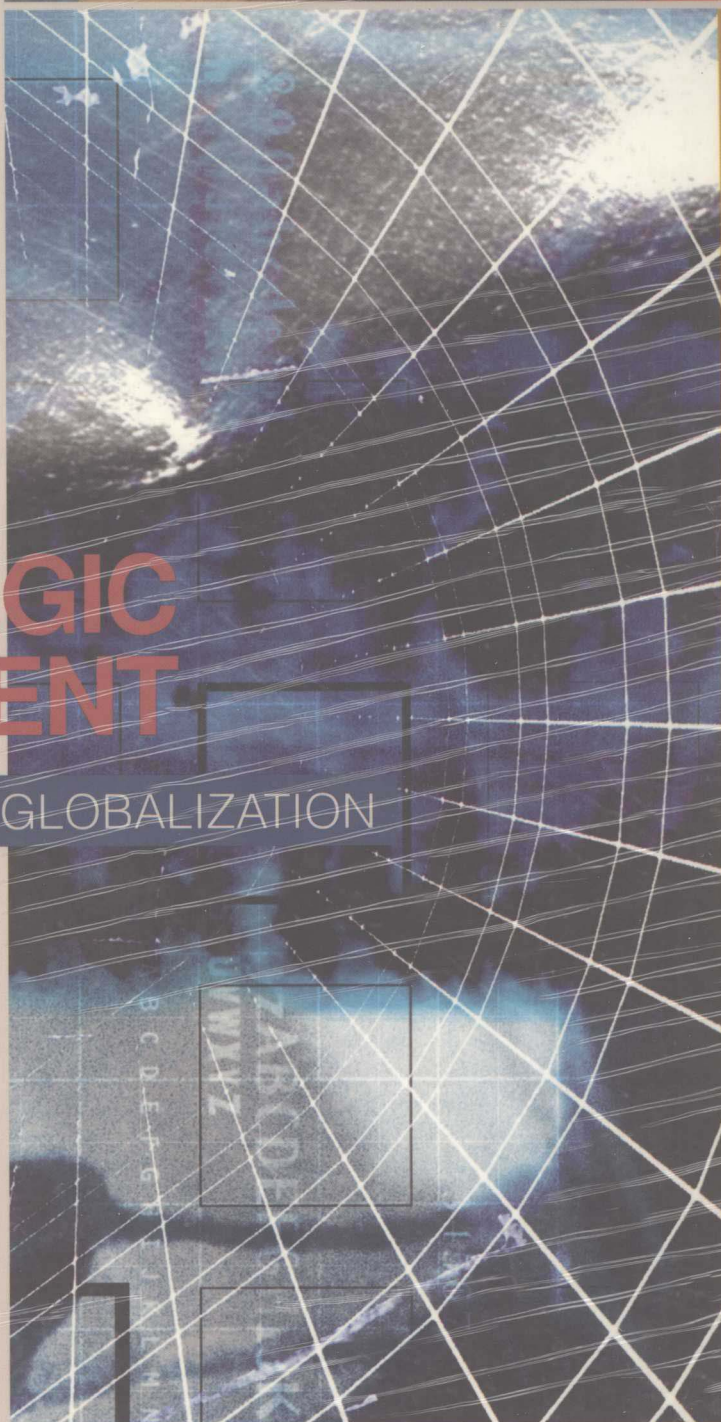


FOURTH EDITION

STRATEGIC MANAGEMENT

COMPETITIVENESS **AND** GLOBALIZATION



MICHAEL A. HITT
R. DUANE IRELAND
ROBERT E. HOSKISSON

CASES

EDITION 4

STRATEGIC MANAGEMENT

COMPETITIVENESS AND GLOBALIZATION

CASES

MICHAEL A. HITT

Arizona State University

R. DUANE IRELAND

University of Richmond

ROBERT E. HOSKISSON

The University of Oklahoma



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This book is printed on acid-free paper.

Robert E. Hoskisson—
To my father, Claude W. Hoskisson, who
taught me to be honest and dedicated in
my work, and in memory of my mother,
Carol B. Hoskisson, who provided my life
with a foundation of love.

R. Duane Ireland—
To my wife Mary Ann and our children,
Rebecca and Scott. I love each of you deeply
and look forward to the excitement and
challenges of our new journeys. Truly, these
are our Glory Days—the best of our lives.

Case Title	Manufacturing	Service	Consumer Goods	Industrial Goods
ABB in China: 1998	■			■
Adidas			■	
Alcoholes de Centroamerica, S.A. de C.V.	■		■	
Amazon.Com: Expanding Beyond Books		■	■	
Banking on the Internet: The Advance Bank in Germany		■		
Beano's Ice Cream Shop		■		
Ben & Jerrys Homemade Inc.: "Yo! I'm Your CEO!"	■		■	
Benecol: Raisio's Global Nutraceutical	■		■	
The Boeing Company: The Merger with McDonnell Douglas	■			■
BP-Mobil and the Restructuring of the Oil Refining Industry	■			■
British Airways: Latin America		■		
Circus Circus Enterprises, Inc., 1998		■		
Cisco Systems, Inc.	■			■
Cognex Corporation: "Work Hard, Play Hard"	■			■
Compaq in Crisis	■		■	
Energis: Global Strategy in the Electric Power Sector		■	■	■
Internal Entrepreneurship at Ericsson: Finding Opportunities and Mobilizing Talent	■			■
E*Trade, Charles Schwab and Yahoo!: The Transformation of On-line Brokerage		■		
FEMSA Meets the 21st Century	■		■	
Fleming Companies, Inc.		■		
Gillette and the Men's Wet-Shaving Market	■		■	
Kiwi Travel International Airlines Ltd.		■		
KUVO Radio: Marketing an Oasis		■		
LEGO	■		■	
The Lincoln Electric Company, 1996	■		■	■
The Loewen Group		■		
Madd Snowboards—1999	■		■	
Mendocino Brewing Company, Inc.—1996	■		■	
Nucor Corp. and the U.S. Steel Industry	■			■
Odwalla, Inc., and the <i>E. Coli</i> Outbreak	■		■	
Outback Goes International		■		
Philip Morris	■		■	
Southwest Airlines, 1996		■		
Starbucks		■		
The Stone Group's Diversification Strategy: "Caught Between a Rock and a Hard Place"	■	■	■	
Sun Microsystems, Inc.	■		■	
The Merger of U.S. Bancorp and Piper Jaffray Companies		■		
The Wall Street Journal: Print versus Interactive		■		
Walt Disney Co.		■		
Western Pacific Airlines		■		

International Perspective	High Technology	Sports/ Entertainment	Food/Retail	Social/Ethical Issues	Entrepreneurial/Small- Medium Size	Industry Perspective	Chapters
■				■			2,3,8,11
■		■				■	2,3,4,5
■						■	4,5,8
■	■	■			■		4,5,6,9
■	■		■			■	2,4,5
			■		■	■	3,4,13
			■	■	■	■	3,12
■			■	■			5,8,13
■						■	2,4,5,7
■						■	5,6,7
■						■	8,9,11,12
		■				■	4,9,10
■	■						4,5,10,13
	■				■	■	4,5,13
	■						7,10,12
■							6,8,9
■	■				■		11,13
■	■				■	■	5,13
■			■				1,7,8,11
			■				2,3,7
■						■	7,8,10
■					■		5,8,12,13
		■			■		2,13
■							2,3,4,5
						■	3,7,8,12
■				■		■	5,6,7,12
		■			■	■	2,3,13
			■		■	■	2,3,13
						■	2,3,4
			■	■	■		1,5,12
■			■		■		4,8
■			■	■		■	2,6,11,12
						■	1,3,4,5
■			■		■		2,3,4,8
■			■				6,9,11
■	■				■		5,10,12,13
						■	2,3,7,10
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		■				■	6,7,10
					■		4,5,7,13

ABOUT **THIS** BOOK



This case book is intended for use primarily in strategic management and business policy courses. The fourth edition of this book features 35 all-new case studies plus five popular Classic Cases. In total, the cases are concerned with a variety of business and organizational situations representing corporate, business, and global strategic issues. For example, we offer cases representing manufacturing, service, consumer goods, and industrial goods industries. Importantly, given the 21st-century competitive landscape and the emergence of a global economy, many of these cases represent international business concerns (e.g., ABB in China: 1998; Alcoholes de Centroamerica, S.A. de C.V.; British Airways: Latin America). Also, the fourth edition of this book features cases dealing with the Internet (e.g., Banking on the Internet: The Advance Bank in Germany; E*Trade, Charles Schwab and Yahoo!; The Wall Street Journal: Print versus Interactive), entertainment (e.g., Circus Circus Enterprises, Inc.), and service firms (e.g., Amazon.com, Starbucks, and Outback Goes International). Some of the cases focus specifically on the wave of large merger and acquisition activity (The Boeing Company: The Merger with McDonnell Douglas, The Merger of U.S. Bancorp and Piper Jaffray Companies) while others emphasize strategic issues of entrepreneurial or small and medium-sized firms (e.g., Beano's Ice Cream Shop, Madd Snowboards—1999). Finally, a large number of the cases include detailed perspectives and information about the characteristics of the industry in which a particular focal firm or organization competes (e.g., Nucor Corp. and the U.S. Steel Industry).

Personally selected by the text authors, this unique case selection has been carefully reviewed. New to this edition are the Classic Cases. We have polled our users and selected their favorite cases from the last two editions. Our goal for the fourth edition has been to choose cases that are written well and deal with important strategic management issues. The comprehensive set of strategic management issues included in the cases yields a rich set of learning experiences for those performing case analyses.

Consistent with the nature of strategic issues, the cases included in this book are multidimensional in nature. Because of this, and for readers' convenience, a matrix listing all cases and the dimensions/characteristics of each one is provided following the table of contents. Furthermore, the matrix lists each text chapter that provides the best fit for teaching that particular case. While most of the cases are concerned with well-known national and international companies, several examine the strategic challenges experienced in smaller and entrepreneurial firms. Given the current challenge within the global economy, 60 percent of the cases include an international perspective.

In summary, a set of cases that represents a wide variety of important and challenging strategic issues is presented in the fourth edition of our book. We believe that this comprehensive selection of cases yields an exciting and contemporary setting for case analyses and presentations.

Professor Kendall W. Artz, Baylor University prepared the Case Notes for Instructors that accompanies the cases. Each case note highlights the details of the case within the framework of the case analysis guide presented in the first part of this book. The structure of the Case Notes allows instructors to organize discussions along common themes and concepts. For example, each Case Note details the firm's resources, capabilities, and core competencies; its general, industry, and competitive environments; and factors that are linked with achieving strategic competitiveness and the earning of above-average returns within a given industry.

The Case Notes also feature aspects of the cases that make them unique. Importantly, each case is analyzed within its stated time frame. An "updating" epilogue is included for most of the cases. Professor Artz also presents a summary table of all of the exhibits in each case. Through study of this table, instructors have ready access to the type of information and data that are available to students as they analyze a particular case.

Three versions of this book—a combined text and case book, this softcover case book, and a separate soft-cover concepts text—are available for your use. These versions, combined with the Custom Case Program, provide you with several teaching and learning options. For additional information regarding any of these options or the case customization process, please contact your local SWCP/Thomson Learning sales representative.

For the Student and Instructor

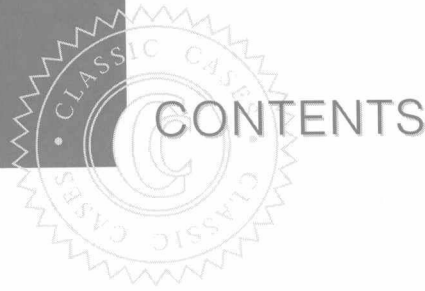
Web Site (<http://hitt.swcollege.com>) This continually updated site offers students and instructors access to case updates, strategy terms defined, an Internet index with important strategy URLs, and a section on how to write a case analysis. In addition, all Strategic Focus segments from the first three editions are offered in full for students and instructors to use as strategy examples. These are indexed by broad subject categories. All Internet exercises from the third editions are also available.

EDITION 4

STRATEGIC MANAGEMENT

COMPETITIVENESS AND GLOBALIZATION

CASES



INTRODUCTION	Preparing an Effective Case Analysis	C-1
CASE 1	ABB in China: 1998 <i>Suzanne Uhlen and Michael Lubatkin</i>	C-19
CASE 2	Adidas <i>Giana Boissonnas, Ursula Hilliard, and Jacques Horovitz</i>	C-35
CASE 3	Banking on the Internet: The Advance Bank in Germany <i>Tawfik Jelassi and Albrecht Enders</i>	C-50
CASE 4	Alcoholes de Centroamerica, S.A. de C.V. <i>Richard L. Priem and K. Matthew Gilley</i>	C-68
CASE 5	Amazon.com: Expanding Beyond Books <i>Suresh Kotha</i>	C-83
CASE 6	Beano's Ice Cream Shop <i>Todd A. Finkle</i>	C-104
CASE 7	Ben & Jerry's Homemade Inc.: "Yo! I'm Your CEO!" <i>Katherine A. Auer and Alan N. Hoffman</i>	C-116
CASE 8	Benecol: Raisio's Global Nutraceutical <i>Michael H. Moffett and Stacey Wolff Howard</i>	C-130
CASE 9	The Boeing Company: The Merger with McDonnell Douglas <i>Isaac Cohen</i>	C-147
CASE 10	BP-Mobil and the Restructuring of the Oil Refining Industry <i>Karel Cool, Jeffrey Reuer, Ian Montgomery, and Francesca Gee</i>	C-164
CASE 11	British Airways: Latin America <i>David T. A. Wesley and Henry W. Lane</i>	C-189
CASE 12	Circus Circus Enterprises, Inc., 1998 <i>John K. Ross, III, Mike Keeffe, and Bill Middlebrook</i>	C-200
CASE 13	Cisco Systems, Inc. <i>Michael I. Eizenberg, Donna M. Gallo, Irene Hagenbuch, and Alan N. Hoffman</i>	C-212
CASE 14	Cognex Corporation: "Work Hard, Play Hard" <i>Marilyn T. Lucas and Alan N. Hoffman</i>	C-224
CASE 15	Compaq in Crisis <i>Adrian Elton</i>	C-234

- CASE 16** Enersis: Global Strategy in the Electric Power Sector C-245
Robert Grosse and Carlos Fuentes
- CASE 17** Internal Entrepreneurship at Ericsson: Finding Opportunities and Mobilizing Talent C-261
Ulf Mimer, Richard M. McErlean, Jr., and Els van Weering
- CASE 18** E*Trade, Charles Schwab and Yahoo!: The Transformation of On-line Brokerage C-270
Nassim Dagher, Soumitra Dutta, and Arnoud De Meyer
- CASE 19** FEMSA Meets the 21st Century C-288
Felipe Gonzalez y Gonzalez
- CASE 20** Fleming Companies, Inc.: Year 2000 ("Y2K") Compliance: The Communications Debacle C-320
Laura Callahan, Chris Huston, John Millar, and R. Glenn Richey
- CASE 21** Gillette and the Men's Wet-Shaving Market C-333
Lew G. Brown and Jennifer M. Hart
- CASE 22** Kiwi Travel International Airlines Ltd. C-354
Jared W. Paisley
- CASE 23** KUVU Radio: Marketing an Oasis C-370
Joan Winn and Christina M6ntez
- CASE 24** LEGO C-382
Idunn Eir Jonsdottir and Pedro Nuevo
- CASE 25** The Lincoln Electric Company, 1996 C-409
Arthur Sharplin and John A. Seeger
- CASE 26** The Loewen Group C-432
Ariff Kachra and Mary Crossan
- CASE 27** Madd Snowboards—1999 C-449
Melissa A. Schilling, Amy Eng, and Mayra Velasquez
- CASE 28** Mendoccino Brewing Company, Inc.—1996 C-459
Armand Gilinsky
- CASE 29** Nucor Corp. and the U.S. Steel Industry C-477
Brian K. Boyd and Steve Gove
- CASE 30** Odwalla, Inc., and the E. Coli Outbreak C-508
Anne T. Lawrence
- CASE 31** Outback Goes International C-514
Marilyn L. Taylor, George M. Puia, Krishnan Ramaya, and Madelyn Gengelbach
- CASE 32** Philip Morris C-537
Rhonda Fronk, Bill Pilgrim, Bill Prosser, Regan Urquhart, and Monte Wiltse
- CASE 33** Southwest Airlines, 1996 C-553
Andrew Inkpen and Valerie DeGroot
- CASE 34** Starbucks C-569
Ariff Kachra and Mary Crossan

CASE 35 The Stone Group's Diversification Strategy: "Caught Between a Rock and a Hard Place" C-586

Pascale M. Brunet

CASE 36 Sun Microsystems, Inc. C-600

Irene Hagenbuch and Alan N. Hoffman

CASE 37 The Merger of U.S. Bancorp and Piper Jaffray Companies C-612

Dawn Hodges, Ernest E. Scarbrough, and John R. Montanari

CASE 38 The Wall Street Journal: Print versus Interactive C-629

Amy Hillman

CASE 39 Walt Disney Co. C-639

Anthony Claro, Michelle Hill, Eric Maxwell, Russell Porter, and Angela West

CASE 40 Western Pacific Airlines C-653

Steve Gove

INTRODUCTION

Preparing an Effective Case Analysis

In most strategic management courses, cases are used extensively as a teaching tool.¹ A key reason is that cases provide active learners with opportunities to use the strategic management process to identify and solve organizational problems. Thus, by analyzing situations that are described in cases and presenting the results, active learners (i.e., students) become skilled at effectively using the tools, techniques, and concepts that combine to form the strategic management process.

The cases that follow are concerned with actual companies. Presented within the cases are problems and situations that managers and those with whom they work must analyze and resolve. As you will see, a strategic management case can focus on an entire industry, a single organization, or a business unit of a large, diversified firm. The strategic management issues facing not-for-profit organizations also can be examined using the case analysis method.

Basically, the case analysis method calls for a careful diagnosis of an organization's current conditions (as manifested by its external and internal environments) so that appropriate strategic actions can be recommended in light of the firm's strategic intent and strategic mission. Strategic actions are taken to develop and then use a firm's core competencies to select and implement different strategies, including business-level, corporate-level, acquisition and restructuring, international, and cooperative strategies. Thus, appropriate strategic actions help the firm to survive in the long run as it creates and uses competitive advantages as the foundation for achieving strategic competitiveness and earning above-average returns. The case method that we are rec-

ommending to you has a rich heritage as a pedagogical approach to the study and understanding of managerial effectiveness.²

As an active learner, your preparation is critical to successful use of the case analysis method. Without careful study and analysis, active learners lack the insights required to participate fully in the discussion of a firm's situation and the strategic actions that are appropriate.

Instructors adopt different approaches in their application of the case analysis method. Some require active learners/students to use a specific analytical procedure to examine an organization; others provide less structure, expecting students to learn by developing their own unique analytical method. Still other instructors believe that a moderately structured framework should be used to analyze a firm's situation and make appropriate recommendations. Your professor will determine the specific approach you take. The approach we are presenting to you is a moderately structured framework.

We divide our discussion of a moderately structured case analysis method framework into four sections. First, we describe the importance of understanding the skills active learners can acquire through effective use of the case analysis method. In the second section, we provide you with a process-oriented framework. This framework can be of value in your efforts to analyze cases and then present the results of your work. Using this framework in a classroom setting yields valuable experiences that can, in turn, help you successfully complete assignments that you will receive from your employer. The third section is where we describe briefly what you can

expect to occur during in-class case discussions. As this description shows, the relationship and interactions between instructors and active learners/students during case discussions are different than they are during lectures. In the final section, we present a moderately structured framework that we believe can help you prepare effective oral and written presentations. Written and oral communication skills also are valued highly in many organizational settings; hence, their development today can serve you well in the future.

SKILLS GAINED THROUGH USE OF THE CASE ANALYSIS METHOD

The case analysis method is based on a philosophy that combines knowledge acquisition with significant involvement from students as active learners. In the words of Alfred North Whitehead, this philosophy “rejects the doctrine that students had first learned passively, and then, having learned should apply knowledge.”³ In contrast to this philosophy, the case analysis method is based on principles that were elaborated upon by John Dewey:

*Only by wrestling with the conditions of this problem at hand, seeking and finding his own way out, does [the student] think. . . . If he cannot devise his own solution (not, of course, in isolation, but in correspondence with the teacher and other pupils) and find his own way out he will not learn, not even if he can recite some correct answer with a hundred percent accuracy.*⁴

The case analysis method brings reality into the classroom. When developed and presented effectively, with rich and interesting detail, cases keep conceptual discussions grounded in reality. Experience shows that simple fictional accounts of situations and collections of actual organizational data and articles from public sources are not as effective for learning as fully developed cases. A comprehensive case presents you with a partial clinical study of a real-life situation that faced managers as well as other stakeholders including employees. A case presented in narrative form provides motivation for involvement with and analysis of a specific situation. By framing alternative strategic actions and by confronting the complexity and ambiguity of the practical world, case analysis provides extraordinary power for your involvement with a personal learning experience. Some of the potential consequences of using the case method are summarized in Exhibit 1.

As Exhibit 1 suggests, the case analysis method can assist active learners in the development of their analytical and judgment skills. Case analysis also helps you learn how to ask the right questions. By this we mean questions that focus on the core strategic issues that are included in a case. Active learners/students with managerial aspirations can improve their ability to identify underlying problems rather than focusing on superficial symptoms as they develop skills at asking probing yet appropriate questions.

The collection of cases your instructor chooses to assign can expose you to a wide variety of organizations and decision situations. This approach vicariously broad-

EXHIBIT

1 | Consequences of Student Involvement with the Case Method

1. Case analysis requires students to practice important managerial skills—diagnosing, making decisions, observing, listening, and persuading—while preparing for a case discussion.
2. Cases require students to relate analysis and action, to develop realistic and concrete actions despite the complexity and partial knowledge characterizing the situation being studied.
3. Students must confront the *intractability of reality*—complete with absence of needed information, an imbalance between needs and available resources, and conflicts among competing objectives.
4. Students develop a general managerial point of view—where responsibility is sensitive to action in a diverse environmental context.

Source: C. C. Lundberg and C.ENZ, 1993, A framework for student case preparation, *Case Research Journal*, 13 (Summer): 134.

ens your experience base and provides insights into many types of managerial situations, tasks, and responsibilities. Such indirect experience can help you make a more informed career decision about the industry and managerial situation you believe will prove to be challenging and satisfying. Finally, experience in analyzing cases definitely enhances your problem-solving skills, and research indicates that the case method for this class is better than the lecture method.⁵

Furthermore, when your instructor requires oral and written presentations, your communication skills will be honed through use of the case method. Of course, these added skills depend on your preparation as well as your instructor's facilitation of learning. However, the primary responsibility for learning is yours. The quality of case discussion is generally acknowledged to require, at a minimum, a thorough mastery of case facts and some independent analysis of them. The case method therefore first requires that you read and think carefully about each case. Additional comments about the preparation you should complete to successfully discuss a case appear in the next section.

STUDENT PREPARATION FOR CASE DISCUSSION

If you are inexperienced with the case method, you may need to alter your study habits. A lecture-oriented course may not require you to do intensive preparation for *each* class period. In such a course, you have the latitude to work through assigned readings and review lecture notes according to your own schedule. However, an assigned case requires significant and conscientious *preparation before class*. Without it, you will be unable to contribute meaningfully to in-class discussion. Therefore, careful reading and thinking about case facts, as well as reasoned analyses and the development of alternative solutions to case problems, are essential. Recommended alternatives should flow logically from core problems identified through study of the case. Exhibit 2 shows a set of steps that can help you familiarize yourself with a case, identify problems, and propose strategic actions that increase the probability that a firm will achieve strategic competitiveness and earn above-average returns.

Gaining Familiarity

The first step of an effective case analysis process calls for you to become familiar with the facts featured in the case and the focal firm's situation. Initially, you should become familiar with the focal firm's general situation (e.g., who, what, how, where, and when). Thorough familiarization demands appreciation of the nuances as well as the major issues in the case.

Gaining familiarity with a situation requires you to study several situational levels, including interactions between and among individuals within groups, business units, the corporate office, the local community, and the society at large. Recognizing relationships within and among levels facilitates a more thorough understanding of the specific case situation.

It is also important that you evaluate information on a continuum of certainty. Information that is verifiable by several sources and judged along similar dimensions can be classified as a *fact*. Information representing someone's perceptual judgment of a particular situation is referred to as an *inference*. Information gleaned from a situation that is not verifiable is classified as *speculation*. Finally, information that is independent of verifiable sources and arises through individual or group discussion is an *assumption*. Obviously, case analysts and organizational decision makers prefer having access to facts over inferences, speculations, and assumptions.

Personal feelings, judgments, and opinions evolve when you are analyzing a case. It is important to be aware of your own feelings about the case and to evaluate the accuracy of perceived "facts" to ensure that the objectivity of your work is maximized.

Recognizing Symptoms

Recognition of symptoms is the second step of an effective case analysis process. A symptom is an indication that something is not as you or someone else thinks it should be. You may be tempted to correct the symptoms instead of searching for true problems. True problems are the conditions or situations requiring solution before the performance of an organization, business unit, or individual can improve. Identifying and listing symptoms early in the case analysis process tends to reduce the temptation to label symptoms as problems. The focus of your analysis should be on the *actual causes* of a problem, rather than on its symptoms. Thus,



2 | An Effective Case Analysis Process

Step 1: *Gaining Familiarity*

- a. In general—determine who, what, how, where, and when (the critical facts of the case).
- b. In detail—identify the places, persons, activities, and contexts of the situation.
- c. Recognize the degree of certainty/uncertainty of acquired information.

Step 2: *Recognizing Symptoms*

- a. List all indicators (including stated "problems") that something is not as expected or as desired.
- b. Ensure that symptoms are not assumed to be the problem (symptoms should lead to identification of the problem).

Step 3: *Identifying Goals*

- a. Identify critical statements by major parties (e.g., people, groups, the work unit, etc.).
- b. List all goals of the major parties that exist or can be reasonably inferred.

Step 4: *Conducting the Analysis*

- a. Decide which ideas, models, and theories seem useful.
- b. Apply these conceptual tools to the situation.
- c. As new information is revealed, cycle back to substeps a and b.

Step 5: *Making the Diagnosis*

- a. Identify predicaments (goal inconsistencies).
- b. Identify problems (discrepancies between goals and performance).
- c. Prioritize predicaments/problems regarding timing, importance, etc.

Step 6: *Doing the Action Planning*

- a. Specify and prioritize the criteria used to choose action alternatives.
- b. Discover or invent feasible action alternatives.
- c. Examine the probable consequences of action alternatives.
- d. Select a course of action.
- e. Design an implementation plan/schedule.
- f. Create a plan for assessing the action to be implemented.

Source: C. C. Lundberg and C. Enz, 1993, A framework for student case preparation, *Case Research Journal*, 13 (Summer): 144.

it is important to remember that symptoms are indicators of problems, subsequent work facilitates discovery of critical causes of problems that your case recommendations must address.

Identifying Goals

The third step of effective case analysis calls for you to identify the goals of the major organizations, business units, and/or individuals in a case. As appropriate, you should also identify each firm's strategic intent and strategic mission. Typically, these direction-setting statements (goals, strategic intents, and strategic missions) are derived from comments made by central characters

in the organization, business unit, or top management team as described in the case and/or from public documents (e.g., an annual report).

Completing this step successfully sometimes can be difficult. Nonetheless, the outcomes you attain from this step are essential to an effective case analysis because identifying goals, intent, and mission helps you to clarify the major problems featured in a case and to evaluate alternative solutions to those problems. Direction-setting statements are not always stated publicly or prepared in written format. When this occurs, you must infer goals from other available factual data and information.

Conducting the Analysis

The fourth step of effective case analysis is concerned with acquiring a systematic understanding of a situation. Occasionally cases are analyzed in a less-than-thorough manner. Such analyses may be a product of a busy schedule or the difficulty and complexity of the issues described in a particular case. Sometimes you will face pressures on your limited amounts of time and may believe that you can understand the situation described in a case without systematic *analysis* of all the facts. However, experience shows that familiarity with a case's facts is a necessary, but insufficient, step in the development of effective solutions—solutions that can enhance a firm's strategic competitiveness. In fact, a less-than-thorough analysis typically results in an emphasis on symptoms, rather than problems and their causes. To analyze a case effectively, you should be skeptical of quick or easy approaches and answers.

A systematic analysis helps you understand a situation and determine what can work and probably what will not work. Key linkages and underlying causal networks based on the history of the firm become apparent. In this way, you can separate causal networks from symptoms.

Also, because the quality of a case analysis depends on applying appropriate tools, it is important that you use the ideas, models, and theories that seem to be useful for evaluating and solving individual and unique situations. As you consider facts and symptoms, a useful theory may become apparent. Of course, having familiarity with conceptual models may be important in the effective analysis of a situation. Successful students and successful organizational strategists add to their intellectual tool kits on a continual basis.

Making the Diagnosis

The fifth step of effective case analysis—diagnosis—is the process of identifying and clarifying the roots of the problems by comparing goals to facts. In this step, it is useful to search for predicaments. Predicaments are situations in which goals do not fit with known facts. When you evaluate the actual performance of an organization, business unit, or individual, you may identify over- or underachievement (relative to established goals). Of course, single-problem situations are rare. Accordingly, you should recognize that the case

situations you study probably will be complex in nature.

Effective diagnosis requires you to determine the problems affecting longer term performance and those requiring immediate handling. Understanding these issues will aid your efforts to prioritize problems and predicaments, given available resources and existing constraints.

Doing the Action Planning

The final step of an effective case analysis process is called action planning. Action planning is the process of identifying appropriate alternative actions. In the action planning step you select the criteria you will use to evaluate the identified alternatives. You may derive these criteria from the analyses; typically, they are related to key strategic situations facing the focal organization. Furthermore, it is important that you prioritize these criteria to ensure a rational and effective evaluation of alternative courses of action.

Typically, managers “satisfice” when selecting courses of action; that is, they find *acceptable* courses of action that meet most of the chosen evaluation criteria. A rule of thumb that has proved valuable to strategic decision makers is to select an alternative that leaves other plausible alternatives available if the one selected fails.

Once you have selected the best alternative, you must specify an implementation plan. Developing an implementation plan serves as a reality check on the feasibility of your alternatives. Thus, it is important that you give thoughtful consideration to all issues associated with the implementation of the selected alternatives.

WHAT TO EXPECT FROM IN-CLASS CASE DISCUSSIONS

Classroom discussions of cases differ significantly from lectures. The case method calls for instructors to guide the discussion, encourage student participation, and solicit alternative views. When alternative views are not forthcoming, instructors typically adopt one view so students can be challenged to respond to it thoughtfully. Often students' work is evaluated in terms of both the quantity and the quality of their contributions to in-class case discussions. Students benefit by having their views judged against those of their peers and by re-