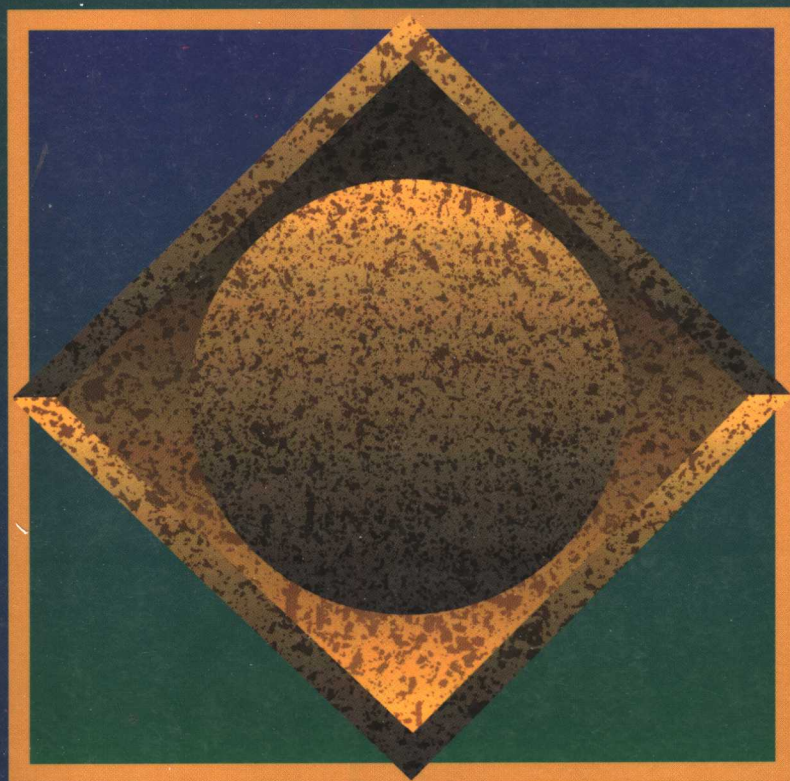
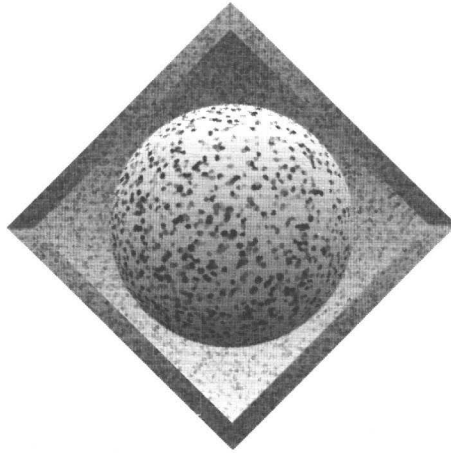


# THE STRATEGIC MANAGEMENT CASEBOOK AND SKILL BUILDER



ALAN N. HOFFMAN / HUGH M. O'NEILL

# THE STRATEGIC MANAGEMENT CASEBOOK AND SKILL BUILDER



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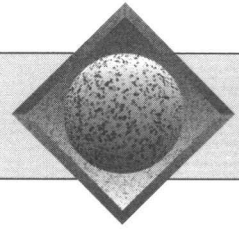
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## PREFACE



*The Strategic Management Casebook and Skill Builder* combines a collection of high-quality cases with increased emphasis on the development of case analysis skills. Our goal is to provide students with working models to help increase their appreciation of the need for thorough case analysis.

### STRATEGIC MANAGEMENT CASES

In Part III, we have provided instructors and students with a wide variety of new and classic cases to choose from. The 36 cases are categorized into eight sections:

- The CEO as Chief Strategist
- Strategic Management in Small Businesses
- Business Level Strategy
- Strategy in Service Businesses
- Corporate Level Strategy
- Strategy Implementation
- International Issues and Strategy
- Ethics and Social Responsibility

These cases have been written by some of our premier case writers. The collection includes 12 new cases, including *"The Boston YWCA: 1991"*, a case about a not-for-profit organization that is managed and operated totally by women.

### ICON NOTES

The first case in each section contains icons in the margins to highlight and identify important global, quality, and ethical issues. Our hope is that as students read the remaining cases in each section, they will look for significant issues and write the appropriate icon in the margins. We believe that this activity will increase student awareness of the important topics stressed in the recent AACSB guidelines. Each of these topical areas is explained in Part II. For this reason, students are encouraged to read Part II early in the course. Ample evidence suggests increasing global competition will be a reality in the 1990s and that successful firms must incorporate the principles of quality management and sound ethical behavior into the strategic management process.

### SAMPLE CASE OUTLINE AND STUDENT PAPER

Blank case analysis outlines are included in the supplement. A completed outline for the sample case, "Harley-Davidson, Inc.: The Eagle Soars Alone," is contained in Part I. The case has SWOT logos in the margins to highlight key

strengths, weaknesses, opportunities, and threats, as well as G, Q, and E logos which identify Global, Quality, and Ethics issues. We hope that students will follow this example and make marginal logos when reading the cases.

The case analysis outline should be used by students to take notes as they read the cases. We have found that this technique improves class discussion as well as students' ability to identify the central problem and make strategic recommendations. A completed outline for each case is included in the teacher's manual.

A sample student paper on the Harley-Davidson case is also presented in Part I. This paper is an important tool for students because it provides a working addition to the section called "Analyzing and Presenting a Strategic Management Case," and will significantly increase the quality of student papers. We also encourage shorter case write-ups based on focusing on specific sections of the complete student paper analysis.

#### ACKNOWLEDGMENTS

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Portions of this work were completed while Hugh O'Neill served at Grand Valley State University. We are grateful for the support of Dean Glen Pitman and the faculty at Grand Valley's Seidman School of Business.

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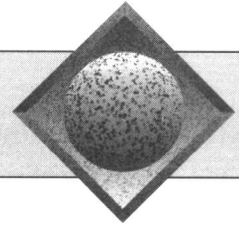
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We hope that this book stimulates students' interest in the field of strategic management.

Alan N. Hoffman  
 Hugh M. O'Neill



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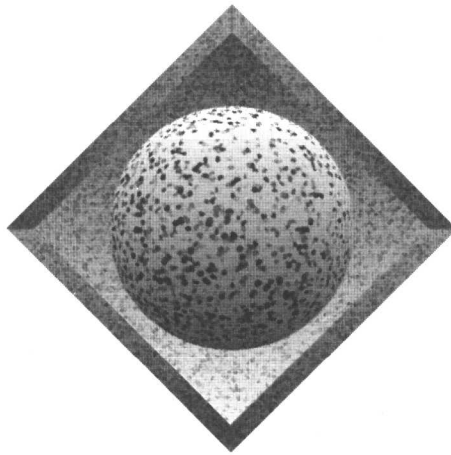
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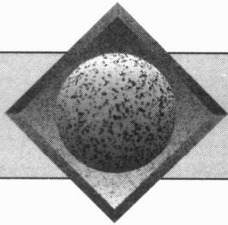


# PART ONE

## TOOLS FOR ANALYSIS



Analyzing and Presenting a Strategic Management Case  
Key Financial Ratios  
Sample Case Analysis Outline (Blank)  
Sample Case: Harley-Davidson, Inc.: The Eagle Soars Alone  
Sample Case Analysis Outline (Completed)  
Student Paper: Harley-Davidson, Inc.



## ANALYZING AND PRESENTING A STRATEGIC MANAGEMENT CASE

The strategy course is often students' first experience in case analysis. As you will soon discover, case analysis can be demanding. Strategic management cases (1) tax your skills across several disciplines (i.e., marketing, finance, accounting, operations, and management), (2) are plagued with ambiguity, and (3) do not have "right" answers. All this translates into increased uncertainty, which can lead to frustration and anxiety.

This section presents suggestions for business policy case analysis. We hope to provide you with a head start on your road to excellence. However, we can only suggest the way; to reach your goal you must travel a great distance.

### GETTING STARTED

Cases can be intimidating, filled with many facts and a few opinions, most of which are relevant but some of which are not. The problems are challenging, but fortunately most students enjoy cases for several reasons. First, cases present students with a chance to use skills learned in other courses. Second, cases provide students with an opportunity to make decisions. Third, cases are filled with realism; they give business students a risk-free opportunity to get close to real-world situations. Finally, cases offer the opportunity for classroom discussion. Students involved in case analysis learn to quickly exchange ideas, and the quality of the discussions often rests on the strength of each student's preparation.

### TRAPS TO AVOID

During your case analysis journey, the first trap to avoid is *procrastination*. Though a professional capacity to delay is a requisite for most aspects of college life, it's disastrous in case analysis. It takes time to read a case and more time for ideas to germinate and grow. Time invested in thinking pays a dividend of better in-class performance.

The second trap to avoid is *limited vision*. Two social scientists, Simon and Dearborn, designed an experiment decades ago. They gave the same case problem to several people, each with a different professional background. The group included (among others) a financial expert, a marketing expert, and an operations expert. The financial expert labeled the case a financial problem—and solved it accordingly. The marketing expert called the case a sales problem—and solved it accordingly. The operations expert said the case illustrated a production bottleneck—and solved it based on production expertise. Each expert, given the *same* case, based the case analysis on a narrow professional discipline that represented each person's area of experience and expertise. This experiment illustrates the cognitive limits and biases that we all possess. A physician given the same case would probably find a compelling

medical problem. The Simon and Dearborn experiment shows us that our experience filters what we see and hear.

Fortunately, the bias caused by experience can be minimized. One form of protection against bias is the *effective use of groups*. Forming a group in which each member has a different major is a good place to start. The subsequent clash of different perspectives, mixed well, can produce an objective analysis of the situation. A second form of protection is the use of the *case analysis outline* that is presented in a following section of this book. This outline serves as a theory-based template or a road map for case analysis. The template identifies the nooks and crannies worthy of investigation before a conclusive analysis. Using the case analysis outline to take notes while reading the case is a good way to organize your thoughts and avoid tunnel vision.

The final trap to avoid is *precision*. In most academic situations, pinpoint accuracy is ideal. However, few real-world situations reward this virtue. Indeed, the passionate pursuit of precision in all arenas of the case will cause paralysis. Effective strategic analysis requires that you identify those few areas where precision is an absolute requirement and focus attention there. In other areas, informed estimates provide sufficient data for analysis. Do not waste hours calculating precise but irrelevant market or financial ratios, but keep in mind that not conducting any financial analysis at all can be equally devastating.

## READING THE CASES

The cases should be read with discipline and purpose. First, skim through the case, noting the headings and key issues. Learn about the “terrain” of the case: the organization, its people, and its markets.

After skimming the text of the case, look at the tables and figures. Examine the graphs, charts, and financial statements. These exhibits present the most valuable resource in any decision situation: *information*.

Once you have reviewed the exhibits, formulate tentative ideas about the firm, its health, and its future. These initial ideas will serve as guides during your reading of the case. Like alarms on warning systems, they will alert your brain’s processing unit as you read. You will note items that either support or contradict your initial impressions.

Actively read the case and use the case analysis outline to take notes. A later section includes a sample completed case analysis outline for the Harley-Davidson case. You need not fill out every section of the outline for every case, but do use the outline to structure and organize your thoughts. The case analysis outline follows the strategic management process model that will guide your thinking toward the identification of the following parts of the case:

1. Strategic direction: mission and goals/objectives
2. External environmental analysis: opportunities and threats in the macro- and industry environment
3. Internal environment: identification of strengths and weaknesses in the functional areas of finance, marketing, operations, and human resource management
4. Identification of distinctive competence and competitive advantage

5. Deciding on the central problem
6. Strategic recommendations and implementation

Several blank case outlines are included in the supplement. Use one outline for each case you read. After reading the case, take a rest. Walk away from the problem and let your mind do its work.

## WORKING IN A GROUP

Group work can be rewarding at times but is often frustrating. Group work is especially important in the business world you will enter after graduation. The strategy course is a good place to accumulate some group experience.

The distinction between the success and failure of a group depends on how effective it is at (1) assigning individual tasks and (2) getting the most out of group meetings and not wasting group members' valuable time. Successful groups learn to *work together*.

One tool for group work is parallel processing. In parallel processing, two or three people work independently on the same issue. The group then gets together to consider each person's individual analysis. Independent unanimity in substantive conclusions is powerful evidence of accuracy. Where conclusions differ, the group needs to resolve the differences. Group members study the different conclusions and serve as independent judges of the quality of the analysis and insights.

Contrast parallel processing with sequential processing. Most groups divide cases functionally and assign each member of the group to work on one function (sequential processing). One member does the marketing, one member works on finance, and so on. This sequential structure minimizes the work of each member with the cost of lower quality. In this situation the analysis is as weak as the weakest link in the sequential chain. The group deteriorates to the level of its least successful student. Parallel processing, on the other hand, uses the group to increase the quality of the work.

Effective group work requires attention to timekeeping. In your organization behavior course, you learned that effective groups show concern for task management. Student groups are no less subject to this principle than other groups. Quality performance requires attention to the tasks required of the group. One member needs to take responsibility for managing task accomplishments at each meeting. This member will have the crucial but thankless job of keeping the meeting on track.

In an effective group, each member accepts responsibility to the group. A member has responsibility to participate and to request the same level of participation from others. Both responsibilities are difficult, which makes group analysis hard work.

Effective groups must develop rules for settling disputes. The ideal decision-making goal for any group is to reach a consensus—that is, all group members minimally agreeing on major decisions. An effective group should work toward this goal. Consensus building consumes time, a precious resource if the group faces a deadline. If consensus proves impossible, the group should have ready rules for settling disputes. These might include majority rule or an appeal to experts.

One problem common to all group work is that of the laggard. Economists use the unkind term “social loafing” to describe this phenomenon. Some members in groups take opportunistic advantage of the talent and goodwill of other members of the group. If there is no consequence to their behavior, the loafing will continue.

If the lack of consequence causes social loafing, then the answer to the problem is readily evident: provide consequences. Group members should be quick to recognize and reinforce each other as they make contributions, and those who do not make contributions should suffer by comparison. If loafing persists in the presence of positive reinforcement, laggards should be asked (politely) to increase their contributions. For unwieldy problems, the group should seek the help of the instructor.

## SOURCES OF INFORMATION

Effective strategic decision makers learn to develop access to sources of timely and relevant information. Our purpose here is to illustrate a few sources of information that are accessible to most college students. Information from these sources will help in creating or evaluating strategic options.

The following is a list of informational goldmines available at the library:

1. *The Business Periodicals Index*: An extensive index of articles written on business topics, organized by subject matter.
2. *Predicasts F&S Index*: An extensive index of articles written on business topics, organized by standard industrial classification (SIC) code.
3. *10K Reports*: Annual reports filed by publicly traded companies; they include financial, product, and management information.
4. *Annual Report Files*: Many business libraries maintain a collection of annual reports published by publicly traded firms.
5. *Census Data*: The Census of the Population and the Census of Business provide extensive demographic and economic information.
6. *Standard and Poor's, Moody's, and ValueLine*: Are extensive indexes of publicly traded companies, which provides financial, product, and management information.
7. *Robert Morris Statistics*: A source of summary check statistics about all major industries.
8. *Million Dollar Directory*: Information about 39,000 companies worth more than \$1 million.

The *New York Times Index* and the *Wall Street Journal Index* provide a history of articles on specific topics.

Each spring *Fortune Magazine* publishes its Fortune 500 issue, filled with information about high- and low-performing firms and industry statistics. The January issue of *Forbes* each year reviews over 1,000 companies, providing information summaries on most industries. Each issue of *Merger and Acquisitions* provides information on mergers.

Most libraries are now on-line and can provide ever-increasing access to computerized data bases. ABI/Inform, perhaps the most common data base, indexes a wide variety of journals. The COMPUSTAT Tapes maintain statistics, primarily balance sheet and income statement data, on thousands of firms.

The CRISP Tapes provide extensive, comprehensive data on stock prices. INFOTRAC is an excellent source of recent business articles.

Texts on strategy, management, finance, accounting, and marketing provide timely information. Books are available on acquisition strategies, decline strategies, growth strategies, turnaround strategies, and global strategies, to name a few.

Finally, not all information is hidden away in the library. Businesspersons, fellow students, and professors can often provide information that can be useful in case analysis.

### **DECIDING ON A CENTRAL PROBLEM**

Peter Drucker once commented that management is one problem after another. He was right, but what he failed to mention is that the problems are like crowds: ragged and disorganized. Successful managers prioritize their problems and work on the most important ones and delegate or ignore the trivial ones. One of the key tasks in a strategic case analysis is your ability to decide on the central problem.

Strategy is the art of acquiring and allocating resources to solve critical problems. To do this you need to separate the crucial few problems from the trivial many. Pareto's law is one way to understand this concept. Pareto's law, or the 20/80 rule, holds that 20 percent of the causes create 80 percent of the problems in complex systems. Twenty percent of all automobile drivers cause 80 percent of the accidents, while 20 percent of all customers buy 80 percent of the firm's output. A firm in peril suffers many strategic problems. But a relative few problems (about 20 percent) cause the majority (about 80 percent) of the peril. Success in strategy requires a focus on the crucial few problems causing the majority of the firm's ills.

One technique reliant on Pareto's law is root cause analysis. Root cause analysis is used to solve problems of quality, but it is equally appropriate and valuable in thinking about strategy problems. All problems have symptoms and causes. Treating symptoms does not remove the problem. Similarly, problems have primary and secondary causes. Treating secondary causes does not remove the problem. Primary causes are root causes. Root causes, not always immediately obvious, are central problems.

The Ford Motor Company's efforts to improve quality illustrate the operation of root cause analysis. Company sales were poor. The poor sales were traced to poor quality, caused by a variety of problems. Among other causes, Ford identified poor design of the car, poor design of the production, and poor design of work force relations. Ford ultimately discovered that a root cause of these problems was the structure of the organization. Conventional policies and procedures combined to make quality an unlikely outcome. The redesign of Ford's organization structure became central problem one when quality became job one. Here, root cause analysis might have helped identify the central problem.

Identifying the central problem can be done in many other ways. A comparison of a firm's strengths and weaknesses relative to its competition can help. If one firm is weak in an area where several competitors are strong, that weakness could be its central problem.



A problem's impact determines its centrality. For example, problems that affect several departments have major organizational consequences. Therefore, these problems are central problems. Similarly, if a problem directly affects sales and profits in the near term, it is a central problem. In general, the longer the time to impact, the less central the problem. The central problem is often the one that needs to be solved first.

## FINANCIAL ANALYSIS

Being able to read and analyze the financial statements that accompany most strategic management cases is extremely important. The best place to begin is with *trend analysis* and *ratio analysis*. Look at sales, profit margin, earnings per share, and long-term debt over the last three or four years. Are these variables increasing, decreasing, or flat? Trend analysis of these four variables can point you in the right direction.

For example, if sales are increasing and profit margins are flat or decreasing, the firm is experiencing increased costs or may be involved in a price war and must decrease prices to remain competitive. If sales are flat or decreasing and profits are increasing, then some form of internal cost cutting or one-time reorganization is producing these increased profits. Often these increases in profits will not be sustained over a long period of time because a firm can only cut costs so much.

If long-term debt is increasing, find out for what it is being used. Is it financing internal growth, or is it used for acquisitions? Remember, firms that have a high percentage of long-term debt are at greater risk when the economy goes into recession than are firms with less debt. A debt-to-total assets ratio of less than 50 percent is considered desirable.

If profits are increasing, issuing new equity is a possible source of funds. These funds could be used for expansion or to retire part of the company's outstanding long-term debt. Investors are understandably reluctant to buy shares of companies where profits are declining. Remember that new equity issues dilute present ownership and should be considered only when a firm is enjoying sales growth.

The current ratio (current assets/current liabilities) measures the firm's ability to meet its current obligations and should be around 2.0. Finally, look at the firm's cash position to see if it is increasing. This may present an opportunity to buy back shares of stock on the open market and increase the firm's stock price by decreasing the number of outstanding shares.

## THE WRITTEN REPORT

The judgment of your work rests on the quality of your written and oral reports. Readers distrust the quality of an idea written poorly and discount processes that result in a poorly written report. Not taking 15 minutes to check grammar and spelling can devalue hours of hard work. Here are a few ideas to help with the written report.

1. *Write an executive summary.* The summary should be short and informative, a succinct statement of the problem and the solution.
2. *Use exhibits in the body of your report or as an addendum to your report.* Charts, graphs, and tables convey more information than paragraphs and are helpful to the reader.
3. *Write succinctly.* Students sometimes confuse report length with quality. Professionals know that brevity is a virtue.
4. *Write factually.* Hyperbole has no role in strategic analysis. Management skill requires a healthy respect for facts. Your reader will demand management skill.
5. *Identify relevant actions and present a plan.* Summarize your recommendations and provide brief rationales. In these recommendations, use specific language; identify products, people, and places. In providing rationales, use the language of business: identify sales and profit gains or other specific benefits.
6. *Read the report before you submit it.* There is often a difference between what you think you wrote and what you actually wrote. A careful reading should identify any poorly worded or unintentional thoughts. Several careful readings will be more useful than one. Have others read your report.
7. *Submit the report on time!*

## THE ORAL PRESENTATION

Most people consider public speaking a painful experience. The following suggestions should help you survive a speaking assignment if one is required by your instructor.

Temper your fear with the knowledge that your classmates are not hostile. They have more empathy and are less critical than most audiences. Remember that every speaker has the same fear and it is as basic as the fear of falling. The fear of falling prompts you to be careful when you climb ladders. The fear of speaking can motivate you to be prepared when you speak.

The three steps to any presentation are: (1) tell the audience what you are going to say, (2) make your presentation, and (3) summarize what you have told them. In other words, present an introduction, give the body of the talk, and summarize your talk. The introduction and the summary are equivalent to stretching before and after heavy exercise; they give you a chance to warm up and cool down. Use the introduction to get comfortable and find a speaking place and pace.

Find allies in the audience. You can do this in several ways. You can let them know you are nervous. You can stop frequently to give them brief rests. You can search for friendly faces (there will be some) and look at them several times during your talk.

Talk to the audience, not the floor or the chalkboard. Look at them and try not to judge their reaction, but allow them to look at you.

Using overheads, charts, slides, or handouts to guide your speech is a good idea. The use of memory aids such as index cards will also help you to remember. Finally, practice your talk—don't memorize a speech. Practice a beginning, a middle, and a conclusion. Practice making the same point a few

different ways. Practice putting an overhead on a transparency projector and explaining it.

Frame your mind for this task. You are giving a talk, not a speech, and talking has always been a natural and easy way to communicate with others.

## **VISUAL AIDS**

The last few years have witnessed an explosion in the number of software packages available to help present material in graphic form. Many sources of excellent graphics and visual aids are available. Spreadsheet packages can also serve as decision aids and thought processors. The software is both fun and functional.

Use visual aids wisely. Too many graphics or too much information on a single graphic can overwhelm an audience. Computers and software are not the only source of visual aids. Pictures or slides can be copied onto transparencies. Finally, you can use felt-tip pens to create your own overheads.

Test your graphics; be sure that the audience can see them. A few discernible numbers make a better impression than an imperceptible balance sheet.

Make your last graphic an action graphic. It should capture the audience by convincing them or involving them. Leave the audience convinced that your strategic ideas will have celestial impact. Or get the audience involved by using a graphic that thanks them, tells a story, or asks for their help.

## **PRESENTATION TRAPS TO AVOID**

As you may have concluded up to this point, successful case analysis involves only three secrets: preparation, preparation, and preparation. The largest trap to avoid, then, is that of failing to properly prepare the analysis, the writing, or the presentation.

A second trap deserves mention: the attitude trap. You can approach case analysis as one more academic assignment to be avoided or as a chance to challenge your professional skills. Adopt the first attitude and you will dislike case analysis. You will learn little and most of what you learn will be quickly forgotten. Adopt the second attitude and case analysis can be the most effective learning experience of your college career. The choice is yours. It should be an easy one.

Good work and good luck. If you learn well, you will have a safe and rewarding journey.