

CASE SUPPLEMENT

*M*ANAGEMENT

FIFTH EDITION

JOHN R. SCHERMERHORN, JR.

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CASE SUPPLEMENT
TO ACCOMPANY

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Preface

This Case Supplement was designed to provide additional support to those instructors and students who utilize the case method in teaching and learning. There is one additional case per chapter, as well as one integrating case for each of the six text parts. Combined with the 20 cases found in the text, *Management 5E* provides a truly comprehensive selection of case material.

All of the supplementary cases were developed by a professional team of case writers and offer true substance at reasonable length. The organizations featured reflect a variety of both local and global businesses and the recent decisions their managers have made and actions they have taken in competing in today's business environment. Solutions to all of the case questions appear in the *Instructor's Resource Guide*.

With these tools in hand, we are confident that you will feel closer to experiencing management in the real world. Best of luck in this and all future challenges.

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CHAPTER 1

MANAGERS, DIVERSITY, AND CHANGE

Motorola Inc.

Motorola appears to be an enigma to many analysts of the electronics industry. Management reported record revenues and earnings for 1994, despite increased global competition in its core cellular phone business. However, a *Wall Street Journal* article noted that while the company increased sales dramatically in the cutting edge areas of the critical microprocessor computer chip industry, such profits would be difficult to continue since the firm had experienced significant capacity problems during the latter part of 1994.¹ Analysts noted that Motorola was heavily focused on improved quality through a total quality program and expressed concern that a similar focus during the late 1980s, referred to as the Six Sigma program, had led to problems of cost control and employee morale. In a *Business Week* article, CEO Gary Tooker vowed not to repeat those earlier policies and to maintain a focus on customer satisfaction as the overall objective of the company's total quality program.

Motorola reported global revenues in excess of \$22 billion in 1994, approximately 50 percent of which were a result of sales outside of the United States. In particular, Motorola had managed to position itself as a major player in both the computer chip and cellular phone segments in the rapidly growing Asian market and was competing closely with Hitachi for the number 2 ranking in the dynamic Asian chip market. Moreover, Motorola led all rivals in this same geographic market in sales of high-end walkie talkies, digital cordless telephones, and cellular communications subscribers. More importantly, Motorola had been able to sell virtually all of the production of its Chinese pager facility within that small but growing market, surprising company management, who had thought that growth in the Chinese market would be much slower and that at least half of the capacity would have to be exported. Furthermore, quality and productivity at the Chinese plant had almost reached that of its older more advanced Singapore facility.

Similar results were achieved at Motorola's Mexican operations as well. The Guadalajara operations provided components and computer chips for four divisions, or sectors, as they were referred to at Motorola. An article in *Personnel Journal* noted that management had turned what had been a low morale operation with increasing costs and defects into a world-class competitor.² The sharply increased productivity, estimated at 30 to 40 percent overall, provided Motorola with components that allowed the company to compete on a cost-effective basis, both in the United States and abroad. Furthermore, the improvement in productivity, cost containment, and quality control was evidence of the success of the total quality management program in Motorola's foreign and domestic operations.

Motorola's approach to its global markets was in marked contrast to management actions prior to 1983. It was then that former CEO Robert Galvin announced to top management that the company needed to reorganize and become more customer oriented. Motorola had been losing its technological edge in several key markets. A combination of low quality and poor service had caused market share to slide. In response, Galvin, son of the founder of Motorola, announced that the company was to undergo a process of decentralization. Decisions were now to be made by managers who were directly involved with customers and production. The intent was to better meet customer needs, as well as to improve flexibility within the company. Galvin had already committed the firm

to a 90 percent improvement in the quality of its products by 1987. The decentralization process was felt to be instrumental in determining which actions were necessary to improve quality, in providing the authority to implement those actions at the level necessary to carry them out, and in better evaluating whether quality had actually been improved.

These actions set the stage for Galvin's commitment to attaining the newly instituted Malcolm Baldrige National Quality Award for the company. This award, named after a former Secretary of Commerce, was designed to recognize those organizations that had achieved quality standards throughout an entire division or company which were equal to or better than those of their competition. The award was authorized by Congress in 1987; Motorola applied for it in 1988. The groundwork Galvin had set in place earlier helped the company support its application. Management soon realized, however, that their various support staff services also needed to meet the same quality standards as the manufacturing and sales service operations. Thus, the firm committed to the second stage of a 90 percent improvement in quality by 1989 in all sectors and functions. As a result, Motorola was one of only three firms to win the coveted award in the first year of the Baldrige competition. Management at all levels were rewarded for setting and achieving quality goals and objectives that would place their operations on a par with any firm with which the company competed.

As part of the overall process, Galvin and his successor, George Fisher, had actively solicited input from Motorola's overseas managers. Many of Motorola's foreign operations were managed by executives from the countries in which they were operating in keeping with the belief that local managers would have a better feel for what actions were necessary to improve their operations within the norms and values of their own cultures. It was something of a surprise, therefore, that Motorola's semiconductor unit was performing so poorly near the end of the decade. Competitors and customers alike felt that the company's commitment to quality was part of its problem--its desire to produce the highest quality products was causing its research and design engineers to delay introduction of new, advanced products until they surpassed all standards of its principal competitor, Intel. Unfortunately, Intel appeared to be willing to introduce new products before they were perfect. Motorola was unwilling to do so, since it would violate its internal quality standards. As a result, the firm was losing market share to Intel and other competitors.

Critics also noted that, after receiving the Baldrige Award in 1988, Motorola required that all of its suppliers apply for the award. At least 200 suppliers were dropped for refusing to do so. While other Baldrige Award winners also expected their suppliers to meet these standards, only Motorola expected its suppliers to go through the expensive and time-consuming process of actually applying for the award.

Most of the management at Motorola appeared to be receptive to the changes that had taken place within the company and felt that a continued commitment to quality was necessary to maintain the growth of the company. Training was perceived to be a key component of this thrust. Management believed that for every dollar spent on training, the company received 30 dollars in benefits and improvements from its employees. But the failure to meet the competitive pressure of rival Intel was placing Motorola in the unfamiliar role of market and technological follower in the important semiconductor industry. This position was especially critical to Motorola since its semiconductor sector was a major supplier of components to the rest of its businesses and accounted for close to a third of its overall revenues. While the quality of Motorola products and services

remained unquestioned, its ability to meet the timeliness of competitive moves was becoming suspect. The concern was that adapting to meet this competitive pressure might mean compromising the company's commitment to quality as a means to achieving customer satisfaction and consequently, would require a change within the culture of the company as a whole.

Questions

1. How did quality fit into the reaction of Motorola to declining market share and increased competition during the late 1970s and early 1980s?
2. What aspects of the organizational and quality changes at Motorola have been developed to meet international competition?
3. What factors in the changes that have taken place at Motorola led to its problems? How might they be overcome?

Endnotes

- ¹ Charles McCoy, "Motorola Posts 51% Surge in Net for 4th Quarter," Wall Street Journal, January 10, 1995, p. B6.
- ² Kent Banning and Dick Wintermantel, "Motorola Turns Vision to Profits," Personnel Journal, February 1991, pp.51-55.

CHAPTER 2

HISTORICAL VIEWS ON MANAGEMENT

General Motors: The Saturn Project

Jack Smith, Jr., appointed CEO and President of General Motors Corporation through a revolt of the outside members of the Board of Directors, noted that the firm had turned around its losing ways by focusing on its customers. In a speech to auto dealers in Michigan, he cited the success of the Saturn Division of GM for setting the standard for "hassle free purchasing and services, and...exceeding customer expectations." Smith further noted that this success had led to the addition of a third shift at the Spring Hill, Tennessee complex that produced Saturns. Moreover, Saturn dealers continued to lead all dealer organizations in the United States in unit sales per outlet.

The original plan, developed in 1982, was given to Richard LeFauve, who was named President of Saturn Corporation, after its first president died shortly after the company was set up. The plan called for a \$5 billion investment for a series of plants that would produce up to 350,000 cars per year. By 1988, when the plant was just about completed, the investment had been trimmed to approximately \$3 billion.

The Saturn complex was comprised of a series of six interconnected buildings. Four of the six buildings were manufacturing and assembly plants. The remaining two were a maintenance and utilities facility and a training and administration building. The complex had a rated capacity of producing 240,000 cars per year. This was to be expanded to 310,000 units with the addition of the third shift late in 1993. This would help the firm expand to the projected 300 dealers needed to blanket the country under the original plan, as well as keep them supplied to meet customer demand.

The Saturn Corporation was the first new automotive division of General Motors since 1918. The purpose of developing a new division was to meet the competition of the Japanese, particularly at the lower end of the product line. GM had seen its share of the U.S. market fall throughout the 1970s. This was especially true for lower-priced cars. U.S. auto consumers no longer had confidence in the ability of GM to be able to produce a low-priced, high-quality car. Roger Smith, then CEO of GM, felt that the only way to overcome this perception was to launch an entirely new line of cars. The technology, labor policies, work rules, and marketing of this new product were to be developed from scratch; there would be no preconceived notions concerning any of these areas brought in from existing organization structure or culture.

The initial phase of planning for the Saturn Corporation was carried out by bringing together managers and workers from 55 plants in 17 GM divisions. This "Group of 99"--so named because it consisted of 99 United Auto Workers (UAW) members, GM managers, and staff personnel--started meeting in 1984. The group quickly split itself into separate research teams to study all aspects of the new operation. One of the teams realized that labor relations would be a critical factor in the development and implementation of a successful new offering. GM entered into separate negotiations with the UAW to develop a new contract strictly for the Saturn Corporation.

± The rest of GM was covered by a master contract with the United Auto Workers, which covered not only wages, benefits, and hours of work, but also a complex series of work rules that restricted the ability to transfer workers from one task to another on the production line. GM felt that the effectiveness of the new Saturn Corporation would be dependent on more flexible work rules. Management wanted the ability to develop the kind of work flexibility found in most Swedish and

Japanese auto plants. The UAW finally agreed to a system of self-governing work teams on the production line at the Saturn assembly plant. These teams would be designed to follow the construction of an automobile unit throughout the entire assembly line. Under the terms of the contract, workers would be cross-trained so that the members of each team could switch off on the various tasks required to complete the assembly of each individual unit. In many ways, this was similar to the assembly process employed by Volvo at some of its auto plants which had led to increased quality, decreased boredom, and increased job satisfaction on the part of the workers. Each member of the Saturn work team was put through an extensive training program before joining the assembly line. The 350 hours of training were designed to cover both technical and team-building aspects of the job.

For their part, GM Management agreed to eliminate the traditional hourly wage system in favor of a guaranteed annual salary. While the salary was below the average wage under the terms of the traditional hourly contract, it was guaranteed, which the regular contract did not do for the hourly paid employees. Under the terms of the contract, the salary could exceed the average annual wage of the typical GM employee if certain productivity, quality, and production standards and goals were met.

Richard LeFauve was selected as the new president of Saturn Corp. due to his experience within GM. He had spent two years in charge of GM's Adam Opel unit in Germany, where he had supervised the development of a sporty new Kadett model. Moreover, LeFauve had gained experience with the German labor-management system. Under German codetermination laws, labor is required to have a say in decision making and management is required to grant labor a position on the board of directors. This, it was felt, would give LeFauve better insight into the problems that might develop through the implementation of the new labor contract.

GM management sought and developed new technology and machinery consistent with the new labor agreement. A great many robots and other forms of automation were incorporated into the production line to help reduce employee boredom and fatigue and to help ensure high quality standards. Furthermore, company engineers developed a platform that was designed to move along with the car. In this manner, workers no longer needed to walk at a steady pace, beside the car, to be able to complete their tasks; instead, workers and the car moved together on the new platforms.

The new organization was built around several key factors. They included:

- * Quality as a top priority
- * Ownership by all
- * Equality of all
- * Total trust
- * People orientation
- * Union/management partnership
- * Authority commensurate with responsibility.

These factors were put to the test in 1991. Unfortunately, the results of the first year of operation indicated that the Saturn plant would not meet its goals. Under the terms of the Saturn/UAW contract, workers could suffer penalties that would mean their salary would equal approximately 80 percent of the average GM worker's annual wages. There was concern that the workers would find this unacceptable since some of the failure was not their fault. There had also been delays in the development of parts suppliers and in training. Furthermore, there had been quality lapses in the

initial products. While many had been caught and corrected before the autos left the plant, other cars had to be recalled. All of these factors led to lower production, productivity, and quality standards than originally planned for the first year.

Management decided to share the responsibility for not meeting the first-year goals. GM management relaxed the terms of the contract and essentially granted bonuses that brought Saturn salaries to approximately 95 percent of an hourly worker's average annual wage. Management hoped this would convince the workers that the company planned to live up to the points outlined above.

It was still unclear, however, whether the Saturn cars being sold were replacing Japanese sales or cars that would have been sold by other GM units. Moreover, GM management realized that sale of Saturn cars could not possibly recoup the original \$3 billion investment in the new unit. They would have to be able to transfer the ideas, technology, concepts and labor relations developed for the Saturn plants to other parts of the GM organization to make the investment worthwhile.

To compound problems, the new workers that were being added to the Saturn work force were being recruited from closed GM plants, under an agreement with the UAW. These new workers were being rushed onto the production line with only one-third the training time of the original Saturn workers. Many managers and original members of the Saturn union felt that these two factors might reduce morale at the Saturn complex and could lead to a decline in the quality standards that had led to the success of this unit. Both Smith and LeFauve knew that the continued growth and quality of the Saturn products and service would be key factors in the success of GM as a whole.

Questions

1. Describe the changes that GM is trying to implement at Saturn Corporation.
2. What are the critical factors in developing the management of the Saturn Corporation plants?
3. What problems might GM management face in trying to transplant the Saturn concepts to other GM units?

CHAPTER 3

ENVIRONMENT, COMPETITIVE ADVANTAGE, AND QUALITY OPERATIONS

3M Company

Minnesota Mining and Manufacturing Company, fondly known as 3M, has long prided itself on its innovations, its ability to meet the needs of its wide array of customers, and its wide offering of products of the highest quality at reasonable prices. Headquartered in St. Paul, Minnesota, 3M is a global company, with operations in over 50 countries as of 1994. In fact, over 50 percent of the company's revenues come from overseas sales. Its 86,000 employees manufacture, sell, and distribute more than 70,000 products and services to a wide variety of industrial customers and consumers world-wide. In the past, 3M's focus on quality and innovation earned the company an enviable record of growth in revenues and profits. The early 1990s saw that record grind to a halt, however. Sales of just over \$14 billion for 1993 were just 1 percent over those for the previous year. As a result, 3M management embarked on process called Q90s--a quest to reinvigorate the company, including the quality of its product development process. This focus was especially critical for 3M since a large portion of its sales traditionally come from new products; 25 percent of the revenues generated by the Commercial Office Supply Division, known for the ubiquitous colored Post-it® Notes, comes from products that have been in the market for less than five years.

3M management set up a task force to try to determine how the company could get itself back on track. The goal of this task force was to reinvigorate the innovative spirit at 3M as well as maintain the quality of its product line. While 3M has had a quality enhancement program built into the strategic planning process since the late 1970s, management found that the hierarchical nature of the organization was inhibiting it from achieving the kind of growth needed to compete effectively in a global environment. Markets for 3M's products in the United States were, for the most part, mature. While global markets held the promise for more rapid growth, the needs of the customers in those markets were often different than those in the United States. Moreover, 3M faced different competition in those markets.

The response from the task force was to return to a more decentralized product development system based on a series of 11 corporate Action Teams responsible for the overall direction of product development for families of new products. The teams would be cross-functional and self-directed. The purpose was not only to develop more new products but also to ensure that the products were manufactured more quickly, at low cost, and consistently high in quality. The Action Teams then delegated responsibility for the development and production of individual products.

L. D. DeSimone, 3M's CEO, credits this new teamwork approach to the development of several promising new products that meet the needs of changing customer desires for environmentally friendly, high-quality products. One example is the Never Rust Wool Soap Pad, which is made from recycled plastic bottles and has helped 3M capture 16 percent of the scouring pad market since its introduction in 1992. Moreover, according to DeSimone, this product was rushed to market in only half the time of other new products developed at 3M, while maintaining both low costs and high quality.¹

Management soon found that, in order to keep the company focused on quality in the product development process, the teams had to be given control of their own decision procedures. This involved giving the teams control over their budgets, rewards, and risk management. The teams were

empowered to make decisions and given the authority to act on those decisions, regardless of the formal structure or hierarchy within the firm.² This process necessitated a wider access to information within the company, however, one problem with the planning and quality program was that employees were not getting the right type of information they needed to properly evaluate the projects on which they were working. To overcome this problem, the Information Services Department at 3M embarked on an extensive program to target those areas that would help employees in the product divisions better gauge customer needs and complaints. This process involved setting up employee focus groups worldwide to determine how the company could help them better meet those customer needs.

The TQM effort applied to product development has shown early signs of success, as demonstrated by the Soap Pad example. Not all managers have been happy with the changes, however. Some middle-level managers are concerned that they have lost control over the people and focus of their departments and that this loss of control will lead to a decline in the internal quality of their products or services. In turn, top management is concerned that this disaffection with the team-oriented innovation process might endanger other parts of the 3M growth strategy. DeSimone expects to extend the revised innovation process to the company's Pacific Rim markets outside of Japan, however. He hopes to quadruple 1993 sales to that region to \$3 billion by the year 2000.

While this team-oriented approach towards bringing quality into the innovation process will probably do well in the Far East, some question whether the empowerment process that is critical to speeding up the introduction of new goods and services will be widely accepted in a culture that traditionally accepts authority structures. To date, the jury is still out on the effectiveness of this process.

Questions

1. What organizational factors have led to the changes in the innovation process at 3M?
2. How has the teamwork process that has been introduced at 3M led to quality gains in its innovation programs?
3. What problems might 3M management encounter as it tries to spread the use of TQM in the innovation process throughout 3M?

Endnotes

¹ Kevin Kelly, "The Drought is Over at 3M," *Business Week*, November 7, 1994, p. 140.

² Michael K. Allio, "3M's Sophisticated Formula for Success," *Planning Review*, November/December 1993, p. 21.

CHAPTER 4

INTERNATIONAL MANAGEMENT AND THE GLOBAL ECONOMY

The Globalization of Cabletron Systems, Inc.

Officials at Cabletron Systems, Inc. announced, in late 1994, that they had reached an agreement for Matsushita, one of Japan's largest electronics firms, to distribute Cabletron products throughout Japan. Cabletron looked to its relationship with Matsushita to enable the firm to break into what it expected to be a \$1 billion market for network computer systems in Japan. To date, that market had not really been developed, but Cabletron officials saw Japan as a natural extension of their traditional markets.

S. Robert Levine, CEO, was talking about the rapid growth of his company as of 1990: "There's a feeling to this place....It feels just like it did a couple of years ago. It doesn't feel like there are 1300 people here. We don't want it to, and it won't."¹ Keeping the small company feel, however, would not be an easy task. Levine and Craig Benson founded the company in 1983 to sell sections of computer cable from a 10,000-foot roll. The research and development department alone grew from 5 engineers in 1985 to 225 in 1990, and Levine could no longer visit each salesperson monthly. Nevertheless, the small-company feel remained an important part of the company's culture. By 1994, the number of employees had risen to over 3100 people.

Cabletron's growth came in part from being in the right place -- computer networking -- at the right time. But much of Cabletron's success derived from its flexibility and quick response time. From the beginning, the company sold service along with its products. Consumer complaints and recommendations became the basis for new products, such as specialized equipment to test the cables or other components of the computer network. Customers could even fax in product suggestions, to which the company promised to respond within five working days, and prototypes were often developed in as little as six weeks. This attitude required a creative, technologically sophisticated research and development group and a minimum of bureaucracy and red tape. Customer service also required a strong technical support staff to handle questions and problems; this department grew from 2 people to 105 in just four years.

Cabletron's founders did not view themselves as high-tech people. Benson summarized: "We are not engineers, and so we don't get wrapped up in the technology....We make what the market wants and not what our engineers might be interested in."² The sales force was seen as a crucial element in the company's success. Levine preferred to have his own sales force rather than follow the industry norm of working through resellers. At the same time, the company had always emphasized low costs. To keep direct costs down, the company developed a two-tier system. Telemarketing, Levine's initial sales tool, was expanded to an inside sales force that called prospective clients, developed leads, and made appointments for the outside salespeople. These outside salespeople could thus focus on the good prospects. Levine called them "the most expensive people I've got...It's not easy to find good outside salespeople."³ He felt, however, that the two-tier system enabled the sales force to be three times more effective. While 90 percent of Cabletron products were distributed through its own sales force in the United States, most overseas sales were generated through outside distributors. To oversee the rapidly expanding global sales, Cabletron set up 72 offices in 18 different countries.

The company expected to earn in excess of \$110 million on sales of over \$550 million. This

represented growth of more than 120 percent over the previous five years. Bob Monaco, director of operations, felt that it was important to "run the company as though you were not making money...and you'll always make money."⁴ Salespeople were held to strict travel budgets, including regulations such as always filling up a rental car with gas and never tipping more than 15 percent. They were expected to schedule all flights on their own time, after work hours, on penalty of being fired. However, they were allowed considerable latitude as necessary on pricing to close deals.

At headquarters, luxuries were similarly absent. There were no vice presidents in any area. Employees' offices were small and spartan: "We pack them in like rats," according to Benson.⁵ When the company went public, employees were given \$2.3 million in shares and were offered an additional 250,000 shares at \$4 each, well below the market price. In addition, moving the headquarters from Levine's garage in Massachusetts to New Hampshire provided lower taxes and housing costs for the company's employees who moved with it.

However, the emphasis on a lean organization meant that managers usually could not get extra employees. One sales director in charge of 17 people felt that this was not a problem: "It keeps me moving...You can always do a little more. I can always stay a few minutes later."⁶ Turnover among outside salespeople was high, however: 30 percent of new hires lasted less than 30 days, and another 40 percent lasted six months or less. Michael Welts, a marketing manager, was initially worried when he started at the company. "I had heard about the people who preceded me...The longest any of them had lasted was six months." He had survived the initial period, but could not relax completely: "Back then I'd sit in my cubicle and I'd fear the sound of [Robert Levine's] boots coming down the hall, moving fast, getting louder and louder...He'd say, 'Welts, we have to talk.'....I know what will happen if I relax at all. I'll hear those heels."⁷

A question facing Cabletron was how to develop the same values in its overseas operations as it had among U.S. employees. Typically, the foreign offices were staffed by nationals of the countries in which the office was based. One manager from headquarters was usually assigned to each overseas office. The purpose of that manager was to try quietly to transfer home office values to the overseas office staff. While the Japanese were accustomed to hard work and long hours, they were also used to lifetime employment and slow, deliberate decision making by consumers. Matsushita followed the traditional Japanese business culture, as well. How would Cabletron's style fit with those of its Japanese staff and distributors? So far, relations with its overseas staff and distributors in countries such as England, Germany, and the rest of Europe had been relatively smooth. Would the Cabletron style fit in equally well with the Japanese culture?⁸

Questions

1. What management style did Cabletron use?
2. What problems might Cabletron encounter as it continued to expand at its current rate?
3. What conflicts might develop as Cabletron tried to incorporate its value system within its Japanese offices and distributors?

Endnotes

- ¹ J.Hyatt, "The Entrepreneur of the Year," *Inc.* 13 (January, 1991), p. 50.
- ² Ignatius Chithelen, "Work in Progress," *Forbes* (November 12, 1990), p. 227.
- ³ Hyatt, *op. cit.*, p. 44.
- ⁴ *Ibid.*
- ⁵ *Ibid.*
- ⁶ *Ibid.*, p. 50.
- ⁷ *Ibid.*, p. 40.
- ⁸ Additional information was provided by the company.