

CASES
ON BUSINESS
POLICY

**POLICY
MAKING
AND
EXECUTIVE
ACTION**

Thomas J. McNichols, Ph.D.

ASSOCIATE PROFESSOR OF BUSINESS
ADMINISTRATION, SCHOOL OF BUSINESS
NORTHWESTERN UNIVERSITY

1959
NEW YORK
TORONTO
LONDON

McGraw-Hill Book Company, Inc.

POLICY MAKING AND EXECUTIVE ACTION

Copyright © 1959 by the McGraw-Hill Book Company, Inc. Notice is hereby given that all the cases reprinted herein have been previously copyrighted by Northwestern University and are used by special permission. Printed in the United States of America. All rights reserved. This book, or parts thereof, may not be reproduced in any form without permission of the institution by whom copyrighted. *Library of Congress Catalog Number* 58-14357

Policy Making and Executive Action

Dedicated to
RICHARD DONHAM
Dean of the School of Business
Northwestern University

► Preface

Policy Making and Executive Action is designed to provide a basic format and collection of cases for the teaching of business policy in executive development courses, graduate schools of business, and those colleges and universities which offer special business policy courses as part of other collegiate programs. All the cases included in this book were originally gathered as teaching materials for the Institute for Management of Northwestern University, the business policy course of the undergraduate School of Business, and the advanced business policy course which is part of the curriculum of the Graduate School of Business Administration.

The teaching of business policy no doubt varies to a certain extent from school to school. The particular instructors, the place of the course in the curriculum, and the basic and corollary objectives of the course are factors which determine the teaching emphasis. Despite the varied approaches to this broad subject area, however, there is a common core that is apparent. In practically all instances the major purpose of the course is to develop facility in analyzing business problems and to provide a framework for making decisions, formulating policies, and implementing plans for action.

A somewhat basic approach for developing this conceptual skill was used in selecting and arranging the cases in this book. This arrangement, however, is very flexible. It was not intended as an absolute guide, and changes in the sequence of the cases can readily be made to adapt the material to particular teaching techniques. With the exception of some of the cases in Part Five, practically all of the cases have a sufficient variety of policy issues to permit effective use under two or more of the topical headings.

Part One includes introductory cases intended to provide direction and a framework for analysis of business situations. The various functions and levels of the executive group should become apparent to the student in his initial exposure to policy cases, and in this phase of case analysis he should also begin to cultivate a "feel" or "way of thinking" about the management job from the standpoint of top-level administration. The importance of the role of the chief executive in shaping the corporate image and in charting the course of the business operation should become increasingly apparent as the student progresses from the simpler to the more complex cases.

The need for policy making—the "think" aspect of the administrator's job, which leads to the setting of guiding principles for courses of action—should also become apparent to the student at this stage. The case materials indicate that in actual business situations policy making may be a series of either formal or perhaps decidedly informal and unplanned acts or procedures. In some cases it may be quite evident that there is a serious lack of clear-cut policies to guide and direct the company's activities in strategic areas.

The student's ability to recognize the interrelationship of business functions in these early cases should mark the first step in a gradual development of a unique conceptual skill—the ability to see the business enterprise as a whole and the awareness that the various functions of the business organization are interdependent and must be coordinated for successful operation. As he progresses through the sequence of cases, it is not expected that he will perceive any abrupt change in the nature of the cases. His experiences with each distinct business situation are more likely to meld together in easy stages, eventually completing the whole structure of administrative skill.

The cases contained in Parts Two, Three, Four, and Six are integral blocks in the development of the over-all administrative skill. In these sections the student is presented with diverse business situations of increasing complexity, which serve as the raw materials for strengthening his analytical ability and developing a conceptual and action-oriented approach to the problems of business administration. The cases in this grouping overflow from one topical heading into the next, and for the most part can be shifted readily from one section to another. The topical headings are used only to indicate the basic sequential processes of administration which define the executive functions.

This process of administration outlined in the table of contents may be described briefly as:

1. Analyzing the situation (Part Two)
2. Determining basic objectives and developing plans for action (Part Three)
3. Organizing to put plans into action and setting up control measures to appraise results (Part Four)
4. Reappraising the situation—objectives, plans, and controls—rechart courses of action (Part Six)

This conceptual framework is described in greater detail under the heading "An Approach to Case Analysis and the Administrative Process."

While the cases in Part Five represent a logical extension of the framework developed in the preceding sections (particularly Part Four) they are somewhat special in nature. They provide the student with an opportunity to examine more intimately the routine procedural executive functions as well as the important policy-making matters. The cases contain more detailed descriptions of the executive policy-making group and the results of day-to-day decision making.

The significance of the human factor and the interpersonal relationships in executive administration are also more sharply defined in the cases in this section. This phase of the administrator's job cannot, of course, be neatly separated from the total business situation and studied in a vacuum. It is constantly present in all business situations and consequently is also clearly evident in all of the business policy cases.

The effective utilization of human resources is unquestionably the most important function of the executive. He must develop the "human skill" before he can become an efficient administrator. The technical and conceptual skills cannot be developed in isolation, nor can they be effectively employed without a basic awareness and understanding of the human element in the administrative process.

Specific organizational matters such as the use of committees in management, delegation of authority, executive development, and communication in management are highlighted in some of the cases that appear in this section.

The suggested approach to case analysis and the administrative process which is described in the introductory chapter is intended as a sketch or background which might prove helpful to students in their

initial encounter with business policy cases. The analytical scheme and the conceptual framework presented are somewhat basic in nature, and the student may find them useful in preparing cases for classroom discussion or in preparing case reports. Students may also find it profitable to supplement the case materials with books and selected articles in journals, magazines, and newspapers in the field of business administration and business policy. The students who are encountering the case method of instruction for the first time may also be interested in reading some of the current literature describing this method of teaching.

The student will, of course, look to the instructor for guidance and direction in the use of the introductory material of this book and in the use and selection of outside reading materials. As stated previously, the teaching of business policy will, no doubt, vary from school to school. The particular instructors, the place of the course in the curriculum, and the basic and corollary objectives of the course are factors which will determine the teaching emphasis. The individual instructors are the best judges of the approach the student should take to the course. The utilization and sequence of the case materials and the explanation of the common pitfalls students are likely to encounter in case discussions of business policy can be most effectively determined and explained by those who conduct the course.

This casebook is not an individual work. It represents many years of effort on the part of faculty and staff members of the School of Business of Northwestern University. This collection of cases was made possible by the cooperation of many business executives throughout the country, who provided the opportunity to write business policy cases about their companies and who generously shared their business experiences with case writers of our staff. The Institute for Management and, in more recent years, aid from a Ford Foundation Grant have provided funds to finance the collection and preparation of the cases which make up this book.

The author is deeply grateful to the many faculty members associated with the Department of Business Administration and the Institute for Management who have helped mold and develop the basic concepts of the teaching of business policy at the School of Business of Northwestern University. Their ideas, advice, and counsel have provided the background and basis for the format of this casebook. Dean Richard Donham, to whom this book is dedicated, has been a

constant guiding force. He developed the original business policy course at Northwestern and initiated the case development program of the School of Business. I am personally indebted to Dean Donham for the encouragement and opportunity to publish this book. Associate Dean Leon A. Bosch of the Graduate School of Business Administration has also contributed extensively to the formulation of business policy courses and business policy cases at Northwestern. Many of his ideas are incorporated in the plan of this work.

Other faculty members who have contributed by virtue of valuable suggestions and through ideas advanced as teachers of business policy include Profs. Ira D. Anderson, Associate Dean of the Undergraduate School of Business, Edward M. Barnet, Garret L. Bergen, Richard M. Clewett, Carroll R. Daugherty, Frederick A. Ekeblad, Frank T. Hartzfeld, Stewart Y. McMullen, Kenneth H. Myers, and Philip S. Borden, formerly a member of our faculty.

I owe special thanks to Profs. Harper W. Boyd, Jr., Richard L. Smith, and Edward T. P. Watson, for their aid. Not only have they made direct contributions of case materials, but they have also been particularly helpful in the editing and revising of certain case materials.

While many of the cases that appear in this book were written by the author, the majority of the cases have been prepared by other present and former members of the staff of the School of Business. Present members who have written cases are Profs. Harper W. Boyd, Jr., Frank T. Hartzfeld, and Edward T. P. Watson. Former staff members who contributed cases include Orville Armstrong, W. Waller Carson, Jr., Joseph Connolly, Richard D. Ostrow, John Pixton, and Relonzo Reeves.

The Gregory Industries case was contributed by Paul Donham, as a friend of the School of Business. Special consideration must be accorded staff member William L. Dejon for the many cases he has written which appear in this volume.

I wish to express my appreciation to Mrs. Verna Kummer, secretary of the case research department, for her immeasurable aid in the preparation of the cases that went into the book, and also to Mrs. Florence Will of the case research staff for her secretarial services. I am especially indebted to my wife, Willelene McNichols, for her editorial assistance, encouragement, and help.

Thomas J. McNichols

The Northwestern University cases which appear in this book are reports of concrete events and behavior, prepared for class discussion. They are not intended as examples of "good" or "bad" administrative or technical practices.

► Contents

Preface	vii
Introduction	1

PART ONE: TOP MANAGEMENT IN PERSPECTIVE

The Viewpoint of the Chief Executive; The Individual Factor in Top Management; The Interrelationship of Business Functions

Blane-Radford Company (A)*	21
Blane-Radford Company (B)*	32
Suburban Bank and Trust Company*	44
Peterson Manufacturing Company*	51

PART TWO: ANALYSIS OF THE SITUATION

Identifying Symptoms and Defining Issues; Diagnosing Problems and Opportunities

Lakeland Manufacturing Company*	81
Astra-Lite Corporation*	101
Grant Phillips Manufacturing Company*	114
Gregory Industries, Inc.*	127
Monarch Metal Products Company	148

PART THREE: THE DECISION-MAKING PROCESS

Setting the Corporate Image; Defining Basic Objectives; Developing and Appraising Plans and Strategies to Direct Action

Bucyrus-Erie Company	171
Electric Steel Corporation*	190
Row, Peterson and Company	208

xiii

James Tailors, Inc.*	231
Lloyd Braband Manufacturing Company*	256
Aldens, Inc.	275
Leathercraft Corporation*	303

PART FOUR: IMPLEMENTATION THROUGH ORGANIZATION AND CONTROL

Attaining Defined Objectives; Plans and Strategies; Structuring and Controlling Programs of Action

Bay Laboratories*	335
Bossart's*	360
Blaw-Knox Company (A), 1905 to 1951	374
Blaw-Knox Company (B), 1951 to 1957	390
Archer-Daniels-Midland Company (A), 1902 to 1955	418
Archer-Daniels-Midland Company (B), 1955 to 1958	447
Western Soap Products*	484

PART FIVE: BASIC DAY-TO-DAY ADMINISTRATION

Organizational Functions; The Human Factor in Administration

Sureness Company*	493
Cleveland Works*	499
Detroit Forge and Gear Company*	514
Fox Press Corporation*	532
Bennett Brothers Manufacturing Company*	544
Kramer Manufacturing Company (A)*	570
Kramer Manufacturing Company (B)*	599
Sterling Corporation*	614

PART SIX: REAPPRAISING AND RECHARTING COURSES OF ACTION

United Wallpaper, Inc.	623
Elgin National Watch Company	643
Felt and Tarrant Manufacturing Company	666

* Name of company, all individuals, and organizational designations have been disguised.

► Introduction

BACKGROUND AND DEVELOPMENT OF BUSINESS POLICY IN THE ADMINISTRATIVE PROCESS

The teaching of business policy by the case method has gained widespread acceptance in the past decade as a highly effective and practical method of introducing the complexities of the administrative process. The use of cases describing actual business situations from a wide variety of companies has provided a realistic substitute for the practical experience of decision making at the top-management level. Case discussions of business problems in the classroom have also delineated and nurtured important advances in the teaching of business administration. In the broad area of business policy many concepts have been developed for teaching the over-all administrative viewpoint so essential to the executive—whether he be at the top-management level or at one of the subordinate levels of management.

The development of the “integrated” or general-management approach, stressing the companywide viewpoint, has been a direct response to an urgent national need. The prosperity and industrial expansion of the post-World War II period highlighted the need for executives who could bring to their positions a real grasp of the multiple problems that confronted the complex business organization in a changing business society.

The background for this approach can be traced to the early advances made in scientific management, which began over fifty years ago when the writings and ideas of Frederick W. Taylor began to gain notice in the business world. A wave of business training followed the introduction of scientific management principles. Business schools were

added to universities and special schools for training in accounting, salesmanship, and other specific areas of business became part of the national scene. Out of this recognition of the need for highly trained personnel in the various functional areas, business developed specialists in production, marketing, accounting, and finance.

Over the years the staff functions of the large business enterprise were expanded, and experts in such essential services as industrial engineering, industrial relations, public relations, law, and other allied areas were added to the commonly recognized staff requirements. Executives with highly specialized training staffed the various departments that formed the corporate whole. New personnel were hired and trained along functional lines in specific departments.

The development of such specialists for each management function caused a business revolution. The changeover from the untrained employee who learned through undirected experience to the expert who received his training through the guided efforts of colleges, specialized schools, or specific in-company training on a departmental basis was not spectacularly apparent; however, the results it produced were manifest.

Specialists could provide basic data in each of the functional areas to pinpoint weaknesses or strong points of the business operation. Charts and graphs became a part of management control. Operational figures that were not even available thirty or forty years ago could now be exhibited for the benefit of management in simple graphic form. Management was thus supplied with facts and figures which gave a picture of the over-all operations of the business.

While the division of business activities created experts that promoted and effected efficiency, it also complicated and increased the problems of developing top managers who could direct the over-all business ventures. The policy makers of the business now had a much more complex organization to deal with. How could they possibly be expert in each functional area? How could they understand the operations of the many departments and staff positions of the large corporate entity? How could each department manager, divisional head, and vice president see even his own position and function in relation to the over-all business operation?

True, top management did look down on the entire operation, but what kind of view did they get? Were they looking at it through the eyes of specialists—each his own specialty? The top-management team

were probably all specialists in one line or another. They had received recognition for performing their particular job exceptionally well and thus had earned the right to direct the corporate effort from the higher echelons of their new executive berths. The skills and abilities they brought to their new positions were generally developed along specific lines, but as part of the policy-making team they were required to adapt their special supervisory knowledge to the entire business effort, not to just a segment of its operations. Except in a small number of companies that provided an over-all look at the entire corporate effort through job rotation, the average executive entering the policy-making position brought little or no knowledge of directing, coordinating, and guiding the business as an integrated unit. In many cases the very factor that had catapulted him to his lofty position—his expert knowledge and performance as a director of a specific function—proved to be one of the greatest handicaps to him in adapting to the over-all viewpoint so necessary to the policy maker. The financial executive tended to see many of the corporate problems as essential manifestations of poor financial policy; the marketing expert, now part of the top-management team, was inclined to think that all business situations started and stopped in the sales area; the production-oriented executive attacked his dilemmas initially through the production line; others trained and experienced in different specialties approached the decision-making process through their own familiar channels.

To be sure, the qualified executives, despite their lack of general background, eventually learned through experience that the business entity had to be viewed as a whole, that it was impossible to separate business problems into neat little compartments and proceed to solve them one at a time. A decision to change a basic policy affected all departments to a greater or lesser degree. Certain decisions might also affect the community, might make the company vulnerable to anti-trust prosecution, or could foment labor problems or generally disrupt industrial relations.

How long did it take an executive to become a competent policy maker and coordinator of the entire business enterprise? There was no ready answer in terms of time needed to learn this special ability or of the type of person capable of adapting himself to the increased demands of the top executive. Much concern was expressed by business leaders and business educators about the lack of an adequate approach to developing and training executives to fit them for the formidable

task of assuming positions as top managers of business and leaders of the business society, with all its consequent responsibilities to the stockholders, employees, and the community.

The war years halted progress in the areas of executive development but at the same time accentuated the need for action in this area. In the immediate postwar period definite steps were taken to provide a better approach to fitting executives for their tasks as business leaders. Corporations stepped up their management development programs, increased job rotation, and outlined specific training programs. They also solicited aid in academic circles, chiefly from schools of business.

Business schools responded to the recognition of a need for developing the "modern executive" by liberalizing their curriculums to include more integrating courses and courses designed to emphasize the social and community responsibilities of the executive. Business policy courses, which had been a part of the curriculum of some university business schools in the prewar period, were rediscovered and accorded new emphasis. This development was also given impetus by the organization of some forty university-sponsored comprehensive management development programs. In addition, many in-company management programs were added to a growing list of formal courses designed to prepare the executive for policy making and administrative action.

As a result of the emphasis on executive development, we find today that business policy cases are used extensively to meet the requirements of teaching the top-management viewpoint and of providing raw materials for developing skills in problem solving and decision making so necessary to all levels of administrative responsibility.

It is hoped that this collection of cases will contribute to the further advancement of the teaching and study of business policy.

AN APPROACH TO CASE ANALYSIS AND THE ADMINISTRATIVE PROCESS

Analysis of the Situation. The first step in the administrative function involves the fundamental process of examining all the facts and data available in a given business situation. Before any action can be taken or any decision can be made, the administrator must have as full an understanding as possible of the company's position and of the extent