Cases in Business Strategy & Policy

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Published by

SOUTH-WESTERN PUBLISHING CO.

CINCINNATI WEST CHICAGO, ILL. DALLAS PELHAM MANOR, N.Y. PALO ALTO, CALIF.

ISBN: 0-538-07050-1

Library of Congress Catalog Card Number: 82-51055

3 4 5 6 7 P 9 8 7 6

Printed in the United States of America

Preface

CASES IN BUSINESS STRATEGY & POLICY contains a repertoire of cases which were submitted by or solicited from colleagues throughout the country. It was inspired by a previously published casebook entitled *Application of Decision Sciences in Organizations: A Case Approach.* Many of the included cases were extracted from that textbook. Still other cases were developed at subsequent workshops conducted at a series of annual meetings of the American Institute for Decision Sciences. All cases have been pretested in the classroom. In most instances the real organizational name has been used; however, a few cases have been disguised at the request of the contributing organization.

This casebook may be used as the primary text supplemented by in-class materials or as a complement to another strategic management or business policy textbook. A variety of cases are included. Some of these may be analyzed by students having little or no background in the specific area while others are more challenging, requiring an extensive background in the topic area gained through either personal experience or previous course work.

The book is divided into seven major sections. The first six sections focus on vital environments or functional areas and are designed to develop analytical and diagnostic skills. The last section consists of seven comprehensive and integrative cases challenging the student to apply those skills. There are 37 cases in all which vary in complexity, type of organization, focus, and organizational size. A variety of organizational types are illustrated, ranging from educational institutions to highly technical manufacturing firms. Organizational size ranges from the small entrepreneurial firm to the huge multinational conglomerate. All major functional areas of business are covered, and a number of excellent international and comprehensive cases have been included.

Section I introduces the impact of the environment on strategy and policy formulation. Several cases highlight selected relevant issues in the environment. For example, deregulation and its effects on the trucking industry are presented. Other issues include acquisition strategy, the effects of federal regulations, and the social responsibility of organizations.

Section II focuses on human resource management in organizations. It begins with an Australian subsidiary of an American oil company, which must find a way to accommodate changes relative to the characteristics or profile of its employees and customers in an entirely different and unfamiliar culture. The remaining cases introduce a variety of topics including employee reaction to job enrichment, resistance to change, organizational conflict, manpower planning, the consequences of developing technology and production more rapidly than human resources, interpersonal conflict, overlapping lines of authority, and ambiguous definition of responsibility in a not-for-profit organization.

Section III addresses a series of classical marketing questions. It begins with a fast-food company faced with the need to develop an effective promotional strategy and an accurate, timely, forecasting system. The next case moves from the development of a forecasting system to problems encountered when such a system is implemented in a maladroit manner. Other topics in this section include the appropriate use of consultants, resistance to technological change, the misuse of quantitative forecasting systems, and the consequences of an advanced stage of marketing myopia relative to forecasting, budgeting, and advertising policy.

Production and operations management is the subject of Section IV. A variety of organizations are presented, some with serious operational problems and others with specific, "down-to-earth," pragmatic shop-floor questions. Also covered are model buildings, the efficacy of models for solving production and inventory control problems, logistics, and other management science techniques.

The financial function of organizations is examined in Section V. A variety of topics including cost structures, pricing methods, liquidity, budgeting, financial forecasting, standard cost systems, and variance analysis are presented. Questions are raised about the efficacy and acceptance of each of these financial decision tools and cycles by those people that must implement them. Section V then shifts the focus from internal financial efficiency to external financial effectiveness. Financing company growth through the use of equity, debt, and/or retained earnings is addressed in one case, and the assessment of several projects relative to long-run return on investment is the issue in another.

Section VI is entitled "Policy Issues in International Business." As the name implies, international business is the subject of this section. A number of small and large firms operating in the world market are presented. The impact of culture, economics, and politics on multinational firms are some of the topics introduced. Multinational competition, variegated investment opportunities, employee compensation in other countries, world distribution systems, and different legal environments are some of the specific topics covered in this section. The vulnerability of U.S. firms doing business abroad is exemplified in one case where a U.S. company becomes embroiled in a myriad of difficulties promulgated by change in a foreign government and its commensurate shift in regulatory policy. Government decrees, unilateral decisions by foreign firms, and possible litigation at home are just some of the problems presented.

Section VII concludes the casebook and consists of seven comprehensive cases covering a broad range of issues and functional areas. By the time the reader has reached this section, he or she should have developed all the needed skills and competencies to fully evaluate each case. These cases are deliberately sequenced and reflect varying degrees of complexity.

We would like to express our gratitude to the authors of the included cases and for the assistance and cooperation extended to us by the American Institute for Decision Sciences.

Joseph C. Latona • K. Mark Weaver • Ronald M. Zigli • Anthony M. Akel

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SECTION I

DYNAMIC ENVIRONMENT OF BUSINESS STRATEGY AND POLICY

Executives must understand the dynamic environment in which firms operate to properly evaluate alternative courses of action. The need for corporate strategies and policies to cope with changing conditions faced by all functional units requires constant review and appraisal of corporate policies. Previous implicit strategies begin to break down as change and growth occur in a firm. The need for explicit strategy statements is a result of increasing needs for coordination in this dynamic environment.

The *McLean Trucking Company* case requires a review of the planning process so the firm will have a sound footing for anticipating future changes. The case illustrates the consequences of multiple changes in the operating environment faced by the firm. Deregulation, changing labor conditions, and a depressed economy are only part of the changing conditions. McLean must consider: (1) how the firm can convert these situations into opportunities; (2) what impacts deregulation will have on the firm; (3) the industry; and (4) where McLean will be in relation to the industry in the next five years. Analysts of the operating and financial functions within this complex environment can provide a fruitful experience.

Environmental impact and managerial style can also interact to determine opportunities and limitations in the strategic planning process. The *Chrysler Corporation* case requires analysis of the total environment facing the firm at various points in its history and how the various management styles and values of the chief executive influenced strategic decisions. Strategy formulation in less than an ideal environment can be explored in this case.

In the *American Express Company* case, an abortive attempt to take over the diversified publishing house of McGraw-Hill, Inc. is presented. Numerous defenses by McGraw are offered for review. The corporation primarily analyzes and illustrates the basic dimensions of a conglomerate takeover bid in the media industry. Issues from corporate acquisition criteria to the role of federal regulations are available for analysis.

The *Oximeron Manufacturing Company* case shifts the focus of top management from basic regulatory and operating limitations to the more nebulous areas of social policy formulations. Pressures on corporations to be "socially responsible" citizens is a continuous force for change. This case examines the evolution from passive to active involvement in solutions to the problems facing the community *and* the firm. A basic process of identifying "social needs" and formulating a response to them is introduced. Then a change in the game, an arrest of an executive's son, drastically altered the firm's approach to dealing with a "not-so-nice" social issue. Analysis of the corporate procedures to cope with the problems provides an opportunity to look inside a firm.

The last case in this section is the *Braniff International Corporation* case—a classic example of an ill-considered response to deregulation. This case provides an opportunity to glimpse a business failure in the making and then to conduct a postmortem on the interlocking events leading up to that failure.

The development of acceptable responses to the dynamic environment firms face in decision making is a key factor in the long run for growth and survival of the firm. The cases in this section offer a wide range of situations for analysis.

Case 1-1

The McLean Trucking Company*

Amory Mellen, president and chief executive officer of the McLean Trucking Company, was concerned with several significant developments which had impacted the company's operations over the past few months. It was apparent to him that current planning had to be reviewed and updated so McLean would have a firm footing from which to anticipate future changes.

McLean Trucking was the fourth largest Class I motor freight common carrier of general commodities in the United States.[1] The company employed more than 13,000 persons and served 42 states, the District of Columbia, and the Canadian province of British Columbia. McLean operated 206 terminals to service its fleet of 14,000 tractors, trailers, and local delivery trucks. The company was primarily engaged in the transportation of less-than-truckload (LTL) and truckload (TL) freight. Over 70 percent of the company's operating revenue came from LTL shipments (shipments weighing less than 10,000 pounds).

McLean operated a division for specialized freight called PaceSetter Transportation. This division utilized owner-operated flatbed, reefer, van, and container equipment to transport volume commodities nationwide. McLean was also the parent company to four wholly-owned subsidiaries: Houston Trailer & Truck Body, Inc., Modern Automotive Services, Inc., Salem Contract Carrier, Inc., and Malja Corporation.

When President Jimmy Carter signed into law the Motor Carrier Act of 1980 (MCA), the federal government completed its move toward deregulation of the trucking industry (see Appendix I). Bennett Whitlock, Jr., the president of the American Trucking Associations (an industry trade group representing the larger trucking firms), commented that the consumer needed "reregulation," not deregulation.[2] The American Trucking Associations (ATA) was opposed to the 1980 MCA.

Fuel prices increased 85 percent in 1979, and another 30 percent in 1980. This increase was forcing McLean to rethink its route structure and equipment design to improve fuel economy. Recent litigation in both state and federal courts was having an impact on which states would allow length and weight restrictions on vehicles to be relaxed. A work stoppage by the Teamsters'

*This case was prepared by Don Powell and Sexton Adams, North Texas State University, and Adelaide Griffin, Texas Woman's University, with the intention of providing a basis for class discussion rather than illustrating either effective or ineffective management of a business situation.

Union (organized labor's representative in the trucking industry) occurred in April of 1979. As a result, significant wage concessions were made and private carriers gained a large portion of the market share. As Mr. Mellen reflected over these events, "It is obvious there has never been a greater need for effective management." A ten-year summary of operations for McLean is presented in Exhibit 1.

CORPORATE HISTORY

McLean Trucking began operations in North Carolina in 1934. It has grown since that time through mergers with other trucking firms, purchase of the operating rights held by other firms, and by obtaining new route authorization from the Interstate Commerce Commission (ICC). A summary of the important events in McLean's history is found in Exhibit 2.[3]

The first of McLean's wholly-owned subsidiaries was Houston Trailer & Truck Body, Inc. This unit repaired and rebuilt aluminum and stainless steel tankers and trailers. Many of these units were used in the McLean Fleet. Houston Trailer was one of the largest suppliers of heavy-duty trailer parts in the Southwest.

The second subsidiary was Modern Automotive Services, Inc., of Winston-Salem. Modern Automotive was the maintenance arm of McLean, doing preventive maintenance, major overhauls, repairs, and rebuilds of power units. The firm also operated a tire recapping plant for tires used in the McLean fleet. Purchasing and procurement duties were handled by Modern for the entire McLean Company.

The third subsidiary was Salem Contract Carrier, Inc., which operated as a contract carrier serving the K mart Corporation. It was based in Charlotte, North Carolina, where K mart had a major distribution facility, and handled K mart movements to points in 24 states. This unit was formed in an effort to take advantage of industry deregulation. Contract business provided a guaranteed amount of freight at a prearranged price. According to Lynn Perucca, the sales manager for McLean in Carrollton, Texas, Salem had proved to be a profitable unit.[4] McLean could be expected to expand its contract operations.

The fourth subsidiary was the Malja Corporation, which was a real estate holding company for terminals and other properties throughout the McLean system. Malja was responsible for locating and acquiring terminal space, including the construction of new facilities. In fast growing markets, some of these facilities were acquired through lease agreements, and Malja acted as the lessee. The large maintenance base and parts warehouse of Modern Automotive Services was held for them by Malja.

MANAGEMENT

The top management and directors of McLean are listed in Exhibit 3. The board of directors met monthly to discuss operating results and corporate policy and direction.

It had been the policy of McLean to stress achievement in its management team and to use a college recruitment program to obtain persons who could quickly develop into qualified managers. Trainees hired under this program began their career loading freight in a terminal. After a few weeks they would drive over-the-road trucks for a few months—developing an understanding of the McLean system, where it was, and how it worked. Other typical assignments in the first year of employment included working as a dispatcher, bookkeeper, and loading supervisor. This training and variety of job assignments gave upper management a good appraisal of the trainees' potentials. Personnel hired under this program were expected to advance beyond first level supervisory positions.

Management took pride in the fact that almost all of McLean's executives were college graduates. They believed that this was unique in the trucking industry, although consistent with the innovativeness and complexity of McLean.

OPERATIONS

The organization chart in Exhibit 4 shows that McLean had adopted a geographically divisionalized structure for its trucking operations. Five geographic divisions were each headed by a vice president. The sixth division was PaceSetter Transportation, and it was also headed by a unique vice president.

Each of the division vice presidents had numerous district managers reporting to them. The district managers were in control of local operations. An integrated computer system, utilizing an IBM 370 mainframe and central processor, speeded the communication and control process. All of the 206 freight terminals were linked to the main computer in Winston-Salem with an input/output printer. Full period WATS and regular telephone lines tied the system together.

The district managers were provided daily operations summaries through the computer. This data organized such items as fuel and maintentance expense, payroll costs, sales, cash flow, and return on investment. Variances from budget were calculated and highlighted for comparison.

Reporting to the district managers were the safety managers, sales managers, and terminal managers. The local sales representatives reported to the sales managers. The terminal managers, who were responsible for the movement of freight into, out of, and within a terminal, supervised drivers, dockworkers, dispatchers, and local supervisory personnel. Safety managers were responsible for administering safety procedures within the district.

The organization chart also shows that the other functional areas were individually headed by vice presidents, who reported to executive vice presidents. McLean's primary business was hauling freight. Other operations provided support to the trucking operation. National accounts, for example, were handled by sales personnel from the corporate office as well as local sales representatives.

Exhibit 1 **Ten-Year Summary**

	1980	1979	1978
Summary of Operations			
(In thousands except for per share items)			
Operating revenues			
Carrier	$598,352	$483,751	$431,812
Refinery	121,945	71,712	58,431
Other	4,592	3,897	3,453
Total	724,889	559,360	493,696
Operating expenses	725,826	541,372	465,742
Interest expense	8,158	5,959	4,220
Income (loss) before income taxes			
Carrier	(8,368)	9,010	22,290
Refinery	(575)	2,959	1,696
Other	1,098	781	570
Total	(7,845)	12,750	24,556
Income tax expense (benefit)	(5,414)	4,630	9,140
Net income (loss)	(2,432)	8,120	15,416
Net income (loss) per common share[1]	(.43)	1.44	2.74
Cash dividends per common share[1]	.64	.64	.58
Selected Financial Data			
(In thousands except for per share items)			
Earnings (loss) retained in the business for the year	$ (6,034)	$ 4,518	$ 12,152
Current assets	122,686	99,570	74,145
Tangible property cost	271,509	261,042	212,658
Current liabilities	81,251	72,730	54,354
Long-term debt	111,468	93,956	54,129
Working capital	41,434	26,840	19,791
Shareholders' equity	102,950	108,984	104,458
Book value per common share[1]	18.29	19.36	18.56
Selecting Operating Data			
(Exclusive of noncarrier revenue and expenses)			
Revenue per mile	$2.32	$1.99	$1.85
Revenue per 100 pounds	$6.72	$4.62	$4.20
Pounds billed (in millions)	8,903	10,468	10,280
Number of shipments (in thousands)	6,514	5,601	5,583
Average weight per shipment (lbs.)	1,367	1,869	1,841
Average load (lbs.)	27,663	29,404	29,269
Ton miles of intercity freight carried (in millions)	3,570	3,576	3,413
Intercity miles traveled (in thousands)	258,116	243,252	233,217
Average haul (miles)	802	683	664
Number of employees at end of year	13,767	13,636	11,428
Average carrier revenue per employee	$43,463	$40,648[3]	$37,785
Average ton miles per carrier employee	259,323	300,507[3]	298,652

[1]All "per common share" data have been adjusted to reflect two-for-one stock splits effective January 14, 1972, and July 1, 1976.

[2]*Acquired Winston Refining Co. (formerly Fort Worth Refining Company) October 1, 1973.*

[3]Based on average number of carrier employees.

1977	1976	1975	1974[2]	1973	1972	1971
$375,096	$319,708	$266,132	$277,515	$232,952	$194,226	$169,363
58,975	49,959	52,594	31,657			
3,120	2,034	1,643	1,750	1,110	867	672
437,191	371,701	320,369	310,922	234,062	195,093	170,035
407,738	341,922	299,894	286,200	213,358	176,728	155,782
2,849	2,927	4,181	3,729	2,291	2,199	2,463
24,646	24,767	15,325	20,878	18,722	16,176	11,791
2,280	2,198	1,748	704			
500	368	351	314	184	146	124
27,426	27,333	17,424	21,896	18,906	16,322	11,915
12,125	12,367	7,433	10,338	8,673	7,711	5,886
15,301	14,967	9,991	11,558	10,233	8,612	6,029
2.73	2.68	1.79	2.07	1.84	1.55	1.09
.46	.415	.36	.345	.30	.30	.25
$ 12,727	$ 12,651	$ 7,983	$ 9,634	$ 8,561	$ 6,940	$ 4,638
57,877	58,773	50,150	51,208	35,579	33,909	27,287
179,344	160,202	139,703	124,508	107,512	95,372	91,102
47,076	50,568	36,354	40,345	24,580	25,833	18,382
33,319	34,741	43,910	39,618	33,117	30,561	34,967
10,801	8,205	13,796	10,862	11,000	8,076	8,905
92,207	78,860	66,135	58,151	48,490	39,930	32,972
16.40	14.13	11.86	10.43	8.70	7.16	5.92
$1.73	$1.56	$1.47	$1.33	$1.19	$1.11	$1.02
$3.98	$3.70	$3.43	$3.01	$2.83	$2.78	$2.57
9,415	8,635	7,700	9,220	8,243	6,979	6,591
5,752	5,196	4,753	5,284	5,142	4,720	4,755
1,637	1,662	1,635	1,745	1,603	1,479	1,386
28,526	27,012	26,940	27,339	25,264	23,963	24,136
3,087	2,766	2,434	2,843	2,480	2,089	2,006
216,438	204,776	180,670	207,970	196,330	174,320	166,270
656	641	626	617	602	599	609
10,519	10,167	9,295	10,127	9,600	8,635	8,343
$35,700	$31,400	$28,600	$27,800	$24,200	$22,600	$20,400
293,500	272,000	261,800	285,000	256,700	241,900	240,500