# CASES IN STRATEGIC MANAGEMENT

CHARLES W.L. HILL GARETH R. JONES

## Cases in Strategic Management

Fourth Edition

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For Jennifer, Nicholas, and Julia G.R.J.

For Alexandra, Elizabeth, Charlotte, and Michelle C.W.L.H.

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## **Preface**

The increased support and acceptance that greeted the third edition of *Strategic Management* has led us to build on this foundation for this new edition of *Cases in Strategic Management*. We have continued to utilize reviewer feedback, and we believe that we have written and collected a new set of strategic management cases that are our best ever.

The thirty-eight cases that we have selected for this edition will appeal, we are certain, to students and professors alike, both because these cases are intrinsically interesting and because of the number of strategic management issues they illuminate. These cases will provide students with a broad overview of the field of strategic management and will give them the opportunity to do some in-depth analysis of strategic issues.

The cases fall into three clearly defined categories: cases dealing with small business, which highlight problems and issues in running entrepreneurially based companies; business-level cases, which focus on the way that companies create value and competitive advantage in different industry conditions; and corporate-level cases, which examine how value is created or lost through such strategies as diversification and merger. The organizations discussed in the cases range from large, well-known ones, for which students can do research in order to update the information, to small, entrepreneurial businesses that illustrate the uncertainty and challenge of the strategic management process. In addition, the selection includes many international cases, and most of the other cases contain some element of global strategy. There is enough variety in these cases and depth and breadth of coverage to satisfy the needs of most professors. A grid that outlines the topical coverage of each case can be found in the *Instructor's Resource Manual*.

To help students learn how to effectively analyze and write a case study, we continue to include a special section on this subject. This thoroughly revised section includes a checklist and explanation of areas to consider when analyzing, writing, and presenting a case study, suggested research references, and an explanation of the role and methods of financial analysis.

Only two cases in our selection are unchanged from the last edition of *Cases in Strategic Management*: Hanson PLC, which is now followed by Hanson PLC (B), updating the company to 1996; and Blockbuster Enterprises, which is now followed by a new case on Viacom, the company that bought Blockbuster in 1994, so that these cases can also be used in sequence. Altogether we have written or updated another sixteen of our own cases for this edition: Compufix; Microsoft in 1996; America Online; The Evolution of the Air Express Industry; Airborne Express; Ford 2000; Seattle City Light; Michael Eisner's Walt Disney Company; The Walt Disney Company in the 1990s; Blockbuster Entertainment in 1996; The Evolution of Viacom; Hanson PLC (A): The Acquisition Machine; Hanson PLC (B): Breaking It Up; Philips NV; First Greyhound, Then Greyhound Dial, Then Dial, Now What?; and Pharmacia & Upjohn.

We feel that our entire case selection is unrivaled in breadth and depth. We have been fortunate to have a large number of excellent cases to draw on from case

authors, many of whom use our books. We are grateful to the case authors who have contributed to this edition:

A.J. Almaney

DePaul University

Katherine A. Auer

Pennsylvania State University

Christopher Bartlett

Harvard Business School

Paul W. Beamish

University of Western Ontario

Charles Boyd

Southwest Missouri State University

Karen A. Brown

University of Washington

Bernard A. Deitzer

University of Akron

**Emer Dooley** 

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Wake Forest University

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New York University

Harold Dyck

California State University

Andrew Fried

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Wake Forest University

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California State University

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Texas A&M University, Corpus Christi

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University of Washington

Suresh Kotha

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Alan G. Krigline

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Bentley College

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Harvard Business School

Ram Subramanian

Grand Valley State University



#### TEACHING AND LEARNING AIDS

Taken together, the teaching and learning features of *Cases in Strategic Management* provide a package that is unsurpassed in its coverage. Further details for using the supplementary materials can also be found in the *Instructor's Resource Manual*.

#### For the Instructor

Accompanying Cases in Strategic Management is a comprehensive Instructor's Resource Manual, that offers complete teaching notes for each case in this collection. These teaching notes cover all aspects of a company's strategy and structure, and we also provide a series of questions that can be given to students to

- help them focus on the significant issues in each case. We have found these to be useful in leading students to think strategically, especially at the beginning of the strategy course, when they lack the tools to pull out the significant issues.
- A **videotape** pertaining to several of the companies represented in the cases is also available to instructors. It helps highlight many issues of interest and can be used to spark class discussion.

#### For the Student

- Micromatic is a computer-based simulation that introduces students to tools and concepts of today's business world, such as spreadsheet calculations, "whatif" scenarios, financial analysis, and competitive analysis.
- **Policy Expert** includes four computer tools—business calculator, ratio analysis, portfolio models, and environmental scan—that assist students in analyzing actual businesses or cases in a strategic management text.



#### **ACKNOWLEDGMENTS**

This book is the product of far more than two authors. We are grateful to Jennifer Speer, our sponsoring editor, for her help in promoting and developing the book and for providing us with timely feedback and information from professors and reviewers that have allowed us to shape the book to meet the needs of its intended market. We are also grateful to Susan Kahn, senior associate editor, for ably coordinating the planning of our book and for managing the creation of the ancillary materials, to Fred Burns for his handling of production, and to Elisa Adams for her help in developing the manuscript. We wish to thank again the case authors for allowing us to use their materials. We also want to thank the departments of management at the University of Washington and Texas A&M University for providing the setting and atmosphere in which the book could be written, and the students of these universities who reacted to and provided input for many of our ideas.

Finally, thanks are due to our families for their patience and support during the revision process. We especially thank our wives, Alexandra Hill and Jennifer George, for their ever increasing support and affection.

Charles W. L. Hill Gareth R. Jones

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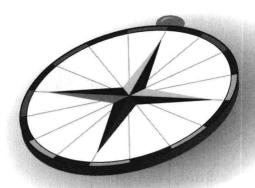
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#### INTRODUCTION



## Analyzing a Case Study and Writing a Case Study Analysis



## WHAT IS CASE STUDY ANALYSIS?

Case study analysis is an integral part of a course in strategic management. The purpose of a case study is to provide students with experience of the strategic management problems faced by actual organizations. A case study presents an account of what happened to a business or industry over a number of years. It chronicles the events that managers had to deal with, such as changes in the competitive environment, and charts the managers' response, which usually involved changing the business- or corporate-level strategy. The cases in Part V of this book cover a wide range of issues and problems that managers have had to confront. Some cases are about finding the right business-level strategy to compete in changing conditions. Some are about companies that grew by acquisition, with little concern for the rationale behind their growth, and how growth by acquisition affected their future profitability. Each case is different because each organization is different. The underlying thread in all the cases, however, is the use of strategic management techniques to solve business problems.

Cases prove valuable in a strategic management course for several reasons. First, cases provide you, the student, with experience of organizational problems that you probably have not had the opportunity to experience firsthand. In a relatively short period of time, you will have the chance to appreciate and analyze the problems faced by many different companies and to understand how managers tried to deal with them.

Second, cases illustrate the theory and content of strategic management—that is, all the information presented to you in the previous chapters of this book. This information has been collected, discovered, and distilled from the observations, research, and experience of managers and academicians. The meaning and implication of this information are made clearer when they are applied to case studies. The theory and concepts help reveal what is going on in the companies studied and allow you to evaluate the solutions that specific companies adopted to deal with their problems. Consequently, when you analyze cases, you will be like a detective who, with a set of conceptual tools, probes what happened and what or who was responsible and then marshals the evidence that provides the solution. Top managers enjoy the thrill of testing their problem-solving abilities in the real world. It is

important to remember, after all, that no one knows what the right answer is. All that managers can do is to make the best guess. In fact, managers say repeatedly that they are happy if they are right only half the time in solving strategic problems. Strategic management is an uncertain game, and using cases to see how theory can be put into practice is one way of improving your skills of diagnostic investigation.

Third, case studies provide you with the opportunity to participate in class and to gain experience in presenting your ideas to others. Instructors may sometimes call on students as a group to identify what is going on in a case, and through classroom discussion the issues in and solutions to the case problem will reveal themselves. In such a situation, you will have to organize your views and conclusions so that you can present them to the class. Your classmates may have analyzed the issues differently from you, and they will want you to argue your points before they will accept your conclusions; so be prepared for debate. This mode of discussion is an example of the dialectical approach to decision making that you may recall from Chapter 1. This is how decisions are made in the actual business world.

Instructors also may assign an individual, but more commonly a group, to analyze the case before the whole class. The individual or group probably will be responsible for a thirty- to forty-minute presentation of the case to the class. That presentation must cover the issues involved, the problems facing the company, and a series of recommendations for resolving the problems. The discussion then will be thrown open to the class, and you will have to defend your ideas. Through such discussions and presentations, you will experience how to convey your ideas effectively to others. Remember that a great deal of managers' time is spent in these kinds of situations, presenting their ideas and engaging in discussion with other managers, who have their own views about what is going on. Thus, you will experience in the classroom the actual process of strategic management, and this will serve you well in your future career.

If you work in groups to analyze case studies, you also will learn about the group process involved in working as a team. When people work in groups, it is often difficult to schedule time and allocate responsibility for the case analysis. There are always group members who shirk their responsibilities and group members who are so sure of their own ideas that they try to dominate the group's analysis. Most of the strategic management takes place in groups, however, and it is best if you learn about these problems now.



### ANALYZING A CASE STUDY

As just mentioned, the purpose of the case study is to let you apply the concepts of strategic management when you analyze the issues facing a specific company. To analyze a case study, therefore, you must examine closely the issues with which the company is confronted. Most often you will need to read the case several times—once to grasp the overall picture of what is happening to the company and then several times more to discover and grasp the specific problems.

Generally, detailed analysis of a case study should include eight areas:

- 1. The history, development, and growth of the company over time
- 2. The identification of the company's internal strengths and weaknesses

- 3. The nature of the external environment surrounding the company
- 4. A SWOT analysis
- 5. The kind of corporate-level strategy pursued by the company
- 6. The nature of the company's business-level strategy
- 7. The company's structure and control systems and how they match its strategy
- 8. Recommendations

To analyze a case, you need to apply the concepts taught in this course to each of these areas. Where to look for a review of the concepts you need to use is obvious from the chapter titles. For example, to analyze the company's environment, you would use Chapter 3, on environmental analysis.

To help you further, we next offer a summary of some of the steps you can take to analyze the case material for each of the eight points we have just noted.

- 1. Analyze the company's history, development, and growth. A convenient way to investigate how a company's past strategy and structure affect it in the present is to chart the critical incidents in its history—that is, the events that were the most unusual or the most essential for its development into the company it is to-day. Some of the events have to do with its founding, its initial products, how it made new-product market decisions, and how it developed and chose functional competencies to pursue. Its entry into new businesses and shifts in its main lines of business are also important milestones to consider.
- 2. *Identify the company's internal strengths and weaknesses.* Once the historical profile is completed, you can begin the SWOT analysis. Use all the incidents you have charted to develop an account of the company's strengths and weaknesses as they have emerged historically. Examine each of the value creation functions of the company, and identify the functions in which the company is currently strong and currently weak. Some companies might be weak in marketing; some might be strong in research and development. Make lists of these strengths and weaknesses. The table on page C14 gives examples of what might go in these lists.
- 3. Analyze the external environment. The next step is to identify environmental opportunities and threats. Here you should apply all the concepts from Chapter 3, on industry and macroenvironments, to analyze the environment the company is confronting. Of particular importance at the industry level is Porter's five forces model and the stage of the life cycle model. Which factors in the macroenvironment will appear salient depends on the specific company being analyzed. However, use each concept in turn (for instance, demographic factors) to see whether it is relevant for the company in question.

Having done this analysis, you will have generated both an analysis of the company's environment and a list of opportunities and threats. The table on page C14 also lists some common environmental opportunities and threats that you might look for, but the list you generate will be specific to your company.

4. Evaluate the SWOT analysis. Having identified the company's external opportunities and threats as well as its internal strengths and weaknesses, you need to