

CASES IN STRATEGIC MANAGEMENT



PEARCE • ROBINSON

THIRD EDITION

CASES IN STRATEGIC MANAGEMENT

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Third Edition

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To
Susie and Joby

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PREFACE

This third edition of our book is the culmination of nine years of diligent work by many people. This preface will provide you with an overview of the content of this newest edition, and it also will give us the opportunity to recognize the many contributors who have aided us in its development.

Cases in Strategic Management, 3rd edition, is a book designed to introduce you to the critical business skills of planning and managing strategic activities. The business case studies and industry notes developed and chosen for this book offer you wide exposure to a systematically selected cross section of strategic management situations. The cases and industry notes represent pertinent, relevant, factual, and, we hope, interesting and challenging opportunities to develop and test your skills as strategic managers. The rich diversity among these exciting cases and industry notes is described in greater detail later in this preface.

We have selected 35 cases for this edition—all 35 are new! Only one of the cases, a comprehensively updated version of the widely acclaimed “Hazelton Laboratories,” pertains to a company studied in our last edition. Our survey of professors confirmed our belief that the most valuable cases review business situations that reflect the realities of today’s dynamic, global, and supercompetitive marketplace. For most of us, and certainly for students, there are no classic cases, just old ones.

The cases are grouped into four sections. Eleven cases introduce students to strategic management and the process of strategy formulation; 12 cases place students in the role of implementing basic strategies; 9 cases allow students to experience the challenges of monitoring and controlling implemented strategies; and 2 cases allow you to cover industry analysis and strategic management in an integrated set of information on competitive business situations. We are very excited about the cases selected for this edition—they are contemporary and interesting situations that students will learn from, recognize, and enjoy.

We have a truly comprehensive strategic management teaching package for this edition. It includes Strategic Analyst, which is software that allows students to conduct a computer-based, systematic analysis of the strategic options available to a business and do so with built-in linkages to our text. It also includes a set of Lotus templates that are provided free for use by instructors and students. Data from all the cases in the third edition are included on these disks.

Other components of our teaching package include a totally revised and enhanced Instructor’s Manual, a set of four-color teaching transparencies, and a computerized version

of our class-tested, objective test bank. Each of these components of our teaching package offers the instructor optimal, integrated flexibility in designing and conducting the strategic management course.

Our survey of adopters indicated that they wanted us to continue to inform students about what they need to do in preparing a case, and in maintaining a strategic point of view. Therefore, we have included a major section in this edition that is solely intended to aid students in understanding case method pedagogy and to prepare them to analyze a case. The first part of this section provides a thorough description of the case method format; what to expect in each class session; and how to analyze a case, prepare it for class, and participate in class discussion. The second part offers a short case accompanied by a useful example of former students' analyses and preparation of it.

These two learning aids, combined with the new Cohesion Case illustrating each step of strategic analysis, provide the most thorough package available in any strategy textbook to ensure that students understand and benefit from the case method pedagogy.

Cases in the Third Edition

We are very excited about the 35 cases available in this edition. All 35 are new to this edition! We are confident that you will find that this case collection does an excellent job of meeting your classroom needs for several reasons.

The collection offers a rich diversity of recognizable domestic, foreign, and international companies and industries. The cases present very current situations. All of the cases involve situations from 1990 to 1993, and all focus on issues in the forefront of strategic management for the 1990s.

Contemporary, recognizable, interest-piquing situations abound: the resurgence of the multinationalized Kentucky Fried Chicken; the reemergence of Apple; the dynamic environments of Blockbuster Entertainment, Southwest Air, and Microsoft; the strategic maneuvering of Philip Morris and Disney; survival strategies in mature defense industries exemplified by Lockheed and Orbital Sciences; TQM at Xerox; an ethical question at IBM; and the explosive growth of global competitor Hazelton Laboratories—all situations our tests have shown stimulate student interest.

The nature of the firms provides varied exposure. We have included 5 small companies in either family or rapid-growth phases, 19 companies with international operations, 10 of the largest companies in America, and 2 nonprofit organizations.

In all, adopters have a variety of domestic and international industry settings at different stages of evolution and spanning 15 cases in manufacturing, 13 in services, 4 in food, beer, and wine processing, and 6 in retailing. Different cases cover the basic types of business, companies in market leadership positions, companies falling out of leadership, high-tech companies, exporters, importers, and diversifying companies.

We have also given significant attention to case length. A major effort has been made to ensure that a majority of the cases are short to medium in length.

Finally, we have endeavored to ensure a collection of cases that is flexible in its course sequencing, yet able to offer exposure to distinct management challenges associated with strategy formulation, implementation, or control. Because our survey found case flexibility to be one of the key concerns of strategic management professors, the cases were assembled with this need foremost in our minds. Overall, we think you will find this case collection

interesting and motivating for your students, representative and varied in the application of strategic problems and analytical applications, flexible in terms of course sequencing, and teachable.

Acknowledgments

We have benefited from the help of many people in the evolution of this book over three editions. Students, adopters, colleagues, reviewers, and business contacts have provided hundreds of insightful comments, suggestions, and contributions that have progressively enhanced this book. We are indebted to the researchers, writers, and practicing managers who have accelerated the development of the literature on strategic management.

We are likewise indebted to the talented case researchers who have produced cases used in this book, as well as the growing network of case researchers who are encouraging the revitalization of case research as an important academic endeavor. The discipline of strategic management is eminently more teachable when current well-written and well-researched cases are available. We encourage every opportunity to reinforce proper recognition and reward for first-class case research—it is a major avenue through which top strategic management scholars should be recognized.

The following strategic management scholars have provided the results of their case research in the creation of this third edition:

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University of South Carolina

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Memphis State University
Joseph Wolfe
University of Tulsa

We have personally ensured that the dean at each of the case author's respective institutions is aware of the value that his or her case research efforts have added to professionals' ability to teach strategic management.

Because we are affiliated with two separate universities, we have two sets of co-workers to thank.

The growth and dynamic environment at George Mason University have contributed directly to the development of this edition. Valuable critiques and helpful recommendations have been made by Jack's strategic management colleagues Bill Fulmer, Tracy Kramer, and Keith Robbins. For his gracious support and personal encouragement, we also wish to thank Kees de Kluyver, dean of George Mason University's School of Business Administration. For her excellent administrative and secretarial assistance, we most sincerely appreciate the work of Sondra Patrick.

We are especially grateful to LeRoy Eakin, Jr., and his family for their generous endowment of the Eakin Endowed Chair in Strategic Management at George Mason University that Jack holds. The provisions of the chair have enabled Jack to continue his dual involvements with this book and strategic management research.

The stimulating international environment at the University of South Carolina has contributed to the development of this edition. Thought-provoking discussions with strategy colleagues Alan Bauerschmidt, Carl Clamp, Dan Feldman, Herb Hand, John Logan, Bill Sandberg, Harry Sapienza, and David Schweiger provided many useful ideas and insights. Likewise, we want to thank James F. Kane, dean of the College of Business Administration; James G. Hilton, associate dean; and Susie VanHuss, program director in management, for their interest and support. Our sincere appreciation also goes to Cheryl Fowler and Susie Gossage for their help in preparing this manuscript and in solving endless logistical problems.

In using this text, we hope that you will share our enthusiasm both for the rich subject of strategic management and for the learning approach that we have taken. We value your recommendations and thoughts about our materials. Please write Jack at the Department of Management, School of Business Administration, George Mason University, Fairfax, Virginia 22030, (703-993-1818) or Richard at the College of Business Administration, University of South Carolina, Columbia, South Carolina 29208, (803-777-5961).

We wish you the very best as you advance your knowledge in the exciting and rewarding field of strategic management.

Jack Pearce
Richard Robinson

ABOUT THE AUTHORS

John A. Pearce II, Ph.D., is the holder of the Eakin Endowed Chair in Strategic Management and is a State of Virginia Eminent Scholar in the School of Business Administration at George Mason University.

Professor Pearce has published more than 160 journal articles, invited book chapters, and professional papers in outlets that include the *Academy of Management Executive*, *Academy of Management Journal*, *Academy of Management Review*, *California Management Review*, *Journal of Business Venturing*, *Sloan Management Review*, and the *Strategic Management Journal*. Professor Pearce is also the coauthor or coeditor of 26 texts, proceedings, and supplements for book publishers that include Richard D. Irwin, Inc., McGraw-Hill, Random House, and the Academy of Management.

Elected to more than a dozen offices in national and regional professional associations, Professor Pearce has served as chairman of the Academy of Management's Entrepreneurship Division, Strategic Management and Entrepreneurship track chairman for the Southern Management Association, and Strategy Formulation and Implementation track chairman for the Decision Sciences Institute. He was the president of the Southern Management Association in 1990.

A former Fulbright-Hays Senior Professor in International Management, and an active consultant and executive educator, Professor Pearce specializes in helping executive teams to develop and activate their firms' strategic plans.

Richard B. Robinson, Jr., Ph.D., is Professor of Strategy and Entrepreneurship and is a Business Partnership Foundation Fellow in the College of Business Administration at the University of South Carolina. Professor Robinson recently returned to USC after serving for three years as president and CEO of a rapidly growing hazardous waste management company.

Professor Robinson has published numerous articles and professional papers in preeminent journals and associations dedicated to improving the practice of strategic management and the art of entrepreneurship. He has coauthored 23 texts, proceedings, and supplements for book publishers that include Richard D. Irwin, Inc., McGraw-Hill, Random House, and the Academy of Management.

Professor Robinson is the recipient of several awards in recognition of his work in strategic management and entrepreneurship. Sponsors of these awards include the Heizer Capital Corporation, the Academy of Management, the Center for Family Business, the National Association of Small Business Investment Companies, the Southern Business Administration Association, the Small Business Administration, the National Venture Capital Association, Beta Gamma Sigma, and the Center for Entrepreneurial Studies at NYU. He also has held offices in the Academy of Management, the Southern Management Association, and the International Council of Small Business.

Professor Robinson has held management positions in companies competing in the restaurant and lodging, pulp and paper, environmental services, and publishing and management development industries. He currently serves as an advisor to several growth-oriented ventures.

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GUIDE TO STRATEGIC MANAGEMENT

CASE ANALYSIS

THE CASE METHOD

Case analysis is a proven educational method that is especially effective in a strategic management course. The case method complements and enhances the text material and your professor's lectures by focusing attention on what a firm has done or should do in an actual business situation. Use of the case method in the strategic management course offers you an opportunity to develop and refine analytical skills. It also can provide exciting experience by allowing you to assume the role of the key decision maker for the organizations you will study.

When assuming the role of the general manager of the organization being studied, you will need to consider all aspects of the business. In addition to drawing on your knowledge of marketing, finance, management, production, and economics, you will be applying the strategic management concepts taught in this course.

The cases in this book are accounts of real business situations involving a variety of firms in a variety of industries. To make these opportunities as realistic as possible, the cases include a variety of quantitative and qualitative information in both the presentation of the situation and the exhibits. As the key decision maker, you will need to determine which information is important, given the circumstances described in the case. Keep in mind that the results of analyzing one firm will not necessarily be appropriate for another since every firm is faced with a different set of circumstances.

PREPARING FOR CASE DISCUSSION

The case method requires an approach to class preparation that differs from the typical lecture course. In the typical lecture course, you can still benefit from each class session even if you did not prepare, by listening carefully to the professor's lecture. This approach will not work in a course using the case method. For such a case course, proper preparation is essential.

Suggestions for Effective Preparation

1. *Allow adequate time in preparing a case.* Many of the cases in this text involve complex issues that are often not apparent without careful reading and purposeful reflection on the information in the cases.
2. *Read each case twice.* Because many of these cases involve complex decision making, you should read each case at least twice. Your first reading should give you an overview of the firm's unique circumstances and the issues confronting the firm. Your second reading allows you to concentrate on what you feel are the most critical issues and to understand what information in the case is most important. Make limited notes identifying key points during your first reading. During your second reading, you can add details to your original notes and revise them as necessary.

3. *Focus on the key strategic issue in each case.* Each time you read a case you should concentrate on identifying the key issue. In some of the cases, the key issue will be identified by the case writer in the introduction. In other cases, you might not grasp the key strategic issue until you have read the case several times. (Remember that not every piece of information in a case is equally important.)

4. *Do not overlook exhibits.* The exhibits in these cases should be considered an integral part of the information for the case. They are not just “window dressing.” In fact, for many cases you will need to analyze financial statements, evaluate organizational charts, and understand the firm's products, all of which are presented in the form of exhibits.

5. *Adopt the appropriate time frame.* It is critical that you assume the appropriate time frame for each case you read. If the case ends in 1985, that year should become the present for you as you work on that case. Making a decision for a case that ends in 1985 by using data you could not have had until 1986 defeats the purpose of the case method. For the same reason, although it is recommended that you do outside reading on each firm and industry, you should not read material written after the case ended unless your professor instructs you to do so.

6. *Draw on all of your knowledge of business.* As the key decision maker for the organization being studied, you will need to consider all aspects of the business and industry. Do not confine yourself to strategic management concepts presented in this course. You will need to determine if the key strategic issue revolves around a theory you have learned in a functional area, such as marketing, production, finance, or economics, or in the strategic management course.

PARTICIPATING IN CLASS

Because the strategic management course uses the case method, the success and value of the course depend on class discussion. The success and value of the class discussion, in turn, rely on the roles both you and your professor perform. Following are aspects of your role and your professor's, which, if kept in mind, will enhance the value and excitement of this course.

The Student as Active Learner

The case method requires your active participation. This means your role is no longer one of sitting and listening.

1. *Attend class regularly.* Not only is your grade likely to depend on your involvement in class discussions, but the benefit you derive from this course is directly related to your involvement in and understanding of the discussions.

2. *Be prepared for class.* The need for adequate preparation already has been discussed. You will benefit more from the discussions, will understand and participate in the exchange of ideas, and will avoid the embarrassment of being called on when not prepared. By all means, bring your book to class. Not only is there a good chance you will need to refer to a specific exhibit or passage from the case, you may need to refresh your memory of the case (particularly if you made notes in the margins while reading).

3. *Participate in the discussion.* Attending class and being prepared are not enough; you need to express your views in class. You can participate in a number of ways: by addressing a question asked by your professor, by disagreeing with your professor or your classmates (by all means, be tactful), by building on an idea expressed by a classmate, or by simply asking a relevant question.

4. *Participate wisely.* Although you do not want to be one of those students who never raises his or her hand, you also should be sensitive to the fact that others in your class will want to express themselves. You have probably already had experience with a student who attempts to dominate each class discussion. A student who invariably tries to dominate the class discussion breeds resentment.

5. *Keep a broad perspective.* By definition, the strategic management course deals with the issues facing general managers or business owners. As already mentioned, you need to consider all aspects of the business, not just one particular functional area.

6. *Pay attention to the topic being discussed.* Focus your attention on the topic being discussed. When a new topic is introduced, do not attempt to immediately introduce another topic for discussion. Do not feel you have to have something to say on every topic covered.

Your Professor as Discussion Leader

Your professor is a discussion leader. As such, he or she will attempt to stimulate the class as a whole to share insights, observations, and thoughts about the case. Your professor will not necessarily respond to every comment you or your classmates make. Part of the value of the case method is to get you and your classmates to assume this role as the course progresses.

The professor in a strategic management case course performs several roles:

1. *Maintaining focus.* Because multiple complex issues need to be explored, your professor may want to maintain the focus of the class discussion on one issue at a time. He or she may ask you to hold your comment on another issue until a previous issue is exhausted. Do not interpret this response to mean your point is unimportant; your professor is simply indicating there will be a more appropriate time to pursue that particular comment.

2. *Getting students involved.* Do not be surprised if your professor asks for input from volunteers and nonvolunteers alike. The value of the class discussion increases as more people share their comments.

3. *Facilitating comprehension of strategic management concepts.* Some professors prefer to lecture on strategic management concepts on a “need-to-know” basis. In this scenario, a lecture on a particular topic will be followed by an assignment to work on a case that deals with that particular topic. Other professors will have the class work through a case or two before lecturing on a topic to give the class a feel for the value of the topic being covered and for the type of information needed to work on cases. Still other professors prefer to cover all of the theory in the beginning of the course, thereby allowing uninterrupted case discussion in the remaining weeks of the term. All three of these approaches are valid.

4. *Playing devil’s advocate.* At times your professor may appear to be contradicting many of the comments or observations being made. At other times your professor may adopt a position that does not immediately make sense, given the circumstances of the case. At other times your professor may seem to be equivocating. These are all examples of how your professor might be playing devil’s advocate. Sometimes the professor’s goal is to expose alternative viewpoints. Sometimes he or she may be testing your resolve on a particular point. Be prepared to support your position with evidence from the case.

ASSIGNMENTS

Written Assignments

Written analyses are a critical part of any strategic management course. In fact, professors typically put more weight on written analyses than on exams or quizzes. Each professor has a preferred format for these written analyses, but a number of general guidelines will prove helpful to you in your written assignments.

1. *Analyze.* Avoid merely repeating the facts presented in the case. Analyze the issues involved in the case and build logically toward your recommendations.

2. *Use headings or labels.* Using headings or labels throughout your written analysis will help your reader follow your analysis and recommendations. For example, when you are analyzing the weaknesses of the firm in the case, include the heading Weaknesses. Note the headings in the sample case analysis that follows.

3. *Discuss alternatives.* Follow the proper strategic management sequence by (1) identifying alternatives, (2) evaluating each alternative, and (3) recommending the alternative you think is best.

4. *Use topic sentences.* You can help your reader more easily evaluate your analysis by putting the topic sentence first in each paragraph and following with statements directly supporting the topic sentence.

5. *Be specific in your recommendations.* Develop specific recommendations logically and be sure your recommendations are well defended by your analysis. Avoid using generalizations, clichés, and ambiguous statements. Remember that any number of answers are possible, and so your professor is most concerned about how your reasoning led to your recommendations and how well you develop and support your ideas.

6. *Do not overlook implementation.* Many good analyses receive poor evaluations because they do not include a discussion of implementation. Your analysis will be much stronger when you discuss how your recommendation can be implemented. Include some of the specific actions needed to achieve the objectives you are proposing.

7. *Specifically state your assumptions.* Cases, like all real business situations, involve incomplete information. Therefore, it is important that you clearly state any assumptions you make in your analysis. Do not assume your professor will be able to fill in the missing points.

Oral Presentations

Your professor is also quite likely to ask you and your classmates to make oral presentations on a particular case. Oral presentations usually are done by groups of students. In these groups, each member will typically be responsible for one aspect of the overall case. Keep the following suggestions in mind when you are faced with an oral presentation:

1. *Use your own words.* Avoid memorizing a presentation. The best approach is to prepare an outline of the key points you want to cover. Do not be afraid to have the outline in front of you during your presentation, but do not just read the outline.

2. *Rehearse your presentation.* Do not assume you can simply read the outline you have prepared or that the right words will come to you when you are in front of the class making your presentation. Take the time to practice your speech, and be sure to rehearse the entire presentation with your group.

3. *Use visual aids.* The adage “a picture is worth a thousand words” contains quite a bit of truth. The people in your audience will more quickly and thoroughly understand your key points—and will retain them longer—if you can use visual aids. Think of ways you and your team members can use the blackboard in the classroom; a graph, chart, or exhibit on a large posterboard; or, if you will have a number of these visual aids, a flip chart.

4. *Be prepared to handle questions.* You probably will be asked questions by your classmates. If questions are asked during your presentation, try to address those that require clarification. Tactfully postpone more elaborate questions until you have completed the formal phase of your presentation. During your rehearsal, try to anticipate the types of questions that you might be asked.

Working as a Team Member

Many professors assign students to groups or teams for analyzing cases. This adds more realism to the course, since most strategic decisions in business are addressed by a group of key managers. If you are a member of a group assigned to analyze a case, keep in mind that your performance is tied to the

performance of the other group members, and vice versa. The following are some suggestions to help you be an effective team member:

1. *Be sure the division of labor is equitable.* It is not always easy to decide how the workload can be divided equitably, since it is not always obvious how much work needs to be done. Try breaking down the case into the distinct parts that need to be analyzed to determine if having a different person assume responsibility for each part is equitable. All team members should read and analyze the entire case, but different team members can be assigned primary responsibility for each major aspect of the analysis. Each team member with primary responsibility for a major aspect of the analysis also will be the logical choice to write that portion of the written analysis or to present it orally in class.

2. *Communicate with other team members.* This is particularly important if you encounter problems with your portion of the analysis. Since, by definition, the team members are dependent on each other, it is critical that you communicate openly and honestly with each other. It, therefore, is essential that your team members discuss problems, such as some members not doing their fair share of work or members insisting that their point of view dominate the team's report.

3. *Work as a team.* Since a group's output should reflect a combined effort, the whole group should be involved in each part of the analysis, even if different individuals assume primary responsibility for different parts of the analysis. Avoid having the marketing major do the marketing portion of the analysis, the production major handle the production issues, and so forth. This will both hamper the group's aggregate analysis and do all of the team members a disservice by not giving each member exposure to decision making involving the other functional areas. The strategic management course provides an opportunity to look at all aspects of the business situation, to develop the ability to see the big picture, and to integrate the various functional areas.

4. *Plan and structure team meetings.* When working with a group on case analysis, it is impossible to achieve the team's goals and objectives without meeting outside of class. As soon as the team is formed, establish mutually convenient times for regular meetings, and be sure to keep this time available each week. Be punctual in going to the meetings, and manage the meetings so they end at a predetermined time. Plan several shorter meetings, as opposed to one longer session right before the case is due. (This, by the way, is another way realism is introduced in the strategic management course. Planning and managing your time is essential in business, and working with others to achieve a common set of goals is a critical part of life in the business world.)

SUMMARY

The strategic management course is your opportunity to assume the role of a key decision maker in a business organization. The case method is an excellent way to add excitement and realism to the course. To get the most out of the course and the case method, you need to be an active participant in the entire process.

The case method offers you the opportunity to develop your analytical skills and to understand the interrelationships of the various functional areas of business; it also enables you to develop valuable skills in time management, group problem solving, creativity, organization of thoughts and ideas, and human interaction. All of these skills will prove immensely valuable when you enter the job market and begin your career.

CASES
