	Cash flow in excess of required to fund growth. Continue to explore diversification and expansion possibilities in other consumer related areas.
1982 - Acquired total ownership in Alpert's Furniture	Continuing difficult economic environment. Good supply of popular film; better "crop" of Christmas films. Rising film costs. Release of blockbuster - "ET".	

TABLE IV (Continued)

1982 (contin'd) Investment in Heublein, Inc., which then merges with R.J. Reynolds Industries. GCC received 2,635,000 shares of Reynolds common stock.	Continued trend toward anti-blind bidding - 23 states now have laws. Better ability of exhibitors to assess/select commercially successful product. Home video and pay TV continue to be a stimulus to film production.	Continue to seek diversification opportunity to support continued growth as major businesses mature.
Repurchased 1,722,800 shares of GCC common stock for $73.8 million.		Continue basic theater operating strategy of (1) attracting large audiences to theater by exhibiting a broad selection of first-run films that appeal to diverse audiences, (2) to aggressively merchandise refreshments, and (3) to closely control operating costs.
		New theater units average 6 screens per location.
1983 - GCC ranks 315 in Fortune 500, 65th in total return to investors, 83 in 10-year EP's growth; and in Forbes' 36th "Survey of American Industry" 39th in profitability of 1008 companies on average return on equity.	Production companies are financially healthy and feature film supply continues to be good.	Shifted from cost control and margin maintenance to more aggressive sales and marketing program.
		Attendance declines modestly. Ticket prices were increased.
Debt reduced through sale of subordinated debentures exchangeable for R.J. Reynolds common stock.	Good film year - "Return of the Jedi" released. Lower film costs.	Served 90 million patrons, down slightly from 1982.

TABLE IV (Continued)

1983 (contin'd)		
Reorganization of GCC. Established Office of the Chairman with responsibility for long-term (strategic) growth and diversification goals of the company. Financial general management and legal expertise have been brought together in this arrangement.		Began new, increased program of leasing and construction of theaters. Older and less profitable units now disposed of. Continued optimism about the theater exhibition business. Plan to nearly double the number of screens in the next 7 years.
P. DelRossi became President of GCC Theaters (joined company in 1980 as Executive VP of GCC Theaters). A new GCC Theaters management team is created.		

TABLE V

GENERAL CINEMA BALANCE SHEETS 1960-1983 (in thousands)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Assets												
Current Assets	3054	3331	2406	3511	4209	5711	6397	7162	13028	21596	24704	26600
Fixed Assets	4743	7618	9089	11471	12504	15181	17872	19770	40565	43596	50802	52718
Total Assets	9187	12632	13462	17656	19762	23568	27151	29876	62472	95958	113444	121818
Liabilities												
Current Liabilities	1281	2093	2057	2723	3231	4096	4941	6024	12012	18904	21373	23500
Long-Term Debt	1021	2326	2892	5627	6287	8069	9692	9510	31287	48175	38086	38373
Total Equity	6690	8055	8361	8809	9786	10842	12284	14060	18692	27798	32816	38361
Retained Earnings	5493	5798	6114	6558	6223	7248	8672	10252	14749	20043	26252	33765
Total Liability	9187	12632	13462	17656	19762	23568	27151	29876	62472	95958	113444	121818
Stock Issues												
Common Authorized	1470	-	-	-	-	1837	-	-	5000	-	-	7500
Common Issued	853	918	919	920	1012	1268	1270	1291	3267	3333	3351	5029
Preferred Author.										1000	-	-
Preferred Issued												

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Current Assets	28650	35532	41315	46869	35234	57329	91490	103571	141947	186093	127183	143977
Fixed Assets	66153	76215	82414	86307	97226	125457	150967	200712	215899	224709	415794	444438
Total Assets	153755	178999	193208	203487	201611	258372	325257	385325	441796	503328	592809	619157
Current Liab.	24751	31361	37523	41498	32965	49259	71167	85791	105788	128568	127112	180648
Long-Term Debt	60700	63404	79911	74050	65014	93473	121016	149085	155292	156436	283217	140563
Total Equity	46478	64268	73071	85574	99489	112442	128818	146217	168542	203815	169157	259096
Ret. Earnings	41403	49497	58300	70607	84489	100306	119701	136299	158211	192871	223255	309180
Total Liability	153755	178999	193208	203487	201611	258372	325257	385325	441796	503328	592809	619157
Common Auth.	-	-	-	-	-	-	-	15000	-	-	30000	40000
Common Issued	5029	5589	5589	5589	5589	5589	5589	11072	11072	11072	11072	12933
Pref. Author.	-	-	-	-	-	-	-	-	-	-	10000	30000
Pref. Issued											9281	9281

Source: Annual Report 1960-1983

TABLE VI

GENERAL CINEMA STATEMENTS OF EARNINGS 1960-1983 (in thousands)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Earnings												
Revenue	8140	10423	12799	15637	20815	25163	33672	42386	71671	129534	159408	173951
Expenses	6964	9383	11546	14155	18655	22661	30622	23464	63575	118919	146908	159400
Operating Income	1176	1040	1253	1482	2161	2502	3049	3491	8096	10615	12500	14551
NIBT	1268	1128	1287	1539	2208	2633	3058	3530	8146	10624	12554	14551
Taxes	486	427	516	620	891	1069	1248	1322	3810	4837	5718	6616
NIAT	782	701	771	919	1317	1564	1810	2208	4336	5787	7115	8242
Net Income	870	727	770	903	1437	1695	1982	2286	4988	6150	7341	8894
Per Share												
Earnings	1.03	.79	.84	.98	1.42	1.30	1.59	1.86	1.54	1.85	2.18	1.75
Book Value	7.88			9.58	9.67	8.67	9.67	10.89	5.76	8.34	9.79	7.63

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Revenue	197015	245466	299514	358447	365315	465066	594857	656100	759400	823551	885935	928566
Expenses	182502	230496	281002	322678	327921	418512	529222	589895	685522	731522	781297	822436
Oper. Income	14513	14970	18512	35769	37921	46554	65635	66205	73878	92005	104638	106130
NIBT	14513	14790	18512	28318	31390	36667	44910	54121	60255	81125	81211	156835
Taxes	5997	6350	7923	13449	14335	16437	20299	23489	26891	36860	33175	58316
NIAT	8778	8846	10589	14869	17055	20230	24611	30632	33364	44265	48036	98519
Net Income	9213	9442	11057	14869	17055	20230	24611	26472	29931	44265	48036	98519
Earnings	1.80	1.69	2.01	2.68	3.04	3.64	4.43	2.41	2.72	3.99	2.38	5.24
Book Value	9.42	11.69	13.29	15.51	18.02	20.32	23.54	13.32	15.34	18.39	9.11	13.83

Source: Annual Report 1960-1983

TABLE VII

GENERAL CINEMA DIVISIONAL REVENUE AND INCOME PERFORMANCE 1968-1983 (in thousands)

	1968	1969	1970	1971	1972	1973	1974	1975*
Divisional Income								
Revenues								
Theaters	54108	57698	69588	80315	99763	117607	142873	180006
Beverage	17563	71836	89817	93636	97252	127859	156641	178441
Communication/ Other								
NI Operating								
Theaters	6644	7680	9510	10316	11126	10169	10386	18434
Beverage	1452	2935	3044	4235	3387	5027	8126	17335
Comm./Other								

	1976	1977	1978	1979	1980	1981	1982	1983
Revenues								
Theaters	168391	213757	266369	266461	307776	323200	343914	353099
Beverage	188935	240415	315156	364836	412321	445012	451462	473140
Comm./Other	7989	10894	13332	17499	20846	25102	50523	55723
Sunkist				9625	21643	33775	44445	51054
NI Operating								
Theaters	13420	14346	25200	27745	27494	31034	32219	35505
Beverage	22556	29913	37385	46197	54018	59004	61229	63121
Comm./Other	1945	2295	3050	3159	4059	6716	10389	5901
Sunkist				(10896)	(11693)	(4749)	801	1603

*reclassification of items

Source: Annual Report 1960-1983

TABLE VIII

GENERAL CINEMA RATIO ANALYSIS 1960-1983

	Ratios*					
	Liquidity	Profitability (%)			Leverage (%)	
Year	Current Ratio	Net Profit Margin	ROI	ROE	Debt Ratio	Debt Equity
1960	2.38	.16	.14	.12	.25	.15
1961	1.63	.11	.09	.09	.35	.29
1962	1.17	.10	.10	.09	.37	.35
1963	1.29	.10	.09	.10	.47	.64
1964	1.30	.11	.11	.13	.48	.64
1965	1.39	.10	.11	.14	.52	.74
1966	1.29	.09	.11	.15	.54	.79
1967	1.19	.08	.12	.16	.52	.68
1968	1.08	.11	.13	.23	.69	1.67
1969	1.14	.08	.11	.21	.70	1.73
1970	1.16	.08	.11	.22	.52	1.16
1971	1.13	.08	.12	.21	.51	1.00
1972	1.16	.07	.09	.19	.56	1.30
1973	1.13	.06	.08	.14	.53	.99
1974	1.10	.06	.10	.14	.61	1.09
1975	1.13	.08	.14	.17	.57	.86
1976	1.07	.09	.16	.17	.49	.65
1977	1.16	.08	.14	.18	.55	.83
1978	1.29	.08	.14	.19	.59	.94
1979	1.21	.08	.14	.21	.61	1.02
1980	1.34	.08	.14	.20	.59	.92
1981	1.45	.10	.16	.22	.57	.77
1982	1.00	.09	.14	.28	.69	1.67
1983	.80	.17	.25	.38	.52	.54

*Current Ratio - Current Assets/Current Liabilities
Net Profit Margin = NIBT/Revenue
ROI = NIBT/Total Assets
ROE = NIAT/Total Equity
Debt Ratio = Total Debt/Total Assets
Debt Equity = Long Term Debt/Total Equity

with revenues of $8.1 million and net income of $.87 million. By 1983 these figures had grown to $259 million in equity, with revenues of $928.6 million and net income of $98.5 million.

General Cinema's growth has occurred through operational expansion and by acquisition. The Company is described by various internal and external sources as a strong operations and finance company. Figure 5 depicts major growth patterns. In the earlier years growth occurred primarily through expansion of drive-ins and construction of shopping mall theaters and bowling alleys. Growth by acquisition occurred first with drive-in theaters. As the cost of land and construction increased, the company shifted to acquiring drive-in theaters during the mid '60's (1963, 1965, 1966). The shift to major growth by acquisition (1968) was also a shift in strategy to diversification as a means of new growth. This strategy had been attempted with bowling alleys (construction and operation) but the bowling operation never proved profitable. By 1968 the bowling alleys had either been leased for operation by other companies or were being converted to theaters. The shift to a strategy of growth by diversification through acquisition, e.g. bottling and communications, was influenced by the growth goals of the company. By 1968 theaters generated considerable cash in excess of that required to fund continued theater expansion. In the 1967 Annual Report Mr. Richard Smith, President, states:

> At a special meeting of stockholders on December 18, 1967, we obtained approval to broaden the Company's corporate purposes. We are now firmly committed to a program of selective diversification.

Figure 6 shows the pattern of diversification for General Cinema. The 1968 acquisitions, American Beverage Corporation ($18.1 million),

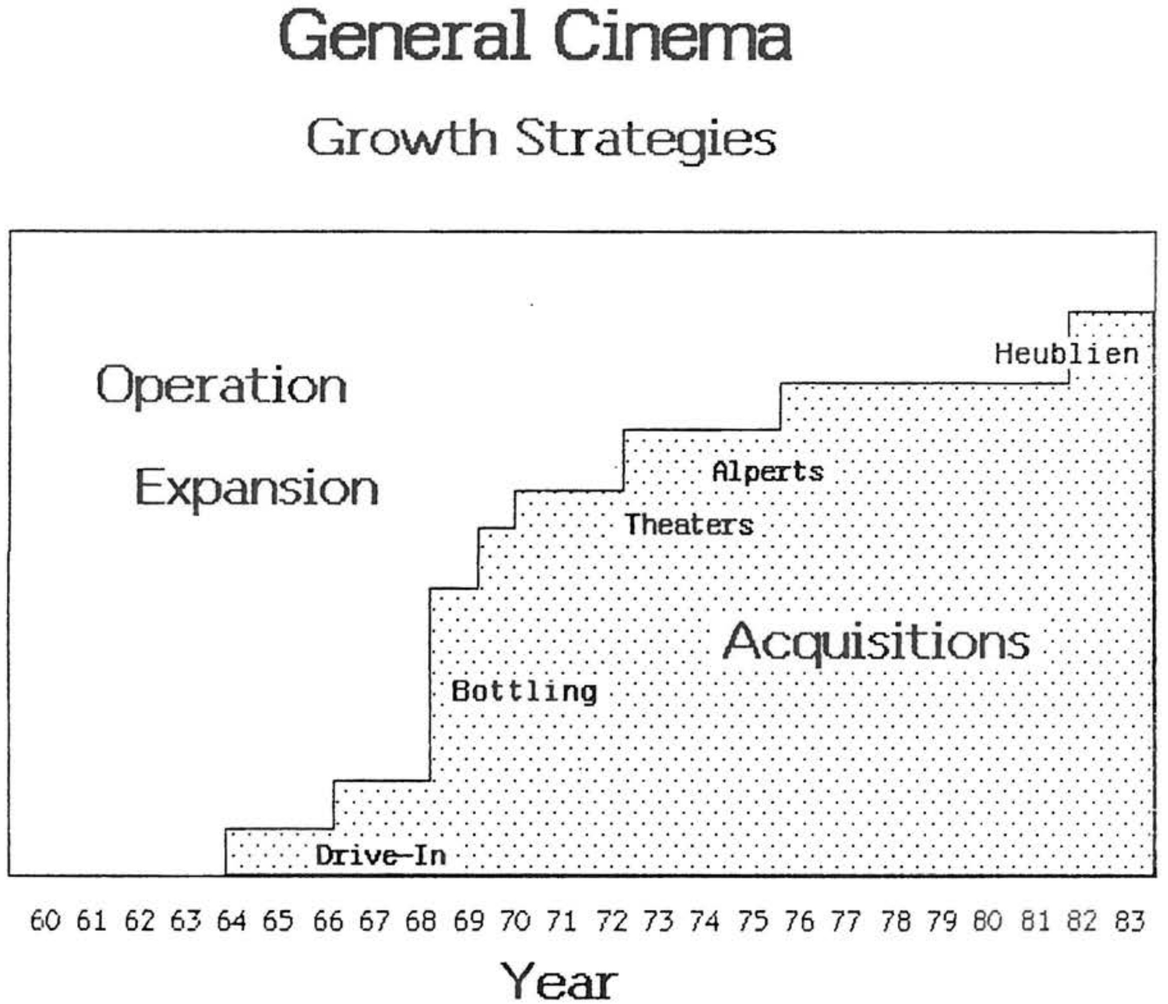

General Cinema
Growth Strategies
Operation
Expansion
Heublien
Alperts
Theaters
Acquisitions
Bottling
Drive-In
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
Year

Figure 5

General Cinema

Diversification Srategies

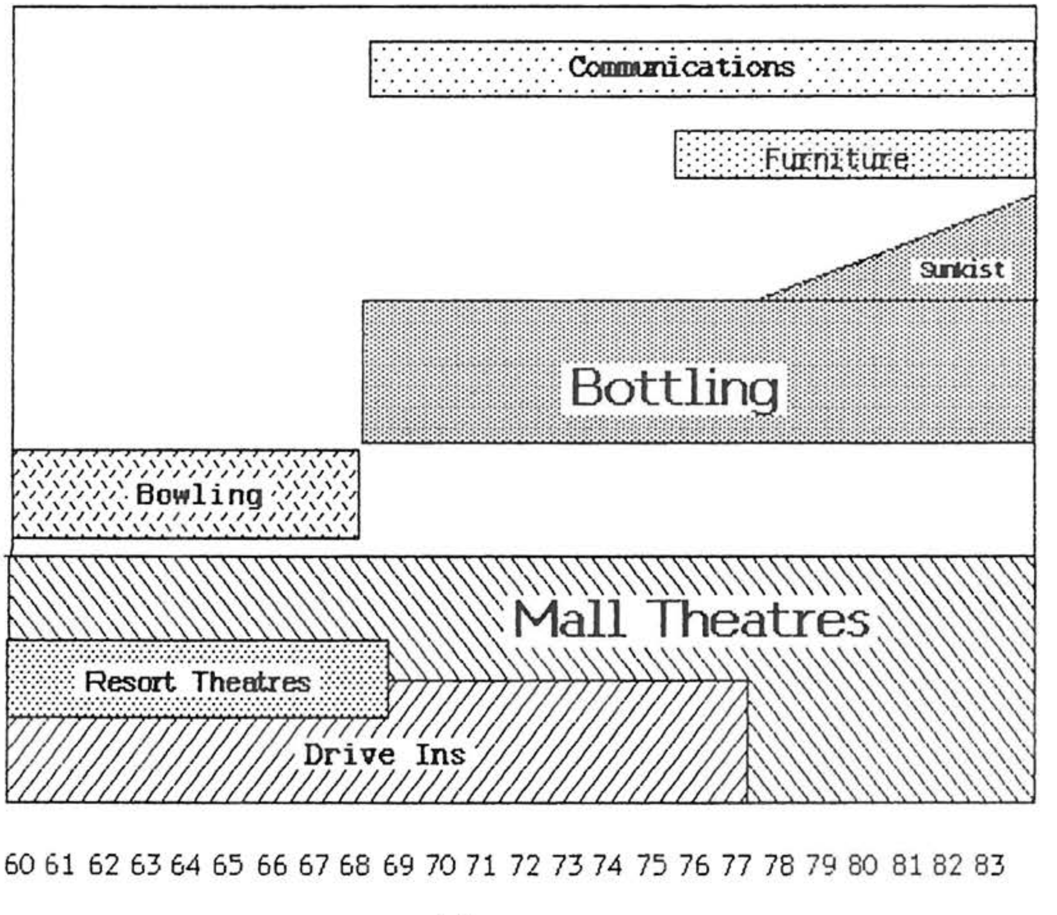


FIGURE 6

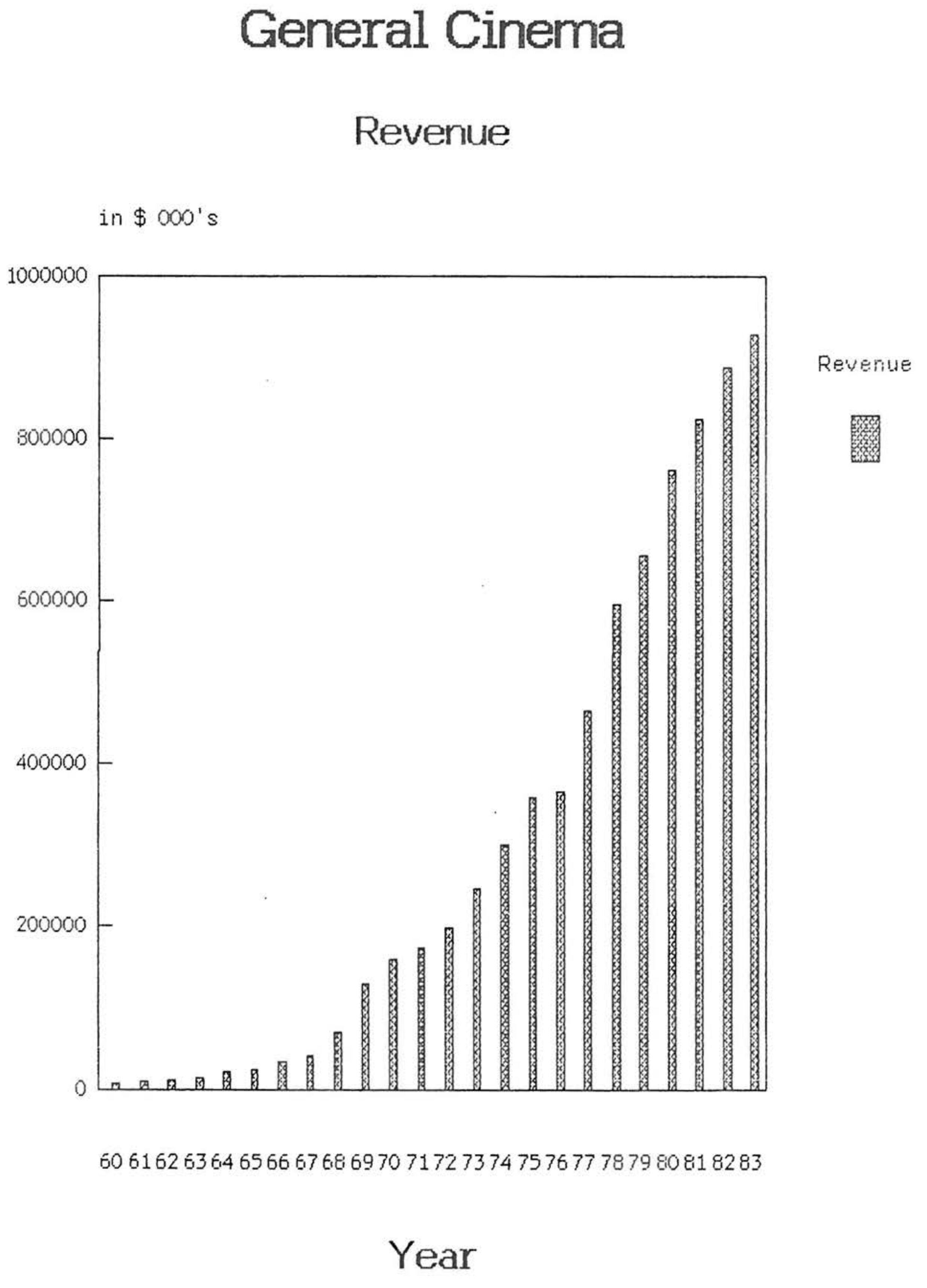

General Cinema
Revenue
in $ 000's
1000000
800000
600000
400000
200000
0
Revenue
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
Year

Figure 7

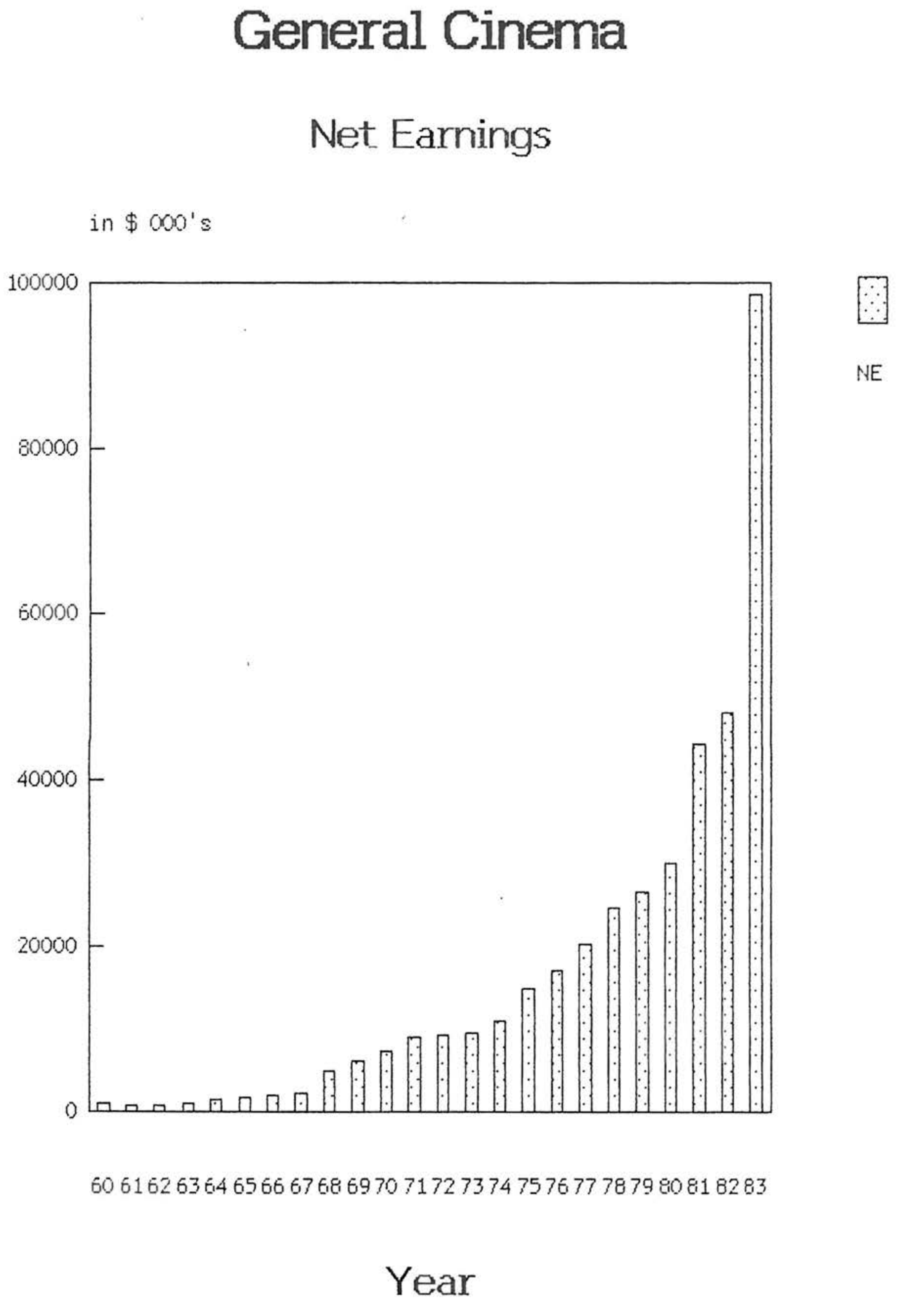

General Cinema
Net Earnings
in $ 000's
100000
80000
60000
40000
20000
0
NE
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
Year

Figure 8

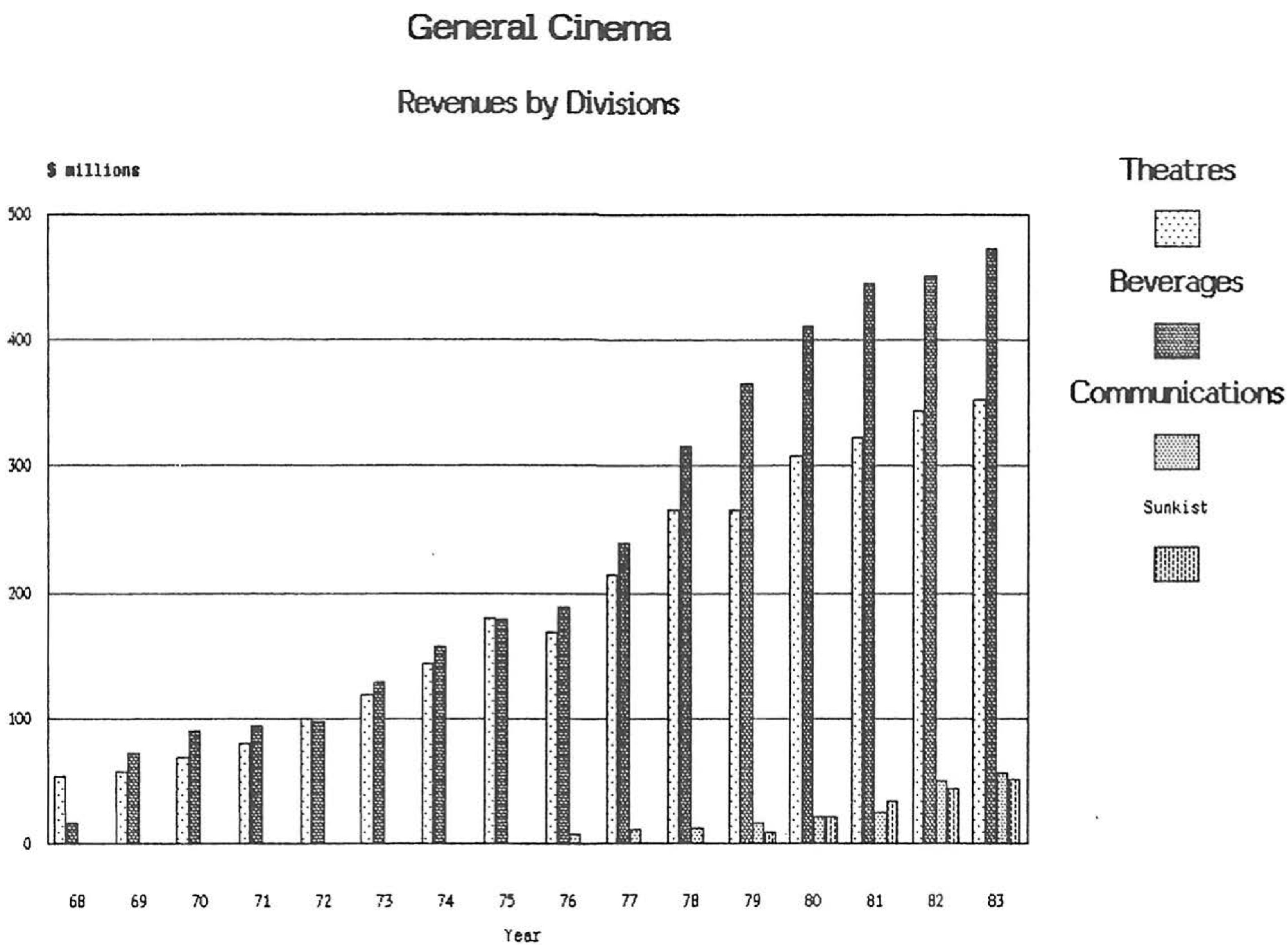

General Cinema
Revenues by Divisions
$ millions
500
400
300
200
100
0
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
Year
Theatres
Beverages
Communications
Sunkist

Figure 9

General Cinema

Revenues by Divisions

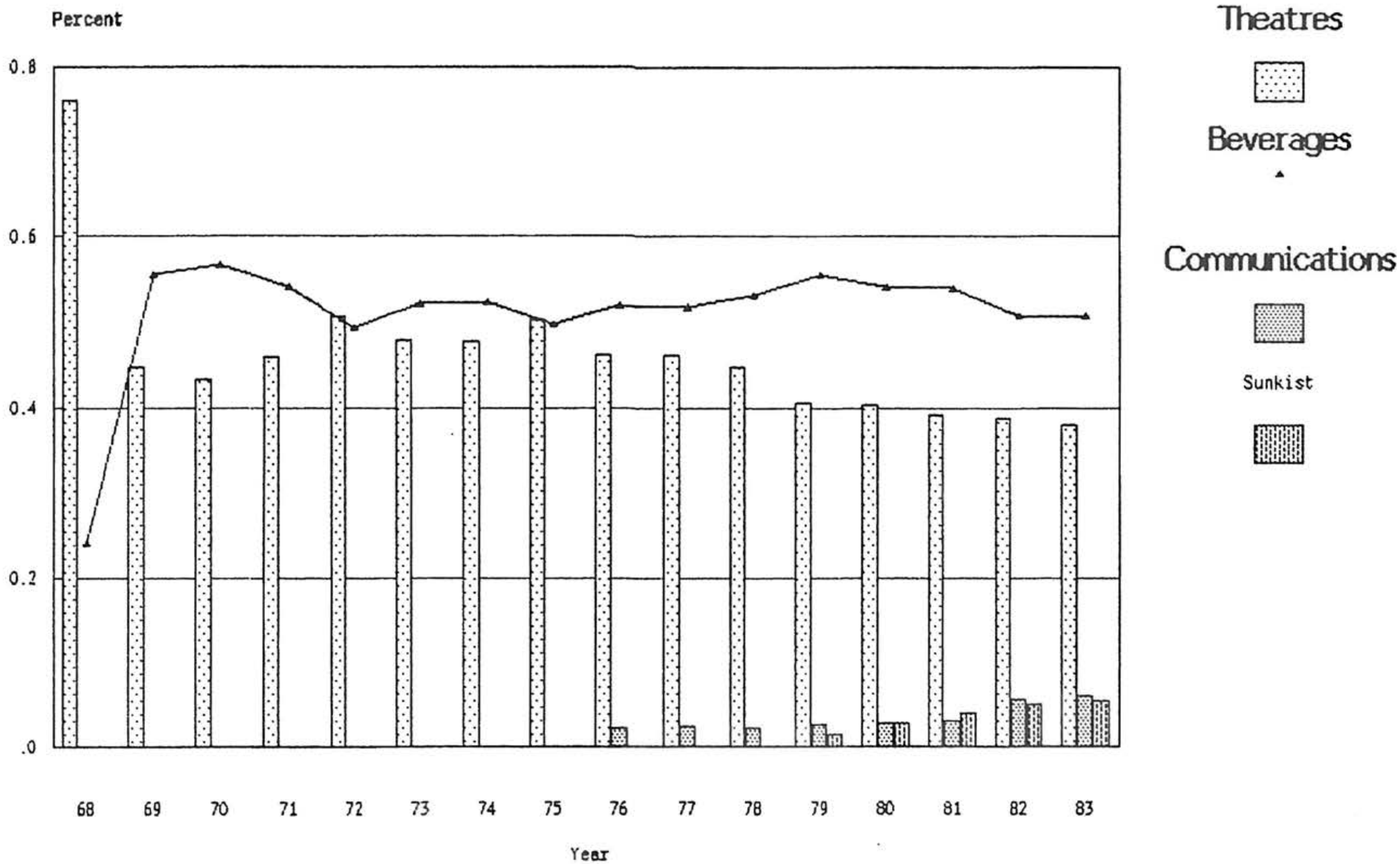


Figure 10

General Cinema

Income by Divisions

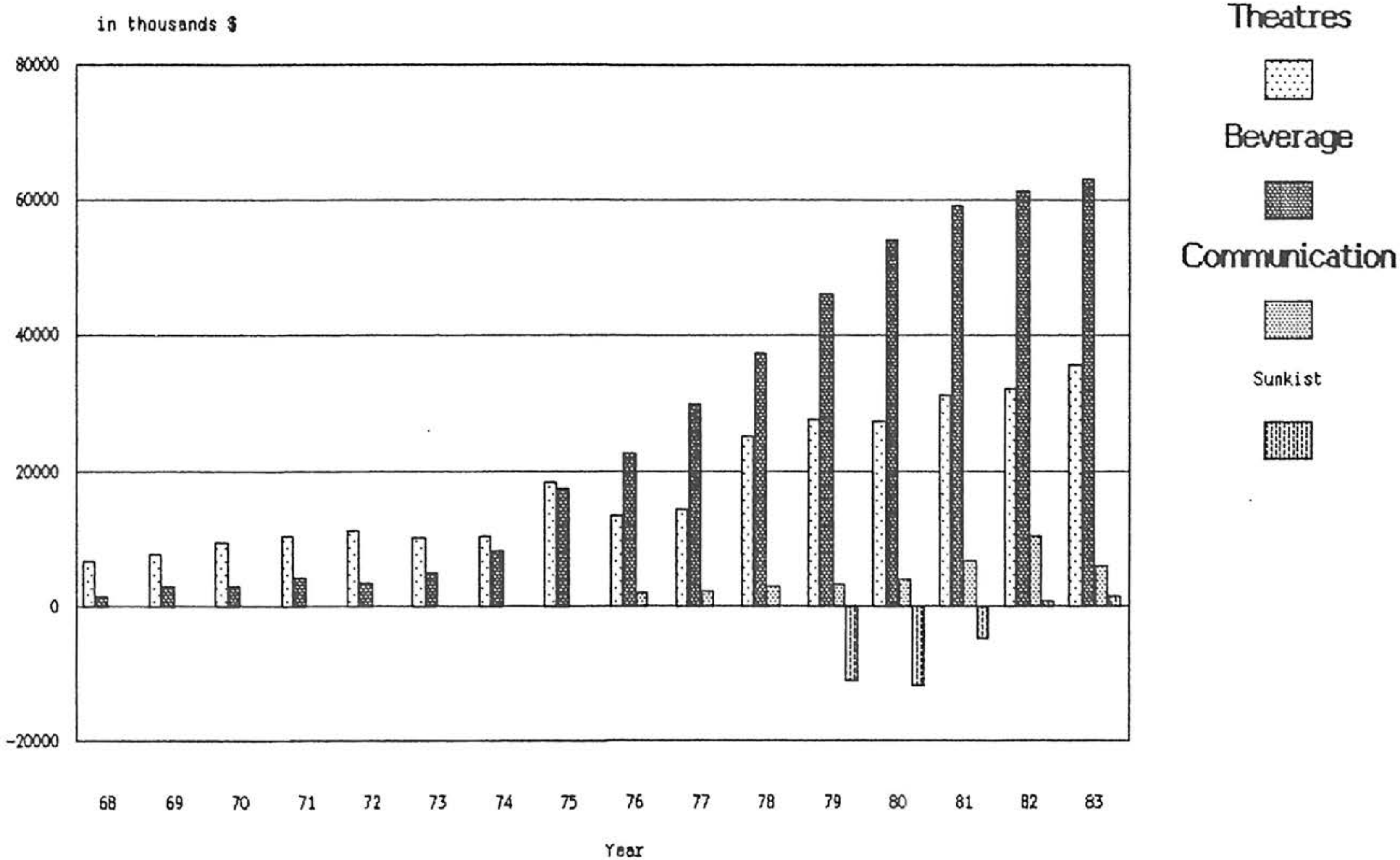


Figure 11

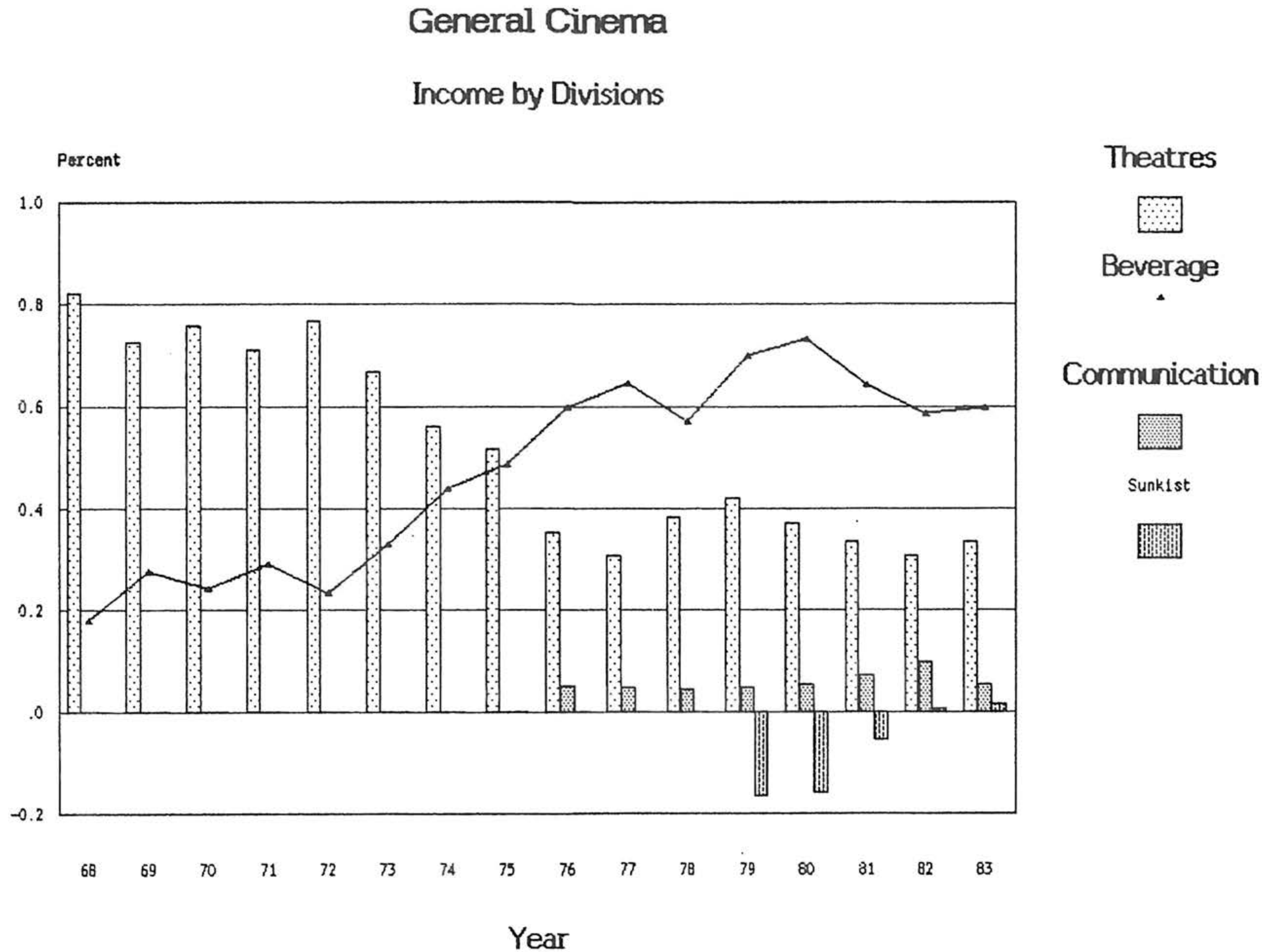

General Cinema
Income by Divisions
Percent
1.0
0.8
0.6
0.4
0.2
.0
-0.2
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
Theatres
Beverage
Communication
Sunkist
Year

Figure 12

Miami 7-Up Bottling Company ($1 million), Pepsi-Cola Allied Bottler, Inc. ($8.4 million), the Pepsi franchises for Cleveland ($4.9 million) and several other smaller companies, combined, positioned General Cinema in the south and midwest with seventeen plants in seven states.

Revenues and profitability of the General Cinema businesses from 1960-1983 are provided in Table 7 and Figures 7-12. Net income for bottling became greater than net income from theaters in 1976. Examination of these tables and figures reveals that the company now has two major businesses: theaters and beverages.

In 1978 the Company again began an active search for new business acquisitions as a source of future profitability. Various Annual Reports offer definitions of their business:

1960 - Leisure Time Industry - Family Recreation
1960 - Leisure Time Entertainment
1964 - Leisure Time - Family Oriented Entertainment
1975 - Leisure Oriented Consumer Business

In its search for acquisitions and diversification, several characteristics of desirable businesses have been articulated by General Cinema:

1. The business is marketing oriented and not too technical or prone to obsolescence.

2. The products are aimed at the youth and affluent markets, a large consumer base.

3. The operations are strong, decentralized and regional/national in scope.

4. The emphasis is on services with sales benefiting from customer leisure time.

5. There is potential for expansion (either by new growth or acquisition).

6. The products provide relatively inexpensive pleasure and satisfaction to the public.

7. There is little or no regulation.

8. Operations have a protected base of exclusivity by location or franchise (high barrier to entry).

9. Neither inflation nor recession environments greatly affect earnings---sales growth is more a function of the quality and supply of the product.

10. The business should have the potential for a 15% or more annual growth in earnings, and a 20% or more return on additional capital employed.

The Annual Reports (1960-1983) are a rich source of information on the intended goals and strategies of General Cinema. Many of the major strategy shifts may be identified using a chronological tracking method with these documents. Table 9 lists by year the significant goal and strategy statements contained in the Annual Reports.

In the early years, the Company grew slowly. Emphasis was on defining the business, goal specification and developing the knowledge and skills associated with mall development. Many of these early goals had to do with growth, and with financial philosophy (creation of value and dividend policies).

More recent specification has concentrated on new strategy formulation and refinements of strategy to accomplish the long term company goals. The pattern of General Cinema's growth strategy may be summarized as: Find a consumer growth business where we can 1) manage the expansion of the business through strong operations and product adaptation/innovation and 2) consolidate the business on a regional/ national basis (by niching), and then use the excess funds generated to search for and acquire a new business (consumer-leisure oriented) with additional expansion opportunities to sustain company growth momentum.

TABLE IX

GENERAL CINEMA GOAL AND STRATEGY STATEMENTS 1960-1983*

Goal Statement	Strategy Statement
1960 - Enter leisure time growth fields	Position company to capitalize on suburban population growth and leisure time trends
Become the largest shopping center theater chain in the country	Begin major expansion program
1961 - Expand by planned diversified growth	Establish year around balanced cash flow with/between drive-ins and bowling. Have geographic diversity to protect earnings against loss (due to weather)
1964 - Become a national theater chain and the largest theater chain	Establish and hold competitive position through • early entry • pace-setting expansion • ability to obtain excellent sites • concentrated growth in best markets/regional growth areas
Maintain strong policy of dividend payment and sharing profit growth with stockholders (also 1976)	
1966 - Achieve net return on stockholder equity of 20%	
1968-69 Establish expansion plan through acquistions and new operations growth	Establish strategy for regional marketing impact. Acquire/consolidate non-competitive franchises into strong regional entity.
	Expand theaters (plexing) and offer a large number of constantly changing films to encourage and develop regular theater going habits.
1975-76	Restructure long-term debt

TABLE IX (Continued)

1977 -	Manage GCC as a true growth company. Maintain 15% average annual rate of earnings growth into mid-1980's	Maintain growth through acquisitions, new diversification and operations expansion Find businesses that "fit" and expand through strong regional operations and innovation
1980		Continue to strengthen leadership position in existing businesses and expand scope of operations to other consumer products and services
1982		Use acquisitions to create value not size
1983		Major strategy shift in existing businesses from emphasis on cost control and margin maintenance to more aggressive sales and marketing programs.

*Source: Annual Report 1960-1983.

Comments in the 1982 and 1983 Annual Reports further explicate General Cinema's growth strategies and philosophy:

> (1) There is a growing recognition that the true value of an enterprise is dependent upon its ability to generate a cash return, not just reportable earnings. For this reason, we have directed the Company's resources into consumer-related businesses with above average growth potential that generate significant cash earnings, earnings that are available for reinvestment in new or expanded activities to augment the Company's future growth.
>
> Management rigorously applies the creation of value concept to General Cinema's diversification efforts. Besides seeking businesses that generate cash earnings, we attempt to acquire them at prices which do not already fully reflect their future growth potential.
>
> As our businesses grow, and their earnings and cash generating capacity expand, they appreciate significantly in value. Today, General Cinema's businesses have a 'real' market value substantially in excess of their book value, which is based on historical cost.
>
> Management believes that the creation of a consistent and expanding cash flow and earnings base will over time be recognized in the investment community and that this recognition will be reflected in a growing market value for the Company's shares. The strength and consistency of this cash flow have also enabled the Company to judiciously use leverage. Management has kept the number of common and common equivalent shares outstanding, adjusted for stock splits and stock dividends, virtually constant since the Company went public in 1960. As a result, shareholder equity has not been diluted and, on a per share basis, both cash flow and earnings have continued to rise consistently over a long period of time.
>
> Due to the fact that General Cinema's businesses generate cash earnings significantly in excess of the funds required to sustain their internal growth, General Cinema has had a longstanding policy of sharing its earnings growth with shareholders through increasing cash dividends. Several years ago, the Board of Directors formulated a policy of paying dividends equivalent to 25-30% of earnings. As a result, cash dividends have increased significantly each year as earnings have grown. During the last five years the annual cash dividend rate has increased an average of 18.8% per year.
>
> Management remains committed to its basic philosophy of building the Company's asset base and further enhancing its earning power and cash flow. By adhering to this principle, we believe the Company can accomplish its primary objective

> of creating lasting value by providing our shareholders with a total return---appreciation in the market value of General Cinema shares plus cash dividends---well in excess of the inflation rate and commensurate with that of a leading growth company (1982 Annual Report, p. 6-7).

> (2) General Cinema's growth has been based on the creation of value for our shareholders. Using the cash-generating capacity of the Theater Division, 13 years ago we initiated an acquisition program in the soft drink industry which eventually positioned the Company as the largest independent bottler in the country. The soft drink business sustained our growth throughout the past decade, and today the value of our exclusive franchises far exceeds our acquisition costs. In 1969 we made an investment in a struggling independent television station in Miami. Through subsequent investments we assumed control in 1974. Today WCIX-TV is an important earnings contributor to General Cinema and has increased in value dramatically. Similarly, we have invested almost $34 million pretax during the past four years in Sunkist Soft Drinks. In doing so, we have made Sunkist Orange Soda a viable national brand, with probably the strongest distribution network in the industry, and successfully introduced a companion sugar-free product, Diet Sunkist. The value of Sunkist today far exceeds our investment, and its earnings potential will enhance General Cinema's ability to sustain its growth in the 1980's. Our primary corporate objective continues to be to maintain the Company's growth momentum. If that can be achieved, we believe we will continue to create incremental equity value for our shareholders (1983 Annual Report, p. 2).

Theater Growth Strategies

When General Cinema Corporation (originally called Midwest Drive-In) became a public corporation in 1960 the company operated twenty-six drive-in theaters in twelve states and nineteen indoor theaters located principally in New England and Florida. After World War II indoor theater growth declined from 18,000 to less than 10,000 while drive-in theaters experienced rapid growth, increasing by over 2000 screens during the 1950's. See Table 10. By 1960 drive-ins were 30% of the

TABLE X

NUMBER OF THEATER SCREENS IN THE U.S. 1948-1983

	Indoor	Drive-In	Total
1948 (1)	17,811	820	18,631
1954 (1)	14,716	3,775	18,491
1958 (1)	12,291	4,063	16,354
1963 (1)	9,150	3,502	12,652
1964 (2)	9,200	3,540	12,740
1965 (2)	9,240	3,585	12,825
1966 (2)	9,290	3,640	12,930
1967 (2)	9,330	3,670	13,000
1968 (2)	9,500	3,690	13,190
1969 (2)	9,750	3,730	13,480
1970 (2)	10,000	3,750	13,750
1971 (2)	10,300	3,770	14,070
1972 (2)	10,580	3,790	14,370
1973 (2)	10,850	3,800	14,650
1974 (2)	11,612	3,772	15,384
1975 (2)	12,168	3,801	15,969
1976 (2)	12,562	3,414	15,976
1977 (2)	12,990	3,564	16,554
1978 (2)	13,129	3,626	16,755
*1979 (2)	13,329	3,636	16,965
**1983 (3)			19,000

Source: (1) U.S. Department of Commerce, Bureau of Census.
(2) Estimates from various sources.
** (3) Variety 1/11/84.

*As of July 1979.

screens in the industry. For the first few years of operation, the Company continued to construct drive-ins, but by 1963 had shifted to acquisition for any further growth. As shown in Figure 13, as revenues began to decline after 1970, the Company started to phase out of its (unprofitable) drive-in operations. Table 11 and Figures 14-15 show the yearly growth in new screens for General Cinema theaters.

Most of the General Cinema growth in theater screens was in regional shopping malls. New theaters in malls grew slowly during the first part of the 1960's and then gained momentum during the latter part of the 1960's. Table 12 and Figure 16 indicate the number of yearly theater openings and closings. Theater openings increased rapidly during the first half of the 1970's and remained stable at between 60 to 80 new theater openings per year through 1983. (The company plans to double its total number of screens by the end of this decade. This implies a growth rate of greater than 100 screens each year for the next six years.)

The major approach to strategy formation in the 1960's focused on competing with television and other forms of leisure time activities. General Cinema did this by providing relatively inexpensive entertainment through the building and operating of clean, comfortable theaters in conveniently located shopping malls that had adequate parking facilities. By the mid 1960's more emphasis was placed on providing patrons with a choice of billings (film) at the same location. Strategy formation in the 1970's was influenced by General Cinema's success in 1) attracting a higher patron attendance than the industry, 2) having new theaters become profitable in the first

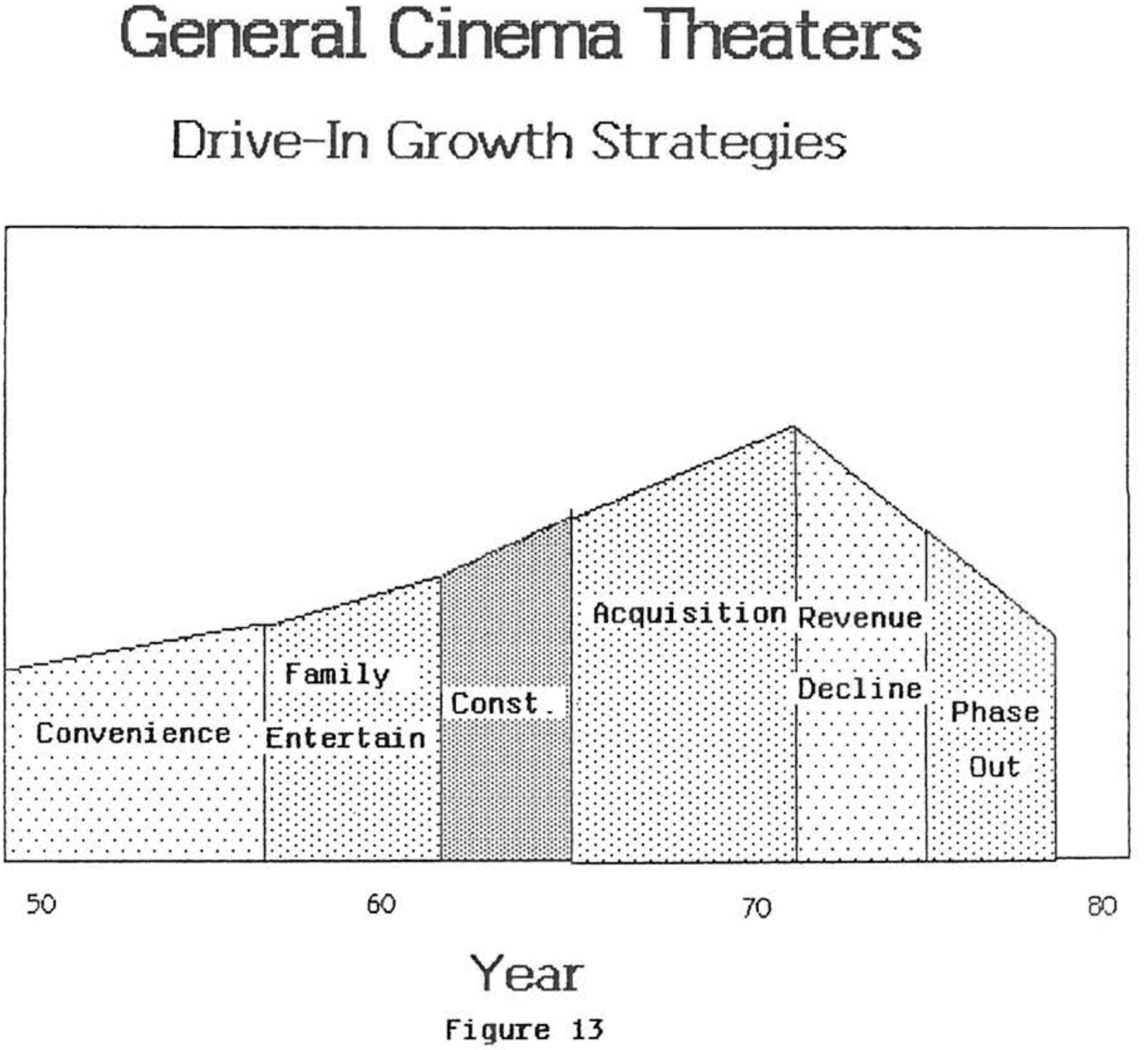

General Cinema Theaters
Drive-In Growth Strategies
Convenience
Family
Entertain
Const.
Acquisition
Revenue
Decline
Phase
Out
50
60
70
80
Year

Figure 13

TABLE XI

GENERAL CINEMA THEATER EXPANSION FROM 1960-1983

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Theaters - Totals	49	54	54	72	74	96	129	148	160	170	203	297
In Malls	5	10	10	20	25	46	69	89	103	114	155	247
Suburban	18	18	18	20	15	14	14	11	9	9		
Drive-In	26	26	26	32	34	36	46	48	48	47	48	50
Theaters Under Const/Projected	9	17	10	17	31	33	32	36	42	37	39	103

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Total	419	490	563	612	663	739	791	843	916	967	1004	1034
In Malls	370	444	528	592	652	728	791	843	916	967	1004	1030
Suburban												
Drive-In	49	46	35	20	11	11	9	7	7	7	7	7
Under Const/Proj.	164	155	143	120	165	138	129	126	80	60	70	100

Source: Annual Report 1960-1983

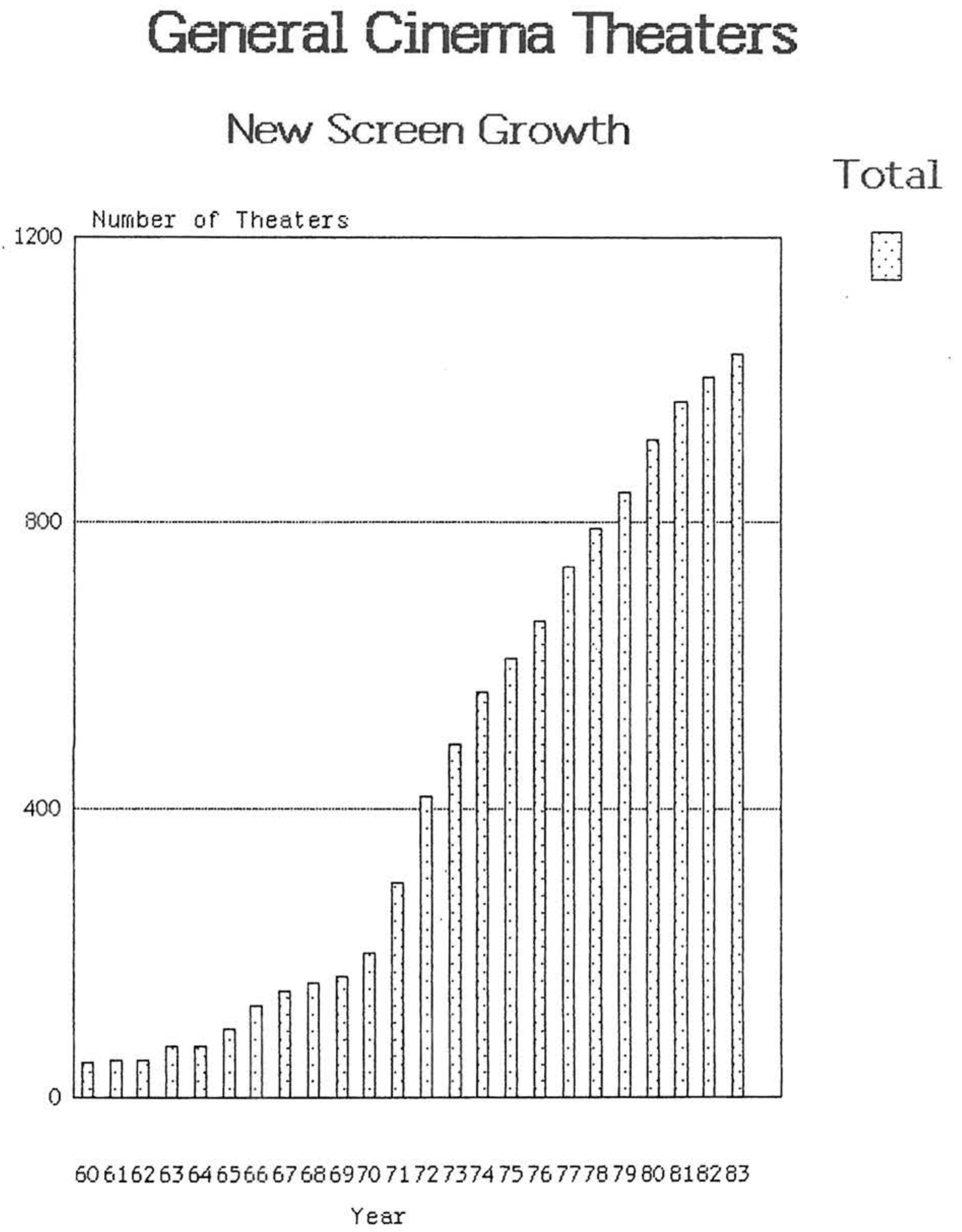

General Cinema Theaters
New Screen Growth
Total
Number of Theaters
1200
800
400
0
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
Year

Figure 14

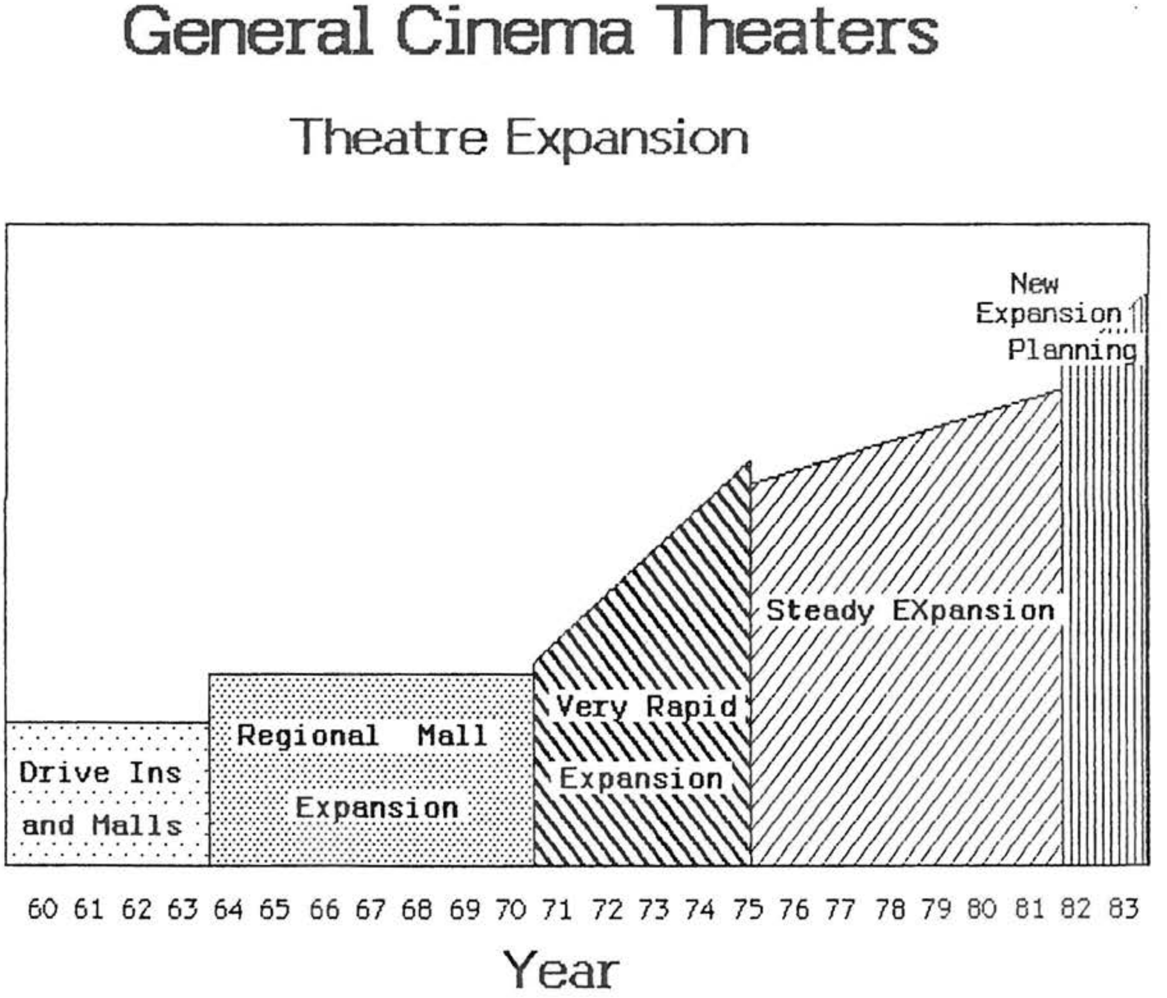

General Cinema Theaters
Theatre Expansion
New Expansion Planning
Steady EXpansion
Very Rapid Expansion
Regional Mall Expansion
Drive Ins and Malls
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
Year

Figure 15

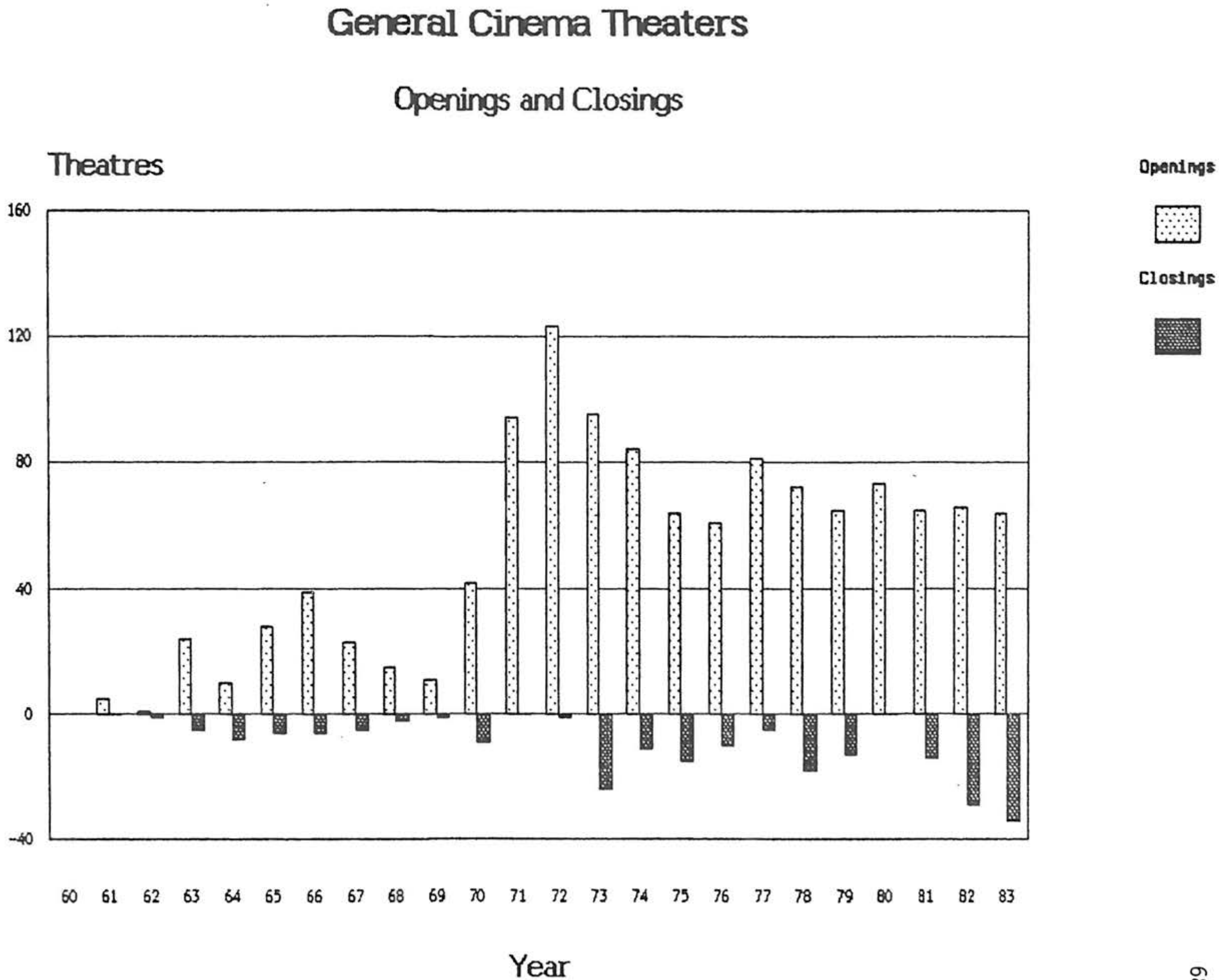
TABLE XII

GENERAL CINEMA THEATER OPENINGS AND CLOSINGS 1961-1983

	1961		1962		1963		1964		1965		1966		1967		1968		1969	
Theaters	Opened	Closed	Open	Clos	Open	Clos	Open	Clos	Open	Clos	Open	Clos	Open	Clos	Open	Clos	Open	Clos
Indoor																		
Suburb/Resort	0	0	+1	0	3	-2	0	-5	0	-1	+1	-1	0	-3	0	-2	0	0
Shopping Mall	4	-	-	-1	12	0	5	0	21	0	+23	0	+20	0	+14	0	+11	0
Drive-In	+1	0	0	0	9	-3	5	-3	7	-5	+15	-5	+3	-2	+1	0	0	-1
Total	+5	0	+1	-1	+24	-5	10	-8	28	-6	+39	-6	+23	-5	15	-2	+11	-1

	1970		1971		1972		1973		1974		1975		1976		1977		1978	
	Opened	Closed	Open	Clos	Open	Clos	Open	Clos	Open	Clos	Open	Clos	Open	Clos	Open	Clos	Open	Clos
Indoor																		
Suburb/Resort	0	-9	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shopping Mall	+41	0	92	0	123	0	+95	-21	+84	0	+64	0	61	-1	81	-5	72	-9
Drive-In	+1	0	+2	0	+0	-1	0	-3	0	-11	0	-15	0	-9	0	0	0	-9
Total	+42	-9	+94	0	+123	-1	95	-24	+84	-11	+64	-15	+61	-10	81	-5	+72	-18

	1979		1980		1981		1982		1983	
	Opened	Closed	Open	Clos	Open	Clos	Open	Clos	Open	Clos
Indoor										
Suburb/Resort										
Shopping Mall	65	-13	73	0	65	-14	66	-29	64	-34
Drive-In	-0	0	0	0	0	0	0	0	0	0
Total	+65	-13	73	0	65	-14	66	-29	+64	-34


General Cinema Theaters
Openings and Closings
Theatres
160
120
80
40
0
-40
Openings
Closings
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
Year
Figure 16

year of operation (compared to three years in the early 1960's), and 3) a deep appreciation that the theater exhibition business was not greatly affected by either inflation or recession but rather by the quality and supply of product (film). Strategy formation centered around competing for a larger portion of the expanding disposible personal income. General Cinema's strategies concentrated on building theaters with more auditoriums to offer a greater variety of first run films at each theater location, thereby being able to provide greater market segmentation.

In the 1980's General Cinema shifted to a market leader strategy. This strategy focuses on 1) addressing the exhibitor location competition through establishing and controlling film zones (a film zone is defined as an area that has 16-18 screens) and 2) pace setting new construction, multiplexing and location clustering. Table 13 lists many of the theater strategy statements that are found in the Annual Reports and other documents.

This chronology was used to identify a set of theater related growth strategies. Table 14 shows the geographic and location growth in theaters between 1960-1983. During this 23 year time period General Cinema Theaters expanded from 39 locations in 17 states to 336 locations (down from 350 locations in 1981) in 39 states and the District of Columbia. Figure 17 shows that during the 1960's emphasis was placed on the use of a geographic dispersion strategy to position General Cinema as a national theater exhibition company. This strategy continued into the 1970's but emphasis shifted to location expansion through location conversions and new theater construction (Uyterhoeven, 1976:5):

TABLE XIII

GENERAL CINEMA THEATER STRATEGY STATEMENTS 1960-1983

Year	Strategy
1960	Concentrate theater growth in geographically diverse shopping centers located near suburban growth areas.
1962	Shift drive-in expansion from construction to acquisition. Build twins (Cinema I and II) to provide greater film variety at same location, attract more movie-goers.
1963	Locate in geographically accessable malls with minimal other exhibitor competition.
1964	Increase competitive position through early entry, pace setting expansion, and continued ability to obtain excellent sites.
1969	Offer a large number of constantly changing billings to encourage and develop regular theater-going habits. Shift expansion to construction of 3-4 plexes with smaller auditoriums. Locate new theaters in carefully selected sites in regionally healthy markets.
1970	Expand geographically through acquisitions.
1972	Begin to convert existing profitable locations to multiplexes to provide more first run films at each location.
1973	Phase out and discontinue unprofitable operations (get out of drive-in business). Increase attention to cost control to cope with declining operating margins.
1974	Shift profit emphasis from tickets to concessions. Introduce larger drink, candy and popcorn sizes and increase markup and per item profitability.
1975	Enter joint venture for feature film production to increase available supply of first run films.
1977	Target first run exhibition markets--continue multiplexing to maintain position of first run exhibitor. Add screens in Sunbelt and other carefully selected markets. Introduce concept of long-range planning to continue growth.

TABLE XIII (Continued)

1979	To offset higher film costs and declining profit margins, improve operating margin by selective price increases in tickets, tight operating expense control and increase concession sales by implementing a comprehensive refreshment marketing program.
1980	Continue to strengthen leadership position through strong operations management and through the use of a protected base of exclusivity of unique locations in regional shopping malls.
	As real estate costs increase company negotiates ground leases or leaseback arrangements.
1981	Begin finding developers to create auxiliary shopping malls near regional malls for access/ control of film zones.
1982	Find new markets before construction of new regional mall. Identify where new mall will be located and build large multiplex at proximate location. Then also build in mall when it is constructed--to gain control of a film zone.
1983	Implement pace setting new theater construction program to maintain leadership position. Shift concession stands from free flow to stations to serve more customers and increase profitability. Reorganize Theater Division to establish a strong marketing and promotion capability. Increase emphasis on decentralized operations.

Source: Annual Report 1960-1983

TABLE XIV

GENERAL CINEMA THEATER GEOGRAPHIC AND LOCATION GROWTH 1960-1983

Year	Total Theaters	Total Locations	Total States
1960	49	39	17
1961	54		
1962	54		
1963	72		
1964	74		
1965	96		
1966	129		
1967	148		
1968	160		
1969	170		
1970	203	(107 cities)	30
1971	297	220	30
1972	419		38
1973	490		
1974	563		
1975	612		
1976	633		
1977	739	335	
1978	791	337	
1979	843	337	
1980	916	347	39 + DC
1981	976	350	
1982	1004	345	
1983	1034	336	

Source: Annual Report 1960-1983

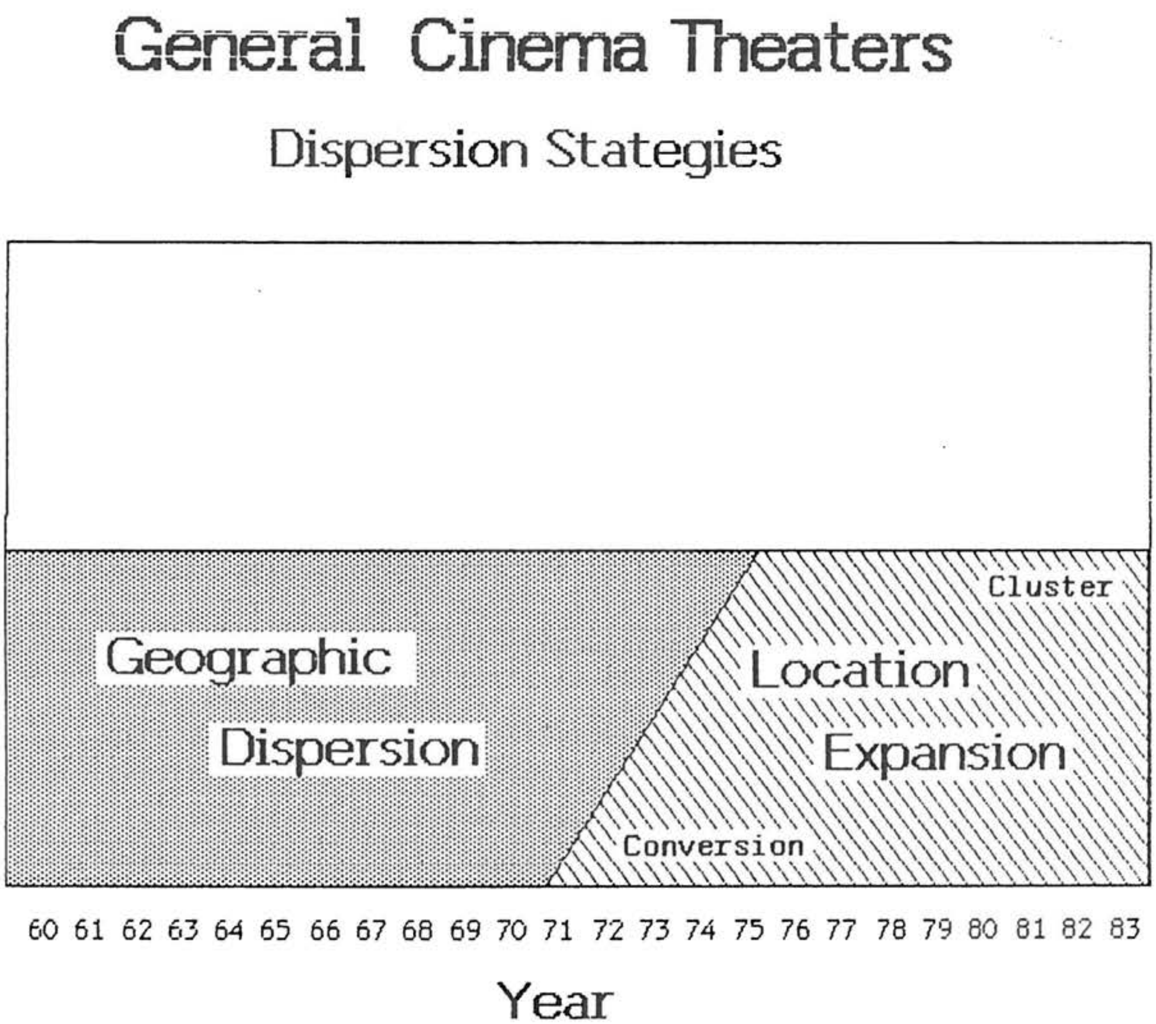

General Cinema Theaters
Dispersion Stategies
Geographic
Dispersion
Location
Expansion
Cluster
Conversion
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
Year

Figure 17

> Location was considered to be crucial in determining a theater's success. In addition to the market research performed by the leading retailers in a new shopping center, management was particularly concerned about the economics of film procurement.

Other variables of concern in the selection were construction and operating costs, ticket pricing, and attendance and refreshment revenue. Only locations which offered a 20% return on initial investment after taxes were selected.

Beginning in the 1980's greater emphasis is being given to 1)location clustering to position for future growth in profitable regional markets, and 2) for film zone control. Figure 18 shows specific geographic expansion strategies used by General Cinema. Most geographic expansion has been through regional malls, but during the early 1970's, General Cinema acquired theaters (Mann and Loews) which gave them access to new geographic locations in Los Angeles, Florida, Arizona, and New Mexico. Figure 19 shows the shifts in auditorium design strategy which accompanied other theater growth strategies and environmental/demographic changes. Table 15 shows that the trend of "plexing" found in Figure 19 is increasing in the 1980's. Most new theater construction has six, eight, or ten-plex designs. See also Table 16.

Real Estate Strategies

During the early part of the 1960's the Company continued to own the land for drive-ins and bowling alleys (Figure 20). As the costs of land increased they shifted to an acquisition strategy for continued drive-in growth. As drive-ins and bowling alleys became unprofitable the land was sold for regional mall development (and

General Cinema Theaters

Geographic Expansion Strategies

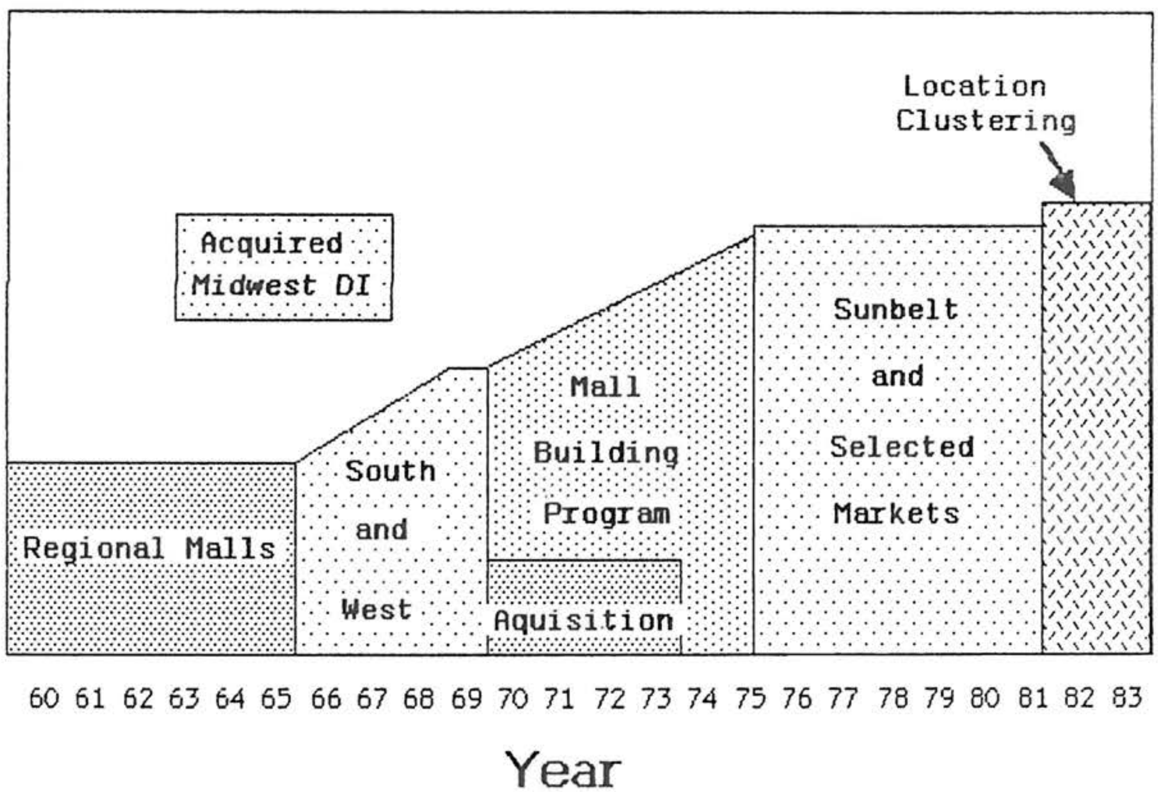


Figure 18

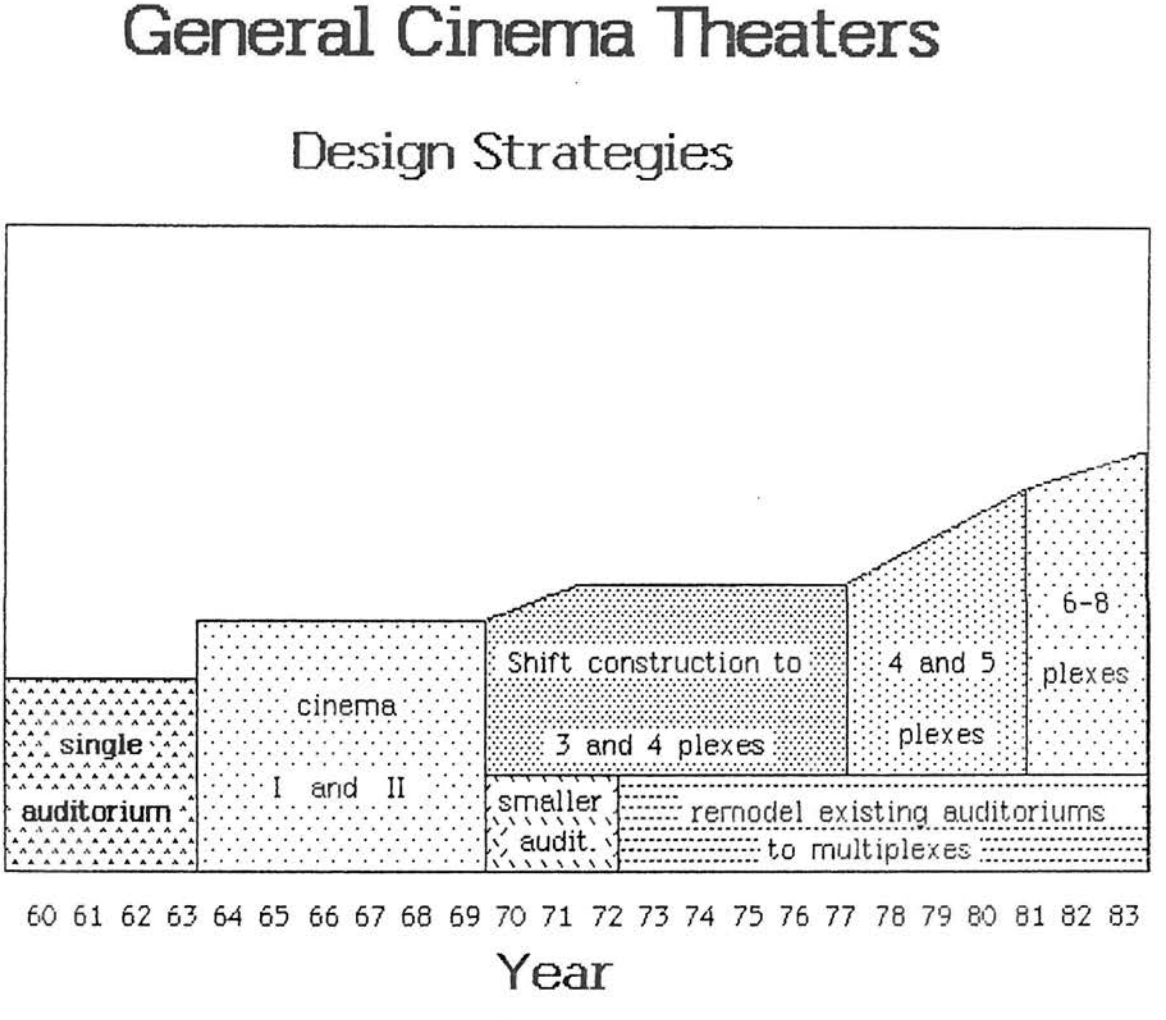

General Cinema Theaters
Design Strategies
single
auditorium
cinema
I and II
Shift construction to
3 and 4 plexes
4 and 5
plexes
6-8
plexes
smaller
audit.
remodel existing auditoriums
to multiplexes
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
Year

Figure 19

TABLE XV

GENERAL CINEMA THEATER MULTIPLEX EXPANSION 1979-1983

Year*	Multiplex (Number of Screens) 1	2	3	4	5	6	7	8	Auditorium Total	Location Total	New Locat.	Locat. Split	Closed
1979	23	338	312	140	30	0	0	0	843	337			
1980	21	312	342	164	65	12	0	0	916	347	56	19	2
1981	15	300	333	224	65	30	0	0	976	350	46	19	14
1982	13	276	321	232	75	72	7	8	1004	345	54	8	29
1983	9	252	285	264	100	102	14	8	1034	336	44	19	33

*Twin construction began in 1962. In 1965 General Cinema had 21 single theaters and 15 twin theaters in shopping malls.

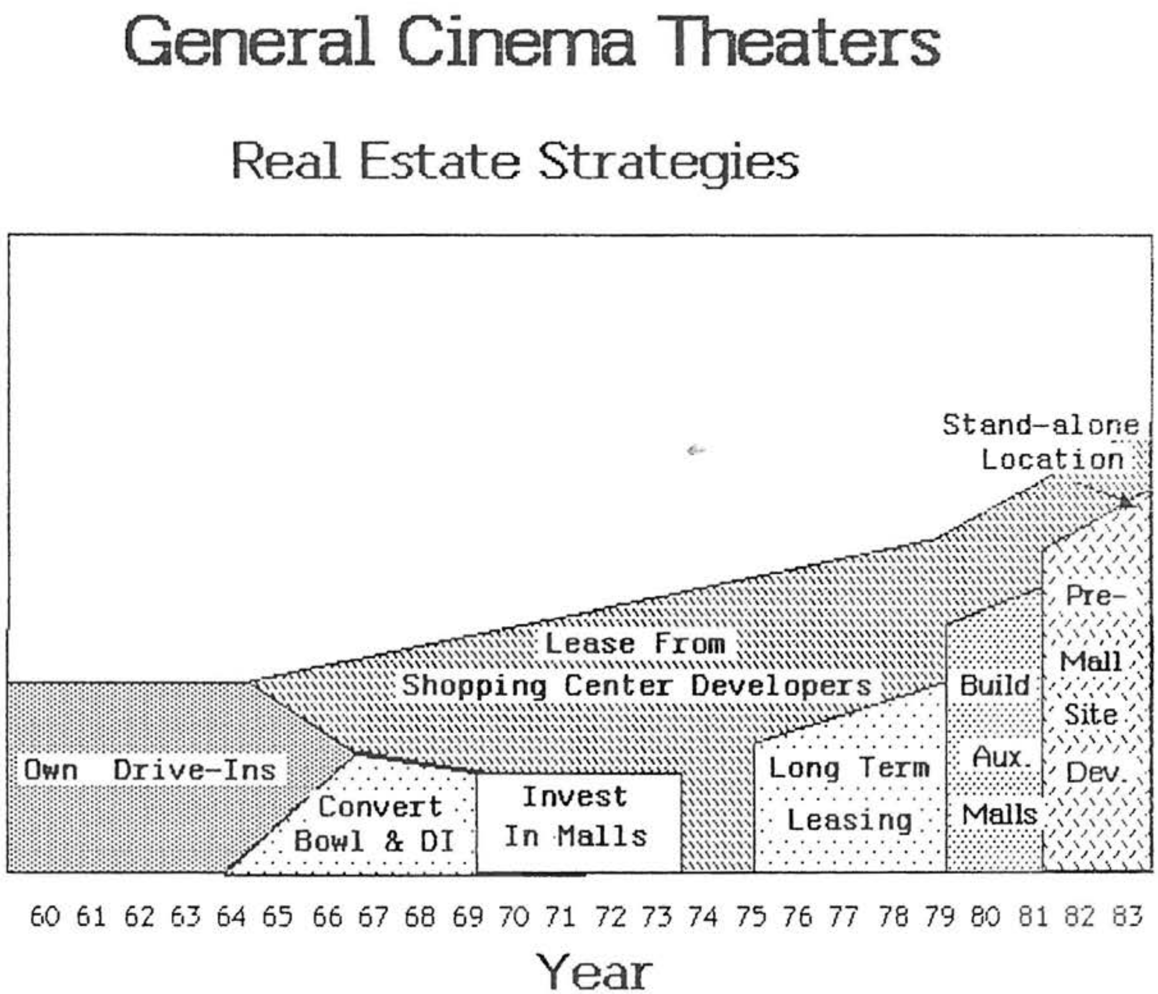
Source: Internal Theater Reports 1980-1983

TABLE XVI

TOP TEN U.S. THEATER CIRCUITS 1983

Top 10 Circuit	Headquarters	Screen Total As of 12/31/83	Location Total	Number of Drive-In Screens	States in Order of Greatest Screen Presence	GROWTH New Screens Projected for 1984	Year Co. was Founded
1. General Cinema	Chestnut Hill, Mass.	1,050	360	7	30 states, D.C.	101	1936
2. United Artists Communications	East Meadow, NY/ San Francisco	1,005	339	54	25 states, P.R.	146	1926
3. American Multi-Cinema	Kansas City	736	146	0	26 states	200	1968
4. Plitt	Los Angeles	605+	286	0	Ill.,Cal.,Minn., Mich.,Ariz.,more	n.a.	n.a.
5. Martin	Columbus, Ga.	431	201	57	Ga.,Tenn.,Tex., Ala.,N.C.,More	52	1912
6. Commonwealth	Kansas City	362	215	63	Kan.,Colo.,Mo. N.M.,Ark.,more	35	1930
7. Mann	Los Angeles	315	101	1	Cal.,Ariz.,Colo., Utah,Tex.	32	1973
8. Redstone	Boston	302	84	53	Mass.,Mich.,N.Y., Ohio,Pa.,more	?	1939
9. Cobb	Birmingham, Ala.	255	75	4	Fla.,Ala.,Ga.,Miss., Tenn.,P.R.,V.I.	66	1949
10. Tom Moyer	Portland, Ore.	235	90	8	Ore.,Wash.,Idaho, Nev.,Cal.	16-24	1963
Next 20 (average number)		166	59				

Source: Variety, Wednesday, January 11, 1984



General Cinema Theaters
Real Estate Strategies
Stand-alone Location
Pre- Mall Site Dev.
Build Aux. Malls
Lease From Shopping Center Developers
Long Term Leasing
Own Drive-Ins
Convert Bowl & DI
Invest In Malls
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
Year

Figure 20

the Company located a theater in the mall). Several bowling alleys were converted to twin theaters. Most shopping center theaters were "built to suit" with fixed-plus-percentage rental arrangements with center developers. In the mid 1970's construction costs led many developers to require that renters actually invest in the buildings. In time there was a rise in long term ground leases with lease back and resale options. Toward the end of the 1970's General Cinema began to examine market growth opportunities for various regional malls around the United States (where screen supply was underbuilt). They frequently sought out developers who would finance an "auxiliary" mall at the desirable site. General Cinema would then locate a multiplex theater in this auxiliary mall. The latest real estate strategy leads regional mall development. The company finds a site where a future regional mall is planned and then finds a developer to build a theater multiplex before the regional mall is constructed. General Cinema also tries to position itself so that later when the mall is built, they are able to negotiate for theaters in the mall, thereby giving the company control of a film zone.

Concession Strategies

In the early 1970's General Cinema Corporation began experiencing declining operating margins in their theaters (Table 17). In large part this was due to declining quality and supply of film, and the higher rental costs associated with "blockbusters." The trend of rising film costs continued throughout the 1970's leading to concessions becoming the major source of profits to the Company. Figure 21 shows this shifting relationship of sources of theater operating

TABLE XVII

GENERAL CINEMA OPERATING MARGINS (PERCENT) FOR 1979-1983

	Operating Margin by Year				
Unit	1979	1980	1981	1982	1983
Theater*	10.4%	8.9%	9.6%	9.4%	10.1%
Beverage	12.7	13.1	13.3	13.6	13.3
Communications	19.3	18.8	23.1	20.6	10.6
Sunkist	-	-	-	1.8	3.1

*Theater Divisions

1972	6%
1975	10.2%
1977	6.7%
1978	9.5%

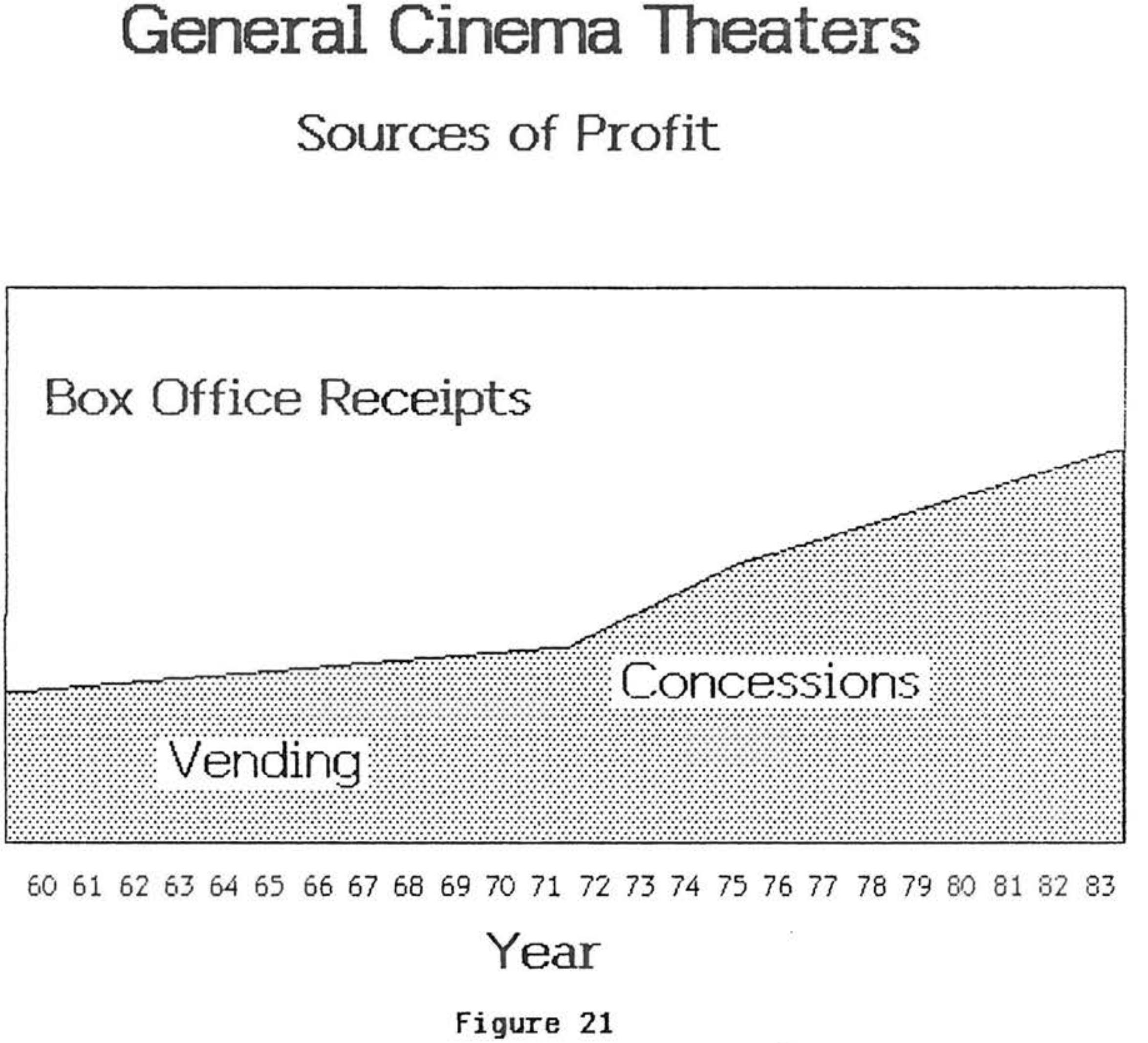

General Cinema Theaters
Sources of Profit
Box Office Receipts
Concessions
Vending
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
Year

Figure 21

profits. By 1975 film rentals were 50% of box office receipts. Because the per capita sales at concession stands had been rising for quite a few years, thereby leading to generally increasing concession profits, the Company appears to have been slow in recognizing the need to develop aggressive new concession strategies. The major strategy shift occurred in 1974 where larger sizes of containers were developed (candy, popcorn and drinks) with higher prices and larger profit margins per item. This was an industry trend. Little mention of concessions appears in the Annual Reports. The 1979 Annual Report notes, "...the successful implementation of a comprehensive refreshment marketing program." The Company emphasized cost (operational) control over new concession design and technology.

For concessions few major changes appear to have occurred until the 1980's. The Company is now shifting to a station versus the previous free flow approach to serving customers. the Company (Figure 22) is now moving to a more aggressive sales and marketing strategy, as well as new concession stand designs for new theaters.

Environment

Figure 23 shows that General Cinema has been very sensitive to the consumer environment and to the changing trends in this area. The 1965 Annual Report discussed these favorable trends and economic climate: 1) rapid population growth concentrated in the suburbs, 2) rising disposable income with more being spent on entertainment, 3) shorter work week, and 4) growth of movie-going age groups (teens and young marrieds). In the 1969 Report Mr. Smith elaborates:

General Cinema

Concession Strategies

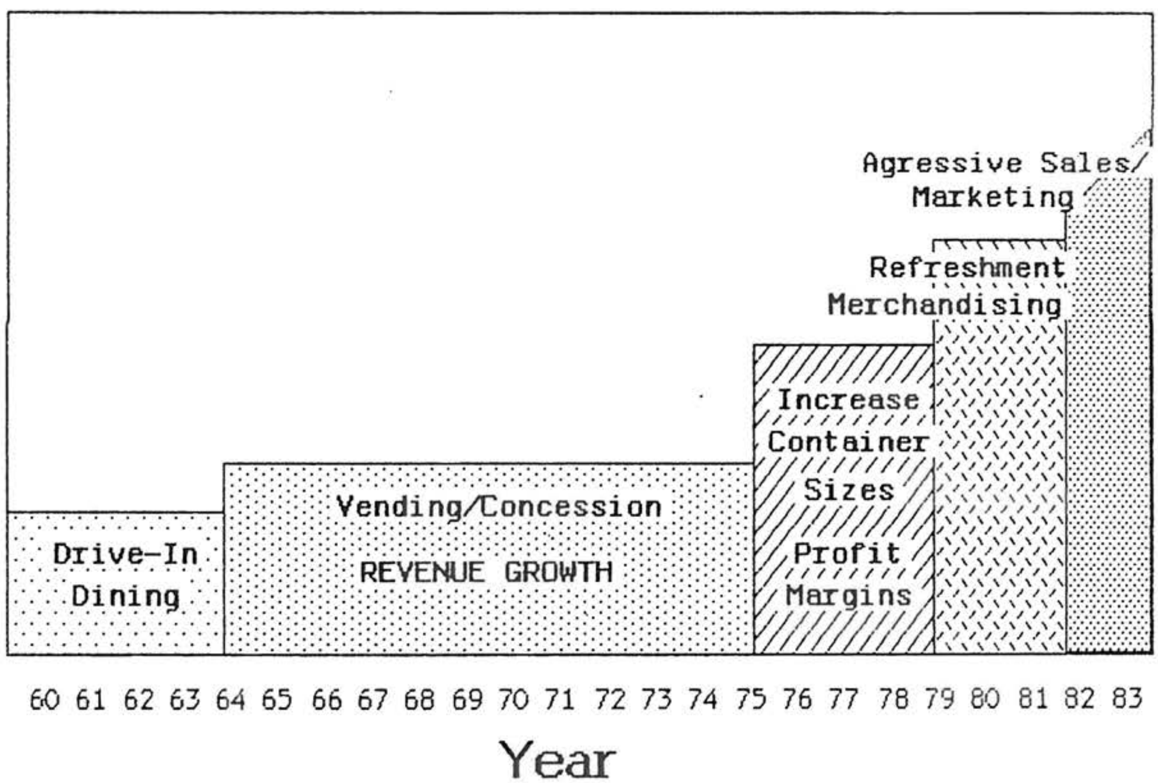


Figure 22

General Cinema

Major Target Markets

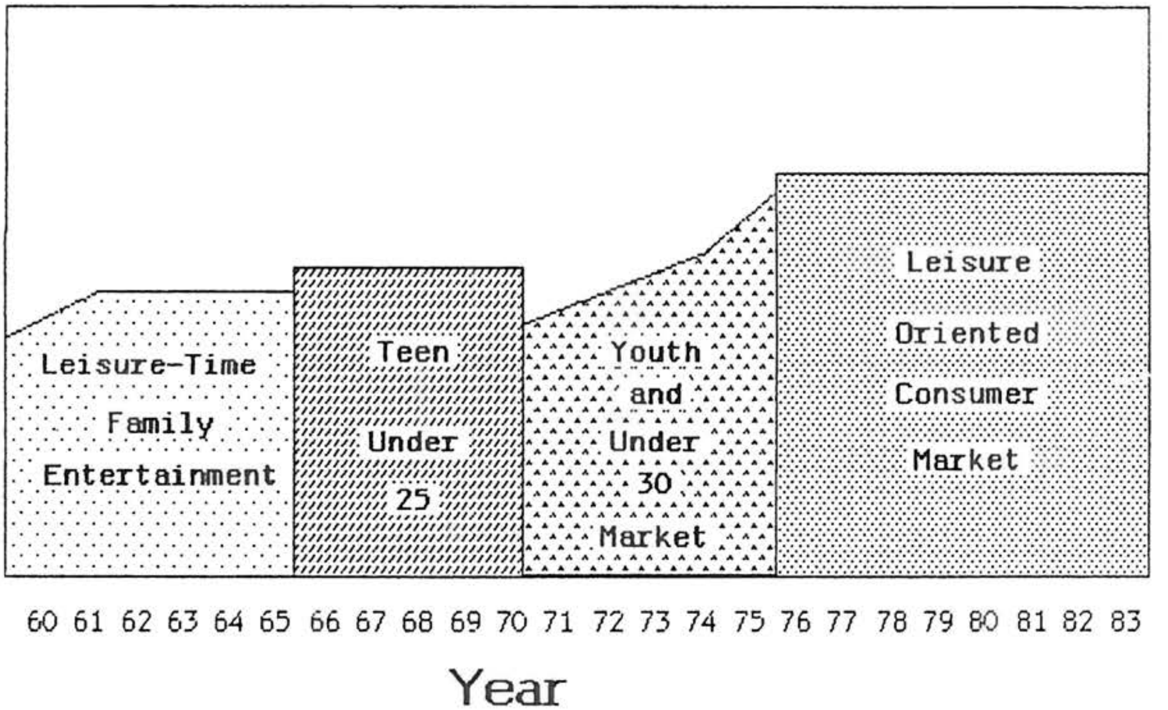


Figure 23

> At this juncture in the Twentieth Century, the youthful segment of the American population has become an important, affluent and growing consumer market. General Cinema's operations while designed for broad consumer acceptance, are especially prepared to service the youth market in the years ahead. More than half the population of our nation is under 30 and will still remain under 30 in the next 10 years---providing bright prospects for our theaters and beverage business, which will cater particularly to this age group.

Mr. Smith sees this resulting in a rising audience demand for variety, leading to smaller markets and market segmentation of film showings. General Cinema's strategy was to find economically healthy market areas and build multiplex theaters to cater to varied tastes of the audiences of the 1970's.

Figure 24 identifies many of the significant environmental factors. General Cinema has been quick to identify changes in the environment and develop new strategies (drive-ins, shopping center theaters, *multiplex auditoriums*). As the regional malls expanded and the theaters were able to attract more first run features, theater attendance shifted to the malls. The period from 1968-1973 was one of rapid exhibitor expansion. In 1973 General Cinema became the industry leader. With the rising cost of gas and cycles of recession/inflation, many individuals "substituted" movies for other more expensive forms of recreation or entertainment. The trend to multiplexing (Table 15) started in the 1970's and is expected to continue through the 1980's.

In the 1977 Annual Report, Mr. Smith examines the major industry and demographic trends that have impacted exhibitor and General Cinema strategy. First is the continued growth of the suburbs. General Cinema has concentrated its expansion in regional shopping malls. In

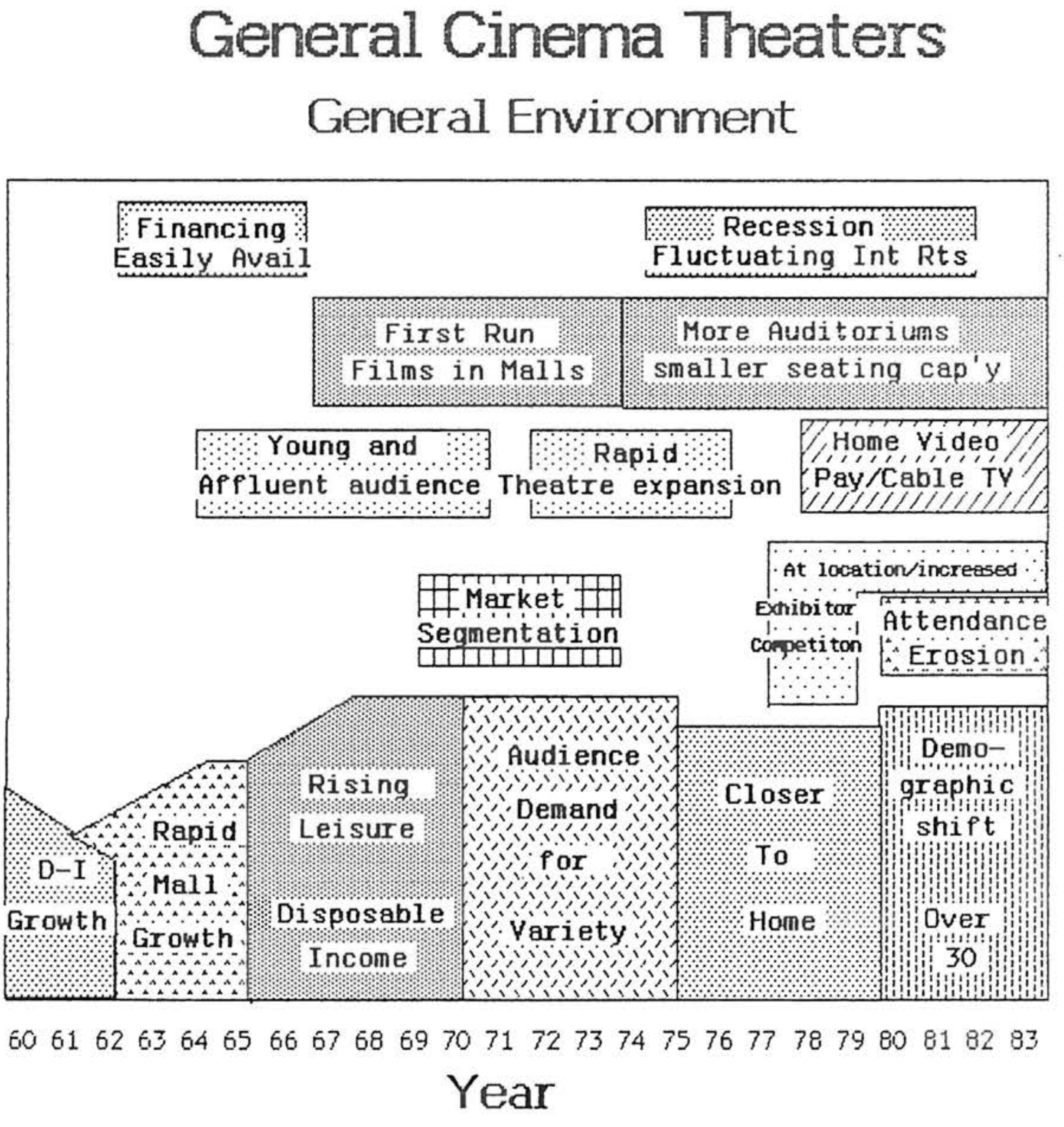

General Cinema Theaters
General Environment
Financing Easily Avail
Recession Fluctuating Int Rts
First Run Films in Malls
More Auditoriums smaller seating cap'y
Young and Affluent audience
Rapid Theatre expansion
Home Video Pay/Cable TV
At location/increased
Exhibitor Competiton
Attendance Erosion
Market Segmentation
D-I Growth
Rapid Mall Growth
Rising Leisure
Disposable Income
Audience Demand for Variety
Closer To Home
Demo-graphic shift
Over 30
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
Year

Figure 24

1977 80% of General Cinema's theaters are located in or near regional shopping centers and are less than ten years old. This has resulted in a shift of first run movies to where people live. Second is the effect of changing family demographics, inflation and rising energy costs on theater exhibition. Drive-ins are no longer family entertainment centers. General Cinema has phased out their drive-in operation as they become unprofitable. They have also increased multiplexing to offer the patron more variety at the same location. Third is the increased dependence of the industry on first-run and blockbuster films. The 1970's has also experienced a generally less than adequate supply of film and rising film rental costs. A two tier exhibition system has evolved---with General Cinema electing to participate primarily in the first run market with higher film costs (1977:12):

> We have consciously chosen this course which maximizes revenues, attendance and operating profits, although margins are reduced.

General Cinema effected a strategy of more market targeting and segmentation through increased multiplexing of existing theaters (conversion) and new theater construction. To improve operating margins they 1) implemented comprehensive refreshment marketing programs, 2) controlled operating expenses, and 3) selectively increased ticket prices.

During the latter part of the 1970's the home video and pay/cable television markets began to expand more rapidly. Many industry analysts have argued that television would eventually be the "demise" of theater exhibition. In the 1979 Annual Report Mr. Smith comments:

> We believe that the growth of home entertainment systems such as video disks, video cassettes, cable and pay TV is a long range benefit to motion picture exhibitors, because it will encourage increased film production. In our opinion, the increase in production activity over the last several years bears out this belief. Production companies previously have been unable or unwilling to assume the higher financial risk of producing films when revenues and profits were unpredictable. We believe a larger number of exhibition channels will increase the revenue generating potential for producers of feature films thereby improving their potential return on investment, and encouraging them to produce more product. The importance of the initial exposure of a film in the conventional movie theater cannot be overemphasized. Historically, the more successful the film in its original release, the more valuable it becomes to all other delivery systems. This would also pertain to the large ancillary market, free network television, which has had relatively little comparative success with 'made for TV films' (1977:10).

Financing Strategies

The financing strategies of General Cinema Corporation are presented in Figure 29. In 1960 the company went public with a $2.25 million, 180,000 share offering. The growth in common and preferred stocks is shown in Table 5. In addition to the family controlled stock, nearly a third of the stock was held by institutional investors. Sale of stock and internal financing have been two major sources of capital. Additional debt financing was undertaken as needed to finance expansion and acquisitions. Two long term financing strategies have been to improve the debt equity ratio (Table 8) and to improve liquidity by spreading debt maturities. In the late 1970's debt was spread by shifting some of the bank borrowing ($30 million) to private placement (fifteen year senior notes at 11%).

Film Environment

The trend of multiplexing increased the demand for first run movies, as the supply was falling (Table 18; Figures 25, 26 and 27). Film costs were escalating from inadequate supply and rental fees on "blockbusters." As a result of fluctuating quality and of supply of film, theater operating margins were also less stable (Table 17). There is a constant theme running through all the annual reports that theater exhibition is inflation and recession resistant. What drives the industry is the quality and availability of film (Annual Report 1976:11):

> We believe the growth of the movie exhibition industry is only constrained by the availability and quality of product. Given the necessary product, the industry and General Cinema's Theater Division will continue to grow.

As the supply of film increased in the latter part of the 1970's (plus the "Star Wars" series and "ET") General Cinema began to add screens in carefully selected growth markets, especially in the Sunbelt, and to continue to multiplex existing profitable locations. They have also regionalized and strengthened their film buyer capability within the company. While emphasis in the 1980's will remain strong for operational and real estate strategies, the importance of film and concession strategies to maintain a competitive market leader position will increase. This shift is observed in some of the organization changes which occurred within General Cinema during 1983.

Organization Structure

In the evolution of the organization structure, underpinning all changes has been the constancy of family control of ownership. A

TABLE XVIII

U.S. AND FOREIGN FILM PRODUCTION 1973-1983

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
U.S. Production											
Majors/Minors	74	58	54	58	70	60	77	76	81	50	74
Independents	77	85	44	50	73	60	45	49	45	29	67
Total	151	143	98	108	143	120	122	125	126	79	141
Foreign Production											
Major/Minors	28	32	26	24	22	20	22	27	20	35	46
Independents	40	63	52	42	61	63	104	57	59	70	62
Total	68	95	78	66	83	83	126	84	79	105	108
Grand Total	219	238	176	174	226	203	248	209	205	184	249

Source: Variety, January 3 (1984:26)

General Cinema Theaters

Film Environment

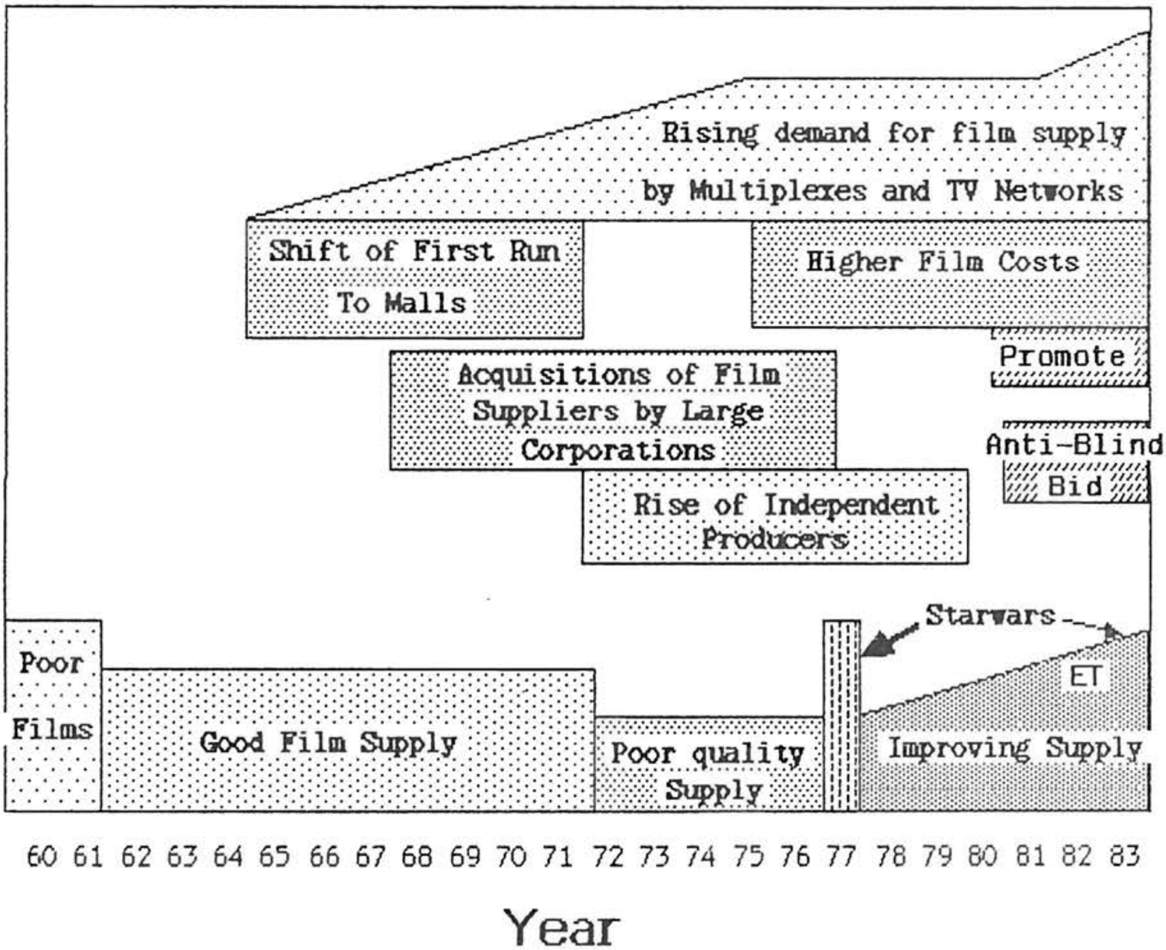


Figure 25

General Cinema

US Film Production

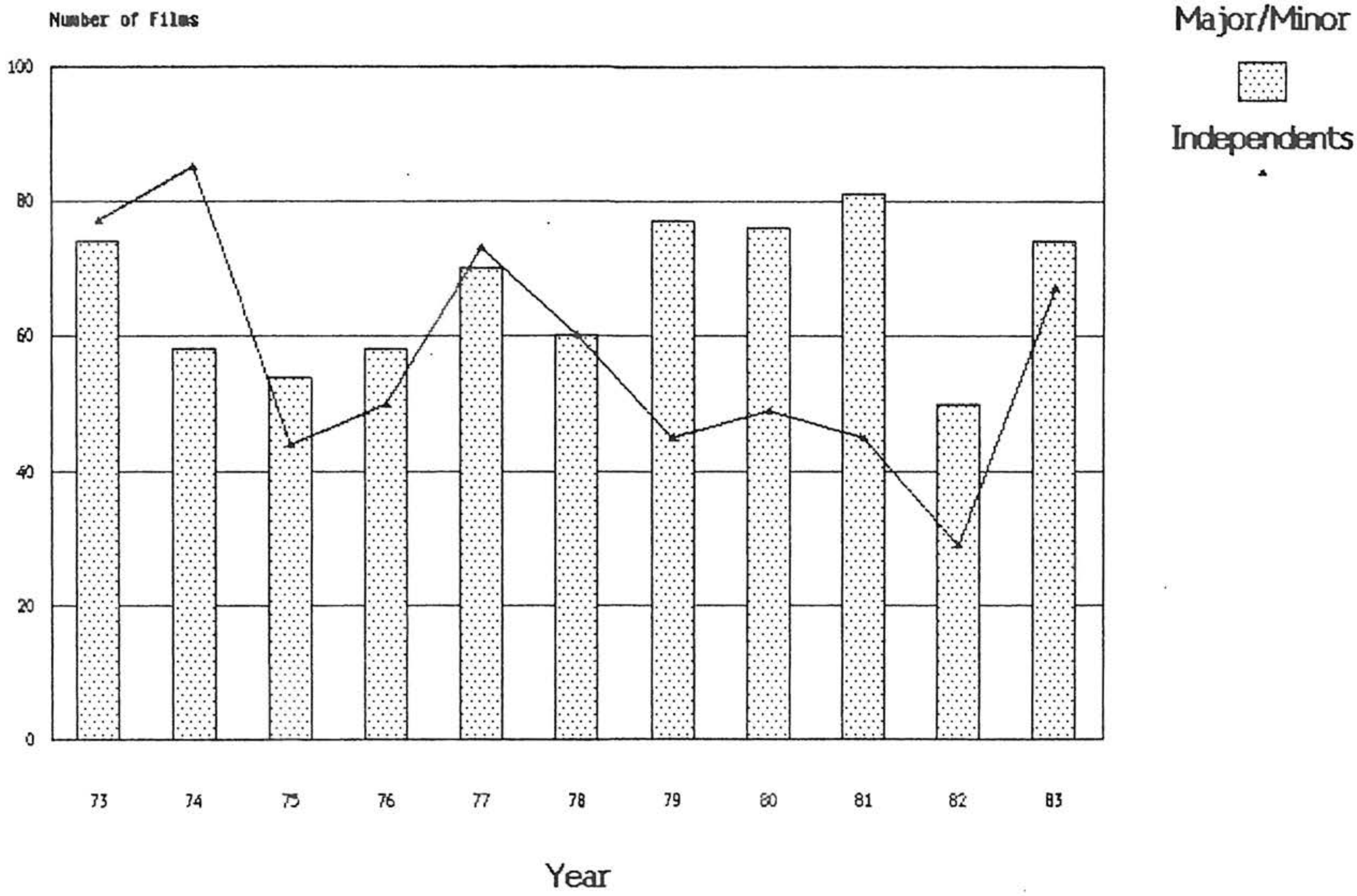


Figure 26

General Cinema

World Film Production

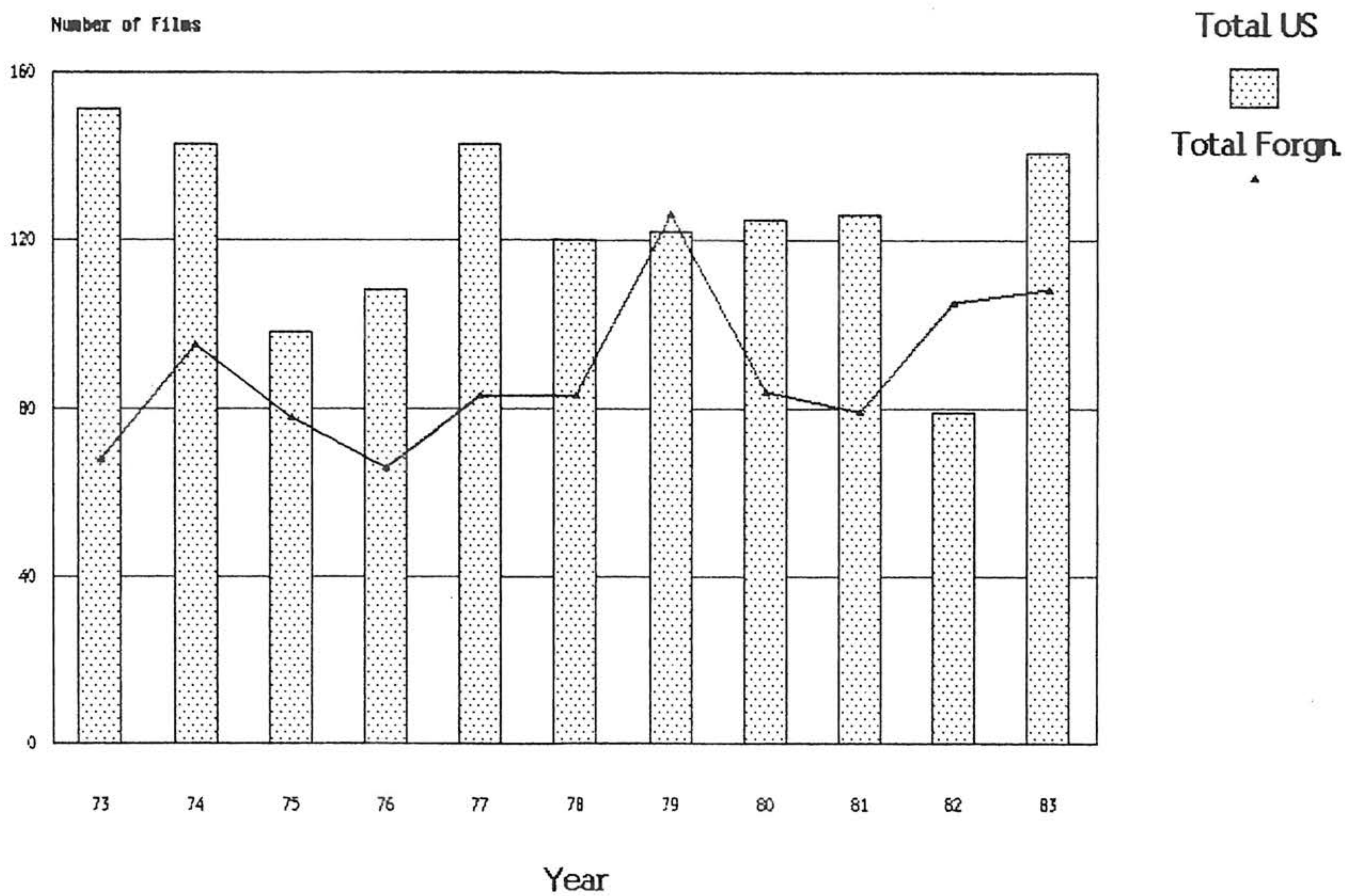


Figure 27

second major force has been this same family control of corporate leadership. As the Company has grown and diversified (Figure 28) some operations control has been delegated.

With the continued geographic and location expansion of theaters and the acquisition and growth of a second major operations area (beverage), the organization structure gradually became more complex. In the late 1960's into the 1970's functional department grew to meet the expanded operational requirements. As theater and bottling operations continued their rapid expansion during the first half of the 1970's, central office staff increased. The Home Office staff had increased supervisory responsibility. Staff departments were established within the corporate offices. Policies and procedures began to be formalized and communicated to the field through regional staff, housed in the Home Office.

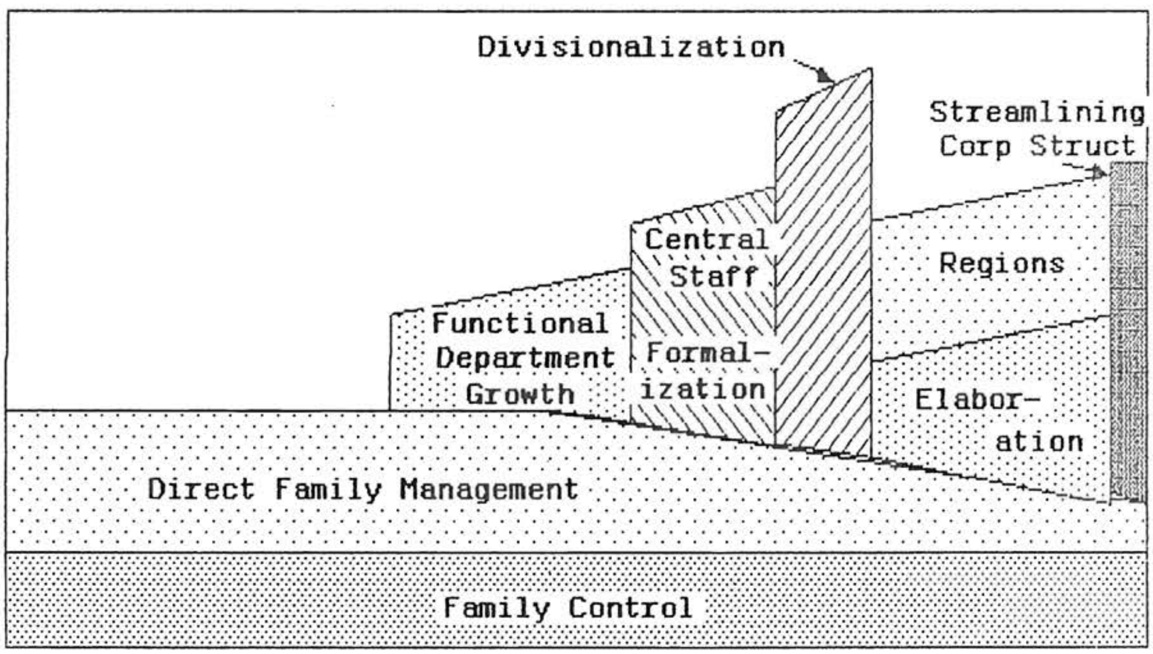
In 1975 Operational Divisions were established (Table 19) and a distinction made between Corporate and Operating Officers (Table 20). The position President of the Theater Division was established. This position was also a corporate vice-president. Theater operating vice-presidents were no longer considered corporate officers.

Within the divisions attention shifted to defining and gaining better operational control at a regional level. Further "divisionalization" increased within higher growth regions, especially those regions where multiplexing was occurring most rapidly.

At the corporate level (Table 21) General Cinema revenues were again such that the company began a new acquisition search. As part of this mode, new members were appointed to the Board of Directors. These individuals were from the business and academic community. In

General Cinema

Organization Structure



60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83

Year

Figure 28

TABLE XIX

GENERAL CINEMA THEATERS, INC. OPERATING OFFICERS 1975-1983

Officers	Years								
	1975	1976	1977	1978	1979	1980	1981	1982	1983
M. Wintman	Pres.	✓	✓	✓	✓	✓	✓	✓	
H. Hurwitz	Ex.VP								
D. Reardon	Sr.VP	✓	✓						
W. Zellen	Treas.		Sr.VP-Fin.	✓	✓	✓			
F. Charles	VP-Film								
M. Englander	VP-Real Estate	✓	✓	✓	✓	✓	✓	✓	✓
S. Evans	VP-Pub./ Prom.	✓	✓	✓	✓	✓	✓	✓	✓
N. Levidor	VP-Adv.	✓	✓	✓	✓				
J. Saunders	VP-Pur./ Const.	✓	✓	✓	✓	✓	✓	✓	✓
H. Spiess	VP-Oper.	✓	✓	✓	✓	✓	✓		
S. Werthman	VP-Conces.	✓	✓	✓	✓	✓	✓	✓	VP-Th.Admin.
D. Leavitt	Contrl.	✓	✓	✓	✓	✓	✓	✓	✓
L. Lapidus		VP-Film	✓	✓	✓	✓			
A. Frankel			VP-Treas.	✓	✓	✓	✓	✓	✓
P. Isaacs					VP-Film				
T. Sherak					VP-Film	✓	✓	✓	
P. Del Rossi						Ex. VP	✓	✓	Pres.
R. Miller						VP-Adv./ Prom.	✓		
P. Painter								VP-Oper.	✓
V. Gattuso									VP-Mktg.
C. Viane									VP-Film

TABLE XX

GENERAL CINEMA COMPANY OFFICERS 1960-1983

Company Officers	Years																						
	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975*	1976	1977	1978	1979	1980	1981	1982	1983
P. Smith	Pres.(Dec.)																							
R. Smith	VP	Pres.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
E. Kurland	Treas.	✓	✓	Sec.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
S. Stoneman	Sec.	✓	✓																					
H. Singer	Asst.Sec.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	(Dec.)								
R. Kurland		Asst. Sec.	✓	✓	✓	✓	✓																	
E. Lane			Ctrl	Treas	✓	✓	✓	✓	✓	✓	✓	✓	✓	Fin.VP	✓	(Ret.)								
M. Wintman			✓	Ex-VP	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Pres. Th.Div.	✓	✓	✓	✓	✓	✓	✓	
S. Seletsky				VP-Film	✓	✓	✓	✓	✓	✓	(Dec.)													
H. Hurwitz							Asst.VP Theat.	✓	✓	✓	✓	✓	✓	Sr.VP	✓	✓	✓	✓						
W. Zellen							Ctrl.	✓	✓	✓	✓	✓	Asst. Treas	Treas	✓	✓	✓	VP	✓	✓				
C. Reardon											Asst.VP Film					VP-Film		✓	✓					
J. Saunders											Asst.VP Const/Pur	✓	✓	✓	✓									
H. Spies											Asst.VP Theat.	✓	✓	✓	✓									
S. Unobskey											Asst.VP Real Est													
L. Lapidus												VP-Film	✓											
F. Charles													Asst.VP Film	✓	✓									
M. Rabinovitz													Asst.Sec.		✓	✓	✓	✓	✓	✓				✓
J. Ives														VP	✓	Ch.Fin. Ofc.	✓	✓	✓	✓	✓	✓	✓	Ex.VP
H. Paige																Sr.VP- Bev.	Pres. Bev.Div.	✓	(Res.)					
A. Tanger																		Sr.VP Comm.	✓	✓	✓	✓	✓	✓
R. Tarr, Jr.																		VP/ Treas	Pres. Bev.	✓	✓	✓	✓	Ex.VP

TABLE XX (Continued)

Company Officers	Years																							
	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
A. Trauber																		VP Contrl	✓	✓	✓	✓	✓	✓
S. Frankenheim																			Sr.VP Counsel	✓	✓	✓	✓	✓
M. Stevens																				VP	✓	✓	✓	✓
S. Ackerman																				Asst. Contrl	✓	✓	✓	✓
D. Wheeler																				Asst. Treas.	✓	✓	✓	✓
T. McDermott																					VP Hum.Rel.			
J. Moodey																					VP Treas.	✓	✓	✓
P. Del Rossi																							VP	VP
W. Savel																								VP
E. Geller																								Asst. Gen. Counsel

*Corporate Officers

TABLE XXI

GENERAL CINEMA CORPORATION BOARD OF DIRECTORS 1960-1983

Directors	Year																							
	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
1. P. Smith	✓																							
2. R. Smith	✓	✓	✓ Chair of Board	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
3. E. Kurland	✓	✓	✓ Corp. General Counsel	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Emeritus
4. S. Stoneman	✓	✓	✓ Chair Ex.Com.	✓	✓	✓	✓	✓	✓	Vice-Ch. Board	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
5. M. Wheeler	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓														
6. C. Moore	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓												
7. E. Lane									Treas.	✓	✓	✓	✓	✓	✓	(Ret.)	Fin. Consult.	✓						
8. J. Darsky									✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			
9. M. Wintman									Ex-VP	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
10. R. Shircliff									✓	✓	✓	✓	✓											
11. D. Margolis											✓	✓	✓	✓	✓	✓								
12. J. Ives											✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
13. W. Brown														✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
14. R. Little														✓	✓	✓								
15. R. Charpie																	✓	✓	✓	✓				
16. N. Darling																	✓	✓	✓	✓	✓	✓	✓	✓
17. D. Hogan																	✓	✓	✓	✓	✓	✓	✓	✓
18. A. Collier																		✓	✓	✓	✓	✓	✓	✓
19. H. Hurwitz																		✓	✓	✓	✓	✓	✓	✓
20. H. Paige																		✓						
21. H. Uyterhoeven																					✓	✓	✓	✓
22. H. Jarvis																						✓	✓	✓
23. R. Tarr																							Sr.VP	Ex.VP

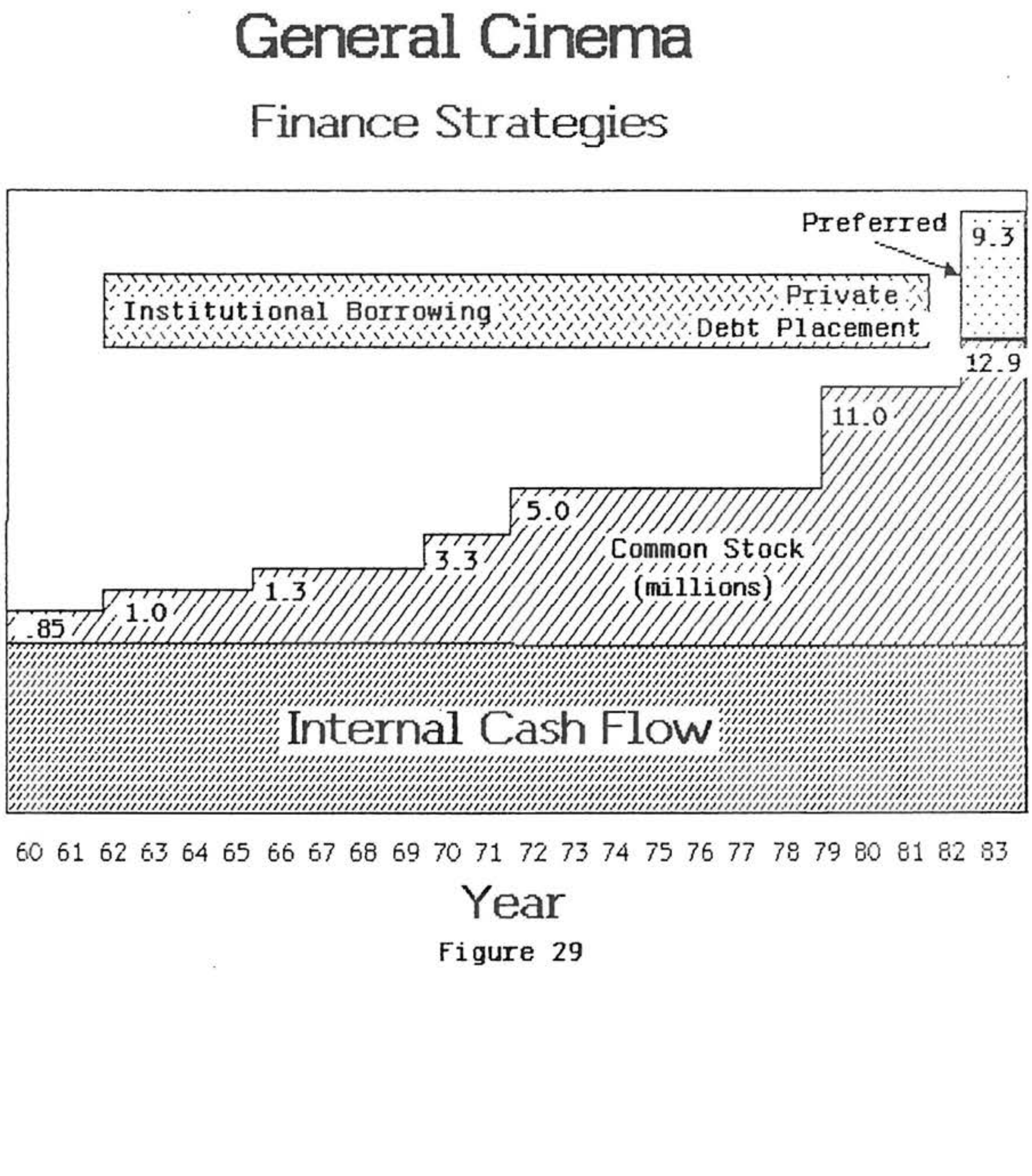

General Cinema
Finance Strategies
Preferred
9.3
Institutional Borrowing
Private
Debt Placement
12.9
11.0
5.0
3.3
Common Stock
(millions)
1.3
1.0
.85
Internal Cash Flow
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
Year

Figure 29

1983, with the retirement of the President of the Theater Division, a major organization restructuring occurred at the corporate and division levels. An Office of the Chairman was created to bring together the financial, general management and legal expertise to direct the future growth (the next phase) of General Cinema (Annual Report 1983:7):

> A key to General Cinema's future success will be the quality of its management. Several senior level management changes occurred at General Cinema during 1983 designed to enable the Company to achieve its long-range goals. In September the Company established the Office of the Chairman which is responsible for developing and implementing General Cinema's strategic plans, including supervision of the Company's existing operating divisions and further diversification.

Within the Theater Division a whole new management team was in place including a new President, and Vice-Presidents for Marketing (new department), Construction, Operations, Film and Concessions.

The Theater Division was restructured to 1) position for the planned new growth (145 screens in 1984) and 2) shift emphasis from cost control and margin maintenance to an aggressive sales and marketing program. In marketing many independent functions have been combined (public relations, advertising, promotions, cooperative advertising, and publicity), and a national theater marketing strategy is being developed. Marketing and operational decentralization through the regional offices is underway. New central functions (personnel and training) are being established.

Major Periods in the History of General Cinema

All strategies were scanned together to isolate major historical periods. Important turning points have been inferred. Five major periods were identified (Table 22).

TABLE XXII

STRATEGY CHARACTERISTICS OF GENERAL CINEMA HISTORICAL PERIODS

Period	Sources of Change in Strategy	How were Strategy Changes Made?	Type of Strategy Change	Strategy Behavior	Orientation on Problem-Opportunity Continuum	Role of Intended and Emergent Strategy
1960-1968 "Formation"	Innovative Ideas Changing Client Tastes Changing Economic Conditions (Rise DPI) New Management	Leader (Vision)	Incremental • Expansion • Explicit	Proactive Entrepreneurial Male	Problem-Solving Orientation	Intended Strategy Predominate
1968-1975 "Dramatic Growth Change"	Unused resources Newly available resources Economic Conditions • Rising DPI/ Leisure Time • Rising Film Costs Changing client tastes to more variety	Leader (Vision)	Global - Evolving • Diversification • Acquisition	Proactive - • Bold • Transitory	Problem-Solving	Intended Predominate Many emergent strategies for operations Environment adaptation
1975-1978 "Consolidation & Divisionalization"	Economic Conditions Threat of Resource Loss	Leader/Corporate	Piecemeal - • Restructuring and • Divisionalization Incremental - • Consolidation	Reactive then Proactive Transforming	Problem-Solving	Emergent
1978-1983 "Position Strengthening and Diversification"	Unused Resources Threat to Growth Rapid Environmental Change Occurring	Corporate/Leader	Invremental	Reactive	Opportunity	Intended
1983 - "Strategic Competition"	Competition Innovative Ideas Changing client tastes (over 30) New Management Economic Conditions Unused/New Resources	Leader/Office of the Chairman	Global - • evolving Incremental	Proactive • Transforming • Bold	Problem-Solving Orientation Reemerges	Emergent then Intended

1960-1968

This first period was one of definition (formation) of Midwest Drive-In as a public corporation. The death of Philip Smith, and the assumption of leadership by his son, Richard Smith, required that this period be one of leadership formation. A refinement of the definition of the Company business also occurred during this period. The target market/business gradually became defined as leisure-time family entertainment in suburban growth areas.

The basic values of the company were established; the principal leaders learned the ways of theater mall financing, development and operation. The business emphasis shifted from growth of drive-ins to theater malls. Problems were addressed and resolved: establishing a balanced year around cash flow, protection of earnings against loss (by geographic diversity), and gaining a strong competitive position (by early entry).

The Company's financial and growth goals were shaped during this period. They predominated in future periods as deliberate strategies. Conceptually, this period may be viewed as one of formation of basic values, articulation of the environment, and specification of important theater strategies. These strategies serve as an operational base for other periods. The growth strategy emphasized geographical expansion (deliberate) and the design strategy introduced "twin" theaters at a location (emergent).

Strategies were organized around Richard Smith's perceptions of the changing environment (suburban growth, changing demographics and rising disposable personal income). The period was one of slow growth, defining and learning, and consolidation of competitive position. Growth and financial goals were established. The strategies were incremental, expansionistic, and explicit. They were concerned with problem-solving, and positioning for strength and future competition.

1968-1975

This period was one of dramatic global change (diversification). The Company shifted from a strategy of growth by operational expansion to one of growth by diversification by acquisition. This was also a period of rapid expansion of operations---both theaters and bottling. Acquisition strategies were now used for geographic dispersion and operation expansion for theaters also. In 1973 the Company became the largest movie theater operator and the second largest independent soft drink bottler in the United States. In the Annual Reports of this period, Richard Smith discusses the changes occurring in the Company environment and their importance/effect on the General Cinema business(es). Richard Smith saw the environment as full of opportunity. Leisure time and disposable income will continue to grow. There was greater demand for variety with the expansion of the "under 30" market. The environment led to many "emergent" operations strategies. The number of mall theaters more than tripled, while the number of drive-ins operated by General Cinema declined rapidly. Design strategies shifted to the construction of three and four-plexes to provide better for segmented audience tastes. Growth shifted from a geographic dispersion to a location expansion strategy. Theater operating margins began fluctuating leading to more emphasis on problem solving modes in operations and on expanding concession profits. Leadership during this period was strongly entrepreneurial.

Much of the reason for the rapid growth during this period (and a major force in the emergence of a diversification strategy) was the excess cash flow being generated by theaters in the mid-1960's. The theaters' fixed assets required minimal replacement, leaving the cash flow from depreciation available to finance most of the future theater growth. This left the income from theaters available for reinvestment in new business(es). As Richard Smith noted (Uyterhoeven, 1976:18):

> After the bowling venture I didn't think seriously about diversification until our cash-flow picture started to change in 1966 and it became clear that we were going to have money to invest.

Strategy during this period, from a conceptual viewpoint, could be described as global and evolving. Diversification emerged as necessary with the excess cash flow. Bottling appears as a natural extension of the Company's vending and concession opeations at drive-ins and theaters. (General Cinema nearly bought a vending machine company in 1966 but the purchase would have had a substantial P/E dilution effect.) The real estate strategy of leasing for theaters was extended to beverage plants, thereby limiting the Company's need for funds.

At the beginning of this period, strategy was less intended, But once taken, acquisition and diversification became the "big step" which quickly became the new major deliberate strategy for this period.

In speaking about this period, the Financial Vice-President, Mr. Lane, noted (Uyterhoeven, 1976:20):

> We have a tremendous pride in the accomplishments of General Cinema. Our executive group has been able to make quick decisions that have been essential in nailing down

> theater sites and making acquisitions. Our batting average has been pretty good so far. Dick Smith has a great deal of self-confidence and optimism that has given us the spirit to take controversial locations and make them work.
>
> The beverage business looked like it might have been the solution to our diversification problems. We had found another noncyclical growth business that could be leveraged to the benefit of our shareholders.

The experience of this period was a validation of the objectives (intended) set forth in the previous period. This view is reflected in the remarks of Richard Smith from the Annual Reports of this period.

1975-1978

This period was a time of consolidation (organization and debt restructuring) and of further divisionalization. Much of the strategy formation during this period was implicit---and reactive---a product of changes that had/were occurring within the external and internal environments of the Company.

In 1975 theater and beverage operating incomes were approximately equal. Theater income had been used (as a cash cow) to fund the development of beverages (the star). The drive-in and theater mall operations to a lesser extent were now entering a more mature development stage. Theater costs were increasing and operating margins continued to fluctuate. Theater consolidation activities included phasing out drive-ins and other unprofitable theaters and more broadly defining the business as "leisure-oriented consumers."

At the corporate level a series of actions were taken. In 1975 the Company Offices were restructured into Corporate Officers and Operating Division Officers, thereby formalizing the Division structure within the Company. During 1976-1977 the Board of Directors expanded its membership to include chief executives of large companies (located in the Boston area), bankers, and a university (business) professor.

The Company also restructured its longterm debt. Balance sheets were improved in 1976. Internally generated cash flow was used to further reduce bank debt.

The deliberate strategies which influenced the actions of this period are described by Mr. Smith in the Annual Report (1977:3):

> Our principal objective is in consonance with the classical economic role of an 'enterprise'--to create and maximize value for its equity shareholders. In the 1976 list of Fortune 500 industrials General Cinema's ten-year total return to stockholders was 22.1%. General Cinema ranked fourteenth in this category among the 500 largest industrial companies in the United States; thus indicating that we have more than met our principal objective.
>
> We have characterized and sought to manage General Cinema as a 'growth company.' Since the 1960's, a growth company has often been defined as one which is able to sustain an above average annual compound rate of growth in earnings per share. Over the last ten years our earnings per share have grown at a 14.4% annual compound rate, and over the last five years at an 18.2% rate. Coincidentally, we have attempted to maximize the return on shareholders' equity. During the same ten year period, we have generated a 20.2% average return on our shareholders' equity, and over the last five years this return has averaged 17.5%.

Mr. Smith then goes on to state that the Company goal is to "continue to maintain a 15% average annual rate of earnings growth into the mid-1980's."

From a conceptual perspective, the Company had never experienced a period of consolidation. Even though the orientation was problem-solving, the mode was essentially reactive. The changes in the environment, internal growth and external changes occurring in the financial markets forced the Company to cope with these constraints. Strategy is piecemeal for divisionalization restructuring and incremental for consolidation of operations. Overall at the corporate and the operations level, strategy is emergent. General Cinema now elects to be a first run exhibitor and to continue to grow in carefully selected (regional mall) markets.

More than anything, this period can be perceived as one of preparation. General Cinema leadership is preparing itself for the expansion and future diversification they believe is coming.

The concept of planning is now introduced---but it is not a paper planning process. Mr. Smith sees the role of planning as long-range, serving to identify and acquire another major operating division. This, however, does reflect a change in Mr. Smith's orientation to the potential role of planning.

Mr. Smith had previously described his search process as (Uyterhoeven, 1976:20):

> I am doing most of the worrying about diversification myself. The process is time-consuming; it took 15 months to work out the first soft-drink acquisition. We don't have a planning or corporate development office at General Cinema. It doesn't make much sense when we're looking for only one opportunity. Nor have I asked consultants to prepare a study for us. However, I have put the word out through our Board and the bank that we want something, and we're getting a number of inquiries.

In one sense, this was a period in which strategy formation was separated from the organization structure (the need to formalize and expand/manage central and regional operations). Growth and diversification (deliberate) strategy formation now occurred at the executive (corporate) level. Strategies necessary to maintain performance expectations and to adapt to the changing (theater mall) environment "emerged" at the operations level through geographic, design, film and real estate strategies.

1978-1982

The 1978-1982 period was one of "looking for the third leg of the stool." It was a time of position strengthening. Essentially the period emphasized continuity by strengthening Company leadership in existing businesses and by expanding the scope of operations into other consumer product areas.

Two major strategies dominate this period---one deliberate, continued steady expansion, and one emergent, the search for (new growth) opportunity.

Most of this period is devoted to a strategy of search. The tone of the period is reflected in these remarks by Richard Smith (Uyterhoeven, 1976:19):

> We are in the position again of having funds available for investment. I am interested in developing just one additional opportunity. When the company was smaller, it was O.K. to think about starting in a field from scratch, but that isn't as appropriate now as the purchase of an existing business. It should be big enough to have an immediate impact on earnings. It should have a capable management, good growth prospects, and a continuing need for investment. At the same time, General Cinema must be able to bring its competence to bear on the new business. I don't want to be dependent on the specialized skills of a few individuals. For that reason highly technical or stylized or even manufacturing businesses are not really of interest.

A major strategy shift occurs here, from emphasis on entrepreneurial innovation and problem solving to planning and search for opportunity. The primary corporate objective was to "maintain General Cinema as a true growth company."

Both beverage and mall theaters are now cash cows with the profits available for investment in a program of diversification. The Company again felt the pressure for a new (growth) operating division. In conceptual terms, the formulas for diversification and expansion had been worked out. Now they were persured deliberately. Toward the end of this period General Cinema invested in Heublein which then merged with R. J. Reynolds.

1983-

This period is in its formative stage. But several events, including a new management team/restructuring of the theater division and the establishment of the Office of the Chairman serve to give this period a beginning global thrust. These events, and the new rapid expansion of theaters underway, are directly attributable to actions taken by Mr. Smith.

For theaters, several environmental forces have significant implications for future strategies---those which are currently deliberate and those which are just emerging.

General Cinema has undertaken a major new expansion program in an environment where there has been attendance erosion, and strong multiplex expansion by other competitors. Perhaps the changes evolving in competitor relationships, with continued multiplexing and location clustering at selected locations offers the greatest threat to General Cinema's deliberate strategies. Emergent strategies necessary to adapt to this new competitive/potential screen oversupply environment will be of major importance.

It is anticipated that this will be a period of global change, with new efforts at diversification, followed by continuity and adaptation to a changed competitive, demographic and economic environment.

The Company is shifting again toward an entrepreneurial, pro-active strategy mode. In this mode they have traditionally reacted early to environmental change by having a clear vision of the business (and of its goals) and by combining interactively intended and emergent strategy formation to change and adapt.

Conceptually, this period began with global change of the internal organization structure and environment. This period will be characterized by the dichotomy of the old versus the new. More regionalization will be emphasized. Overall, strategies will move from less deliberate (emergent) to more deliberate, and to more entrepreneurial, but less guided by the visions of one man. However, deliberate theater expansion strategies will continue to be influenced by Richard Smith's knowledge and vision of the theater exhibition business.

Strategy Formation - Some Conclusions

Overall, the study supported the observations of Mintzberg and Waters concerning strategy formation in a rapidly growing entrepreneurial firm. In comparing General Cinema strategy and period history with Steinberg Inc., many similarities, and some differences, were noted.

Among the important similarities with Steinberg were:

1. General Cinema did evolve from a simple structure in the 1960's to a more elaborate and standardized structure, and finally to a more formalized and divisionalized

structure in the late 1970's. This increasingly complex structuring of the organization seems to be directly associated with company size and diversification.

2. General Cinema's beginning orientation was entrepreneurial with the leadership and vision provided by Richard Smith. As the Company grew and became structurally more complex, the Company experienced a gradual shift towards a planning orientation.

3. Shifts in major (deliberate) strategy occurred infrequently. The most major shift occurred with diversification (by acquisition) being introduced as a strategy for future growth.

4. Many of the early periods and their internal characteristics were quite similar for the two companies. The pattern of transition between major periods was also sequentially analagous when examined across a series of periods.

Strategy change for General Cinema was frequently unintended. Once the broad corporate goals (basic company values/ideology) were articulated in the first period, these served to guide future strategy at the company level. Emergent strategy predominated at the operational level. These strategies arose in response to changes in the environment. For most of its history General Cinema has been an early identifier of changing trends and through the use of emergent strategies, a quick adapter, though this pattern is less strong for some strategy areas in later periods.

For General Cinema, deliberate strategies have been goal driven (and shaped by entrepreneurial leadership). They have changed infrequently. On the other hand unintended strategies have been shaped most by environment (and in later periods by organization structure) and have changed more frequently. It appears that emergent strategies are more dynamic and adaptive to the environment. This is more so where the structure is simple or where operations are more regionalized and decentralized.

A major difference observed between Steinberg and General Cinema was the pattern of growth. The pattern of unsteady growth (sprints and pauses) of Steinberg's observed by Mintzberg and Waters (1982) was less apparent with General Cinema. Rather, there appears to be an overall stable growth pattern. In the early years growth started up slowly, increased rapidly for a few years and then leveled into a stable, continuous expansion pattern. Theaters opening and overall total screen growth both given an impression of steady momentum to growth.

A significant observation gained in this study is the role of the deliberate strategy in stabilizing organization growth. Deliberate goal driven strategies (growth and shareholder wealth) seem to provide more focus to strengthen overall strategy formation. Articulated goals have a very important function. In the General Cinema case, the goal of generating shareholder wealth seemed to dampen the erratic development of strategies. (In later periods, goal driven strategies also acted to constrain the strategist. During a period of needed transition goal driven strategies may also act to slow the changes by resisting new emergent strategies which require deliberate [goal] strategy modification. An example of this is maintenance of the 20% ROI requirement at certain new theater locations as the environment became more competitive through plexing and clustering.)

A review of strategy formation related to diversification provides a useful working model of the relationship between intended and unintended strategies. The need to diversify during most of the Company's history has been problem-solution oriented. The bowling diversification was intended to provide the Company with balanced, year around cash flow.

As excess cash became a problem after 1966, the Company again began to look to diversification---to find a new operating division. After the acquisition and growth of beverage, the excess funds generated by both beverage and theaters again created pressure on the Company to find a new operating division. This latest diversification was seen as "finding the third leg of the stool." Overall, the strategy process has been incremental, each time less intended than as necessary to solve a problem.

Gradually, this unintended strategy has evolved into a deliberate and dominant pattern in the strategy stream. As such, this example supports the conceptualization that strategy formation is a process, and that strategy becomes the consistency of behavior over time.

Using this same example, the interplay of environment, organizational leadership and structure may be examined for their effects over time on strategic change.

Diversification pressure arose each time there was excess cash flow being generated, a problem in need of a solution. In the early periods strategy was shaped almost entirely by entrepreneurial leadership. Strategy was formed by the entrepreneur (in this case Richard Smith) based on his vision of the environment. Diversification was emergent (adaptive) and unintended (problem oriented).

With the resultant increased structural complexity (divisionalization) that occurred as a product of the initial diversification, when the second excess cash problem (the pressure to diversify) arose, the pattern of behaviors and strategy formation process was already changing. The entrepreneur did not just interact with his environment to develop a strategy. Rather he now appears more "constrained" by organization structure. The concept of planning is introduced into the process of diversification. The orientation shifts from problem solving to searching for new opportunity.

It is very clear that Richard Smith understood the transition which was occurring as the Company grew. In the mid-1970's he stated that General Cinema must develop the required effective management for "a company clearly moving on from its entrepreneurial stage" (Uyterhoeven, 1976:21).

Most of the broad goal statements are introduced during the first period of the Company's history. When these are examined in light of what the Company said it would do, they in fact did what they said. Eventually the goal statements of the 1960's became "consolidated" with the diversification-growth experiences to form (become articulated) as one major deliberate strategy (1977): to manage General Cinema as a true growth company. Ensuing periods have emphasized strategies which refine and support the major Company goals. A parallel shift in emphasis is found in the theater strategy statements. Early period strategies focus on responding to changing environmental trends, and developing early competitive growth strategies. Later period strategies are less focused on changing environment trends but rather on maintaining profitability and position (leader) maintenance. In effect, later theater strategy formation has been more closely associated with deliberate strategy and less formed out of emergent strategy.

These General Cinema findings support several general Mintzberg and Waters findings. First, entrepreneurial strategies do tend to evolve toward planned modes of strategy formation as the organization grows and becomes more structurally complex, and/or as the leadership shifts orientation from vision and problem solving to search for opportunities.

Second, the interplay between intended and emergent strategy, relative to realized strategy appears to be at the heart of the strategy formation process. As the Company grows and diversifies, emergent strategy becomes more constrained and more derived. It would appear that the capability of the organization to continue to form emergent strategies as it shifts toward a planning mode plays a primary role in its future viability. Greater decentralization and the use of umbrella strategies appear to be potential mechanisms which support emergent strategy formation in more complex structures.

Third, there do appear to be distinct regularities to the pattern of strategy change, which can be isolated into periods. The shifts from one period to the next, and the associated changes in strategy, are usually in response to changes in the environment. In the early periods of the organization's history, deliberate strategies appear to respond more quickly/adapt/assimilate emergent strategies. In later stages, the ability to change a deliberate strategy may require a non-incremental (Mintzberg, 1978) or quantum (Miller and Friezen, 1982) approach. This appears to have occurred for General Cinema in the period beginning in 1983.

Last, and most important, is the role of the entrepreneur in strategy formation. Richard Smith represents a classical example of entrepreneurial leadership. As chief executive officer, all major power resides in his office. This power has been exercised in an entrepreneurial way during most periods in General Cinema's history.

Formal planning has been far less important in shaping Company direction than his vision of the business---his intimate detailed personal knowledge of the (theater exhibition) business. His ability to examine trends occurring in the environment, and understand how they will impact the industry, have been the predominant force in creating new strategic thrusts (and structure) within General Cinema. Mr. Smith also seems to have an appreciation of the need to restructure the organization to maintain its environmental adaptability as it grows. At the same time all restructurings have concentrated responsibility for long term growth goals and diversification strategy with Mr. Smith and within the Office of the Chairman. This finding is consistent with other research discussed previously which shows that strategy formation remains centralized at the top even as the company grows and becomes structurally more complex.

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