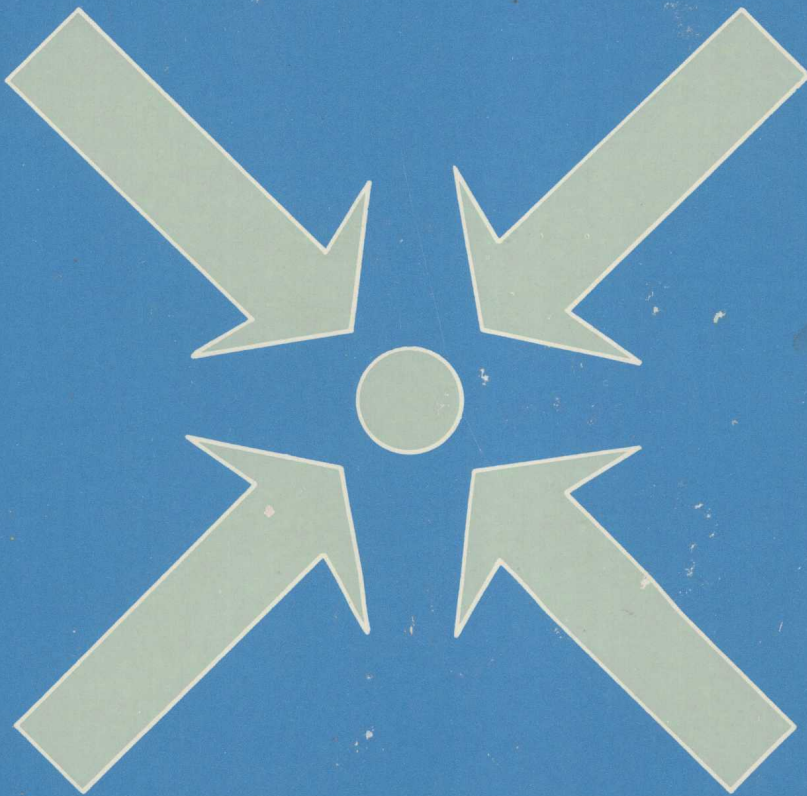


Cases in Strategic Management



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and

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both of

The University of Alabama



1982

BUSINESS PUBLICATIONS, INC.
Plano, Texas 75075

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ISBN 0-256-02753-6

Library of Congress Catalog Card No. 82-071136

Printed in the United States of America

1 2 3 4 5 6 7 8 9 0 ML 9 8 7 6 5 4 3 2

Preface

Case analysis is rightly the centerpiece in today's courses in business policy and strategy management. We think you will find this collection of cases to be pedagogically sound, stimulating and attractive to students, and on target with respect to the leading concepts and issues in strategic management. Seventeen cases included, many of which are freshly written and all of which have been class tested and found worthy in the classroom. A special feature is the inclusion of high-interest cases, which concern either well-known companies or products/service that students can readily identify with; the result, hopefully, will be to provoke greater student enthusiasm and livelier class discussions.

We envision this casebook being used successfully in several different formats. It can be used as a companion case supplement to any of the present texts now on the market (such as our *Strategy and Policy: Concepts and Cases*), thereby providing a richer and larger number of cases from which to choose each school term. It can be used in conjunction with one of several text-and-reading books (such as our *Strategy Formulation and Implementation: Tasks of the General Manager*) to form a concepts-reading-case package of instructional materials. Or it can be used as a stand-alone casebook (1) to support the instructor's own lectures and cases or (2) to complement a management-decision game.

The Collection of Cases

The 17 cases are organized into three groups. The first set of three cases focuses on the general manager and the contrasting approaches to setting direction, formulating a strategic plan, and then making it work. The leadoff case, Turner Broadcasting System, presents the fascinating entrepreneurial style of Ted Turner and how he has put TBA together. Case 2, Chrysler Corporation, illustrates the job of the general manager in a giant corporation and allows comparisons of the strategic approaches and managerial philosophies of the several recent chief executive officers at Chrysler. The third case is on Houston Marine Consultants, Inc.

In the second group of cases, the spotlight is on strategy formulation. Nine cases are included in this section. The Bennett Industries case calls for an evaluation of the strategic plan and market analysis conducted in a brand new company. Mirco Games, one of the companies pioneering electronic video games, illustrates the issue of matching strategy to opportunity in a new and relatively undeveloped market. The A&W and Big Sky of Montana cases illustrate the importance of competition analysis in the strategy formulation process. The Pamark and Beech Aircraft cases require a careful assessment of new strategic alternatives, including merger and acquisition analysis. Marion Laboratories and Philip Morris offer opportunity for business portfolio analysis and recommendations for strategic handling of particular businesses in a diversified corporate portfolio. The Philip Morris case is freshly written (1981), and its strategies in cigarettes, beer (Miller Brewing), and soft drinks (Seven-Up) make it a natural for exploring diversification issues.

The five cases in the third grouping concern issues of strategy implementation. The first case, Jim Heavner, provides an excellent picture of the number and variety of tasks and decisions that confront general managers in a small, growing business. The WoodCrafters case probes into problems at the production and operating level, illustrates importance of controls and procedures, and stresses how daily operations link to strategy. The Aetna case exposes the strategy-structure issue and relates how a new and strategically important organizational unit goes about defining its role and priorities. Edgewater Marina entails a comprehensive review of whether the original strategy is working as planned (the results to date), the adequacy of management's approach to implementing the chosen strategy, and what improvements need to be made. Texas Instruments offers insight into the inner working of a large corporation's strategic planning process; TI, of course, is one of the most avid practitioners of strategic management.

Although the cases have been organized into a logical sequence, the arrangement is flexible and can be tailored to fit individual approaches and preferences. Comprehensive teaching notes are available in the *Instructor's Manual*.

Case Research Acknowledgements

We are much indebted to the case researchers whose efforts appear heroic and to the companies who cooperated in making these case studies possible. To each goes a special thank-you. The importance of good, timely cases cannot be overestimated in contributing to a substantive study of strategic management issues and practices. From a research standpoint, cases in strategic management are invaluable in forming hypotheses about the strategy process and in drawing limited generalizations about the practice of general management. Pedagogically, cases about strategic management give students essential practice in diagnosing and evaluating strategic situations, in applying strategic management concepts and analytical ap-

proaches, and in developing actionable recommendations to deal with contemporary strategic problems.

Without an ample supply of current, well-researched cases, the discipline of business policy would indeed be in sad disrepair. We trust, therefore, that sentiment and support for first-class case research will grow and that case researchers will be appropriately recognized and rewarded for their scholarly contributions. Certainly, the efforts to encourage and improve case writing undertaken by the Intercollegiate Case Clearinghouse (now HBS Case Services), the Case Research Association, and the Case Teachers Association are most commendable, and their activities merit full, wholehearted support. As for our own part, we were first initiated into the craft of case writing at workshops jointly sponsored by ICCH and the Case Research Association; the knowledge and experience obtained from these workshops and our exposure to the wisdom of seasoned case researchers have proved invaluable.

Any comments you may wish to make about this book and about the mix of cases will be most welcome, as will your calling our attention to specific errors. Our address is P.O. Box J, University, AL 35486.

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**Part
One**

Introduction

Case Analysis: Its Role and Method

I keep six honest serving men
(They taught me all I knew);
Their names are What and Why and When
And How and Where and Who.

Rudyard Kipling

Management is an action-oriented activity. It requires doing to achieve proficiency. Managers succeed or fail not so much because of what they know as because of what they do. A person cannot expect to succeed as a manager and become a “professional” simply by studying excellent books on management—no matter how thoroughly the text material is mastered, nor how many As are earned at exam time. Moreover, just as a golfer needs to practice at being a better golfer, a person who aspires to become a manager can benefit from practicing at being a manager.

Practicing Management via Case Analysis

In academic programs of management education, students practice at being managers via case analysis. A *case* sets forth, in a factual manner, the conditions and circumstances surrounding a particular managerial situation or series of events in an organization. It may include descriptions of the industry and its competitive conditions, the organization’s background, its products and markets, the attitudes and personalities of the key people involved, production facilities, the work climate, the organizational structure, marketing methods, and the external environment, together with whatever pertinent financial, production, accounting, sales, and market information upon which management had to depend. It may concern any kind of organization—a profit-seeking business or a public service institution.

A good case offers about as live and effective a practice situation as can be achieved short of “the real thing.” It puts readers at the scene of the action and familiarizes them with the situation as it prevailed. As such, it is well suited as a pedagogical device for students practicing what they, as managers, would do if confronted with the same circumstances—and allows

them to do so without having to worry about inexperience and making amateurish or costly mistakes.

The essence of the student's role in the case method is to diagnose and size up the organization's situation and to think through what, if anything, should be done. The purpose of cases is for the student, as analyst, to develop answers to a number of questions: What factors have contributed to the organization's success (or failure)? What problems are evident? How would I handle them? What managerial skills are needed to deal effectively with the situation? How should they be applied? What actions need to be taken?

It should be emphasized that most cases are *not* intended to be examples of right and wrong, or good and bad management. The organizations concerned are selected neither because they are the best or the worst in their industry, nor because they are average or typical. The important thing about a case is that it represents an actual situation in which managers were obligated to recognize and cope with the problems as they were.

Why Use Cases to Practice Management?

A student of business with tact
 Absorbed many answers he lacked.
 But acquiring a job,
 He said with a sob,
 "How *does* one fit answer to fact?"

The foregoing limerick was offered some years ago by Charles I. Gragg in a classic article, "Because Wisdom Can't Be Told," to illustrate what might happen to students of management without the benefit of cases.¹ Gragg observed that the mere act of listening to wise statements and sound advice about management does little for anyone's management skills. He contended it was unlikely that accumulated managerial experience and wisdom could effectively be passed on by lectures and readings alone. Gragg suggested that if anything has been learned about the practice of management, it is that a storehouse of ready-made answers does not exist. Each managerial situation has unique aspects, requiring its own diagnosis and understanding as a prelude to judgment and action. In Gragg's view and in the view of other case-method advocates, cases provide aspiring managers with an important and valid kind of daily practice in wrestling with management problems.

The case method is, indeed, *learning by doing*. The pedagogy of the case method of instruction is predicated on the benefits of acquiring managerial "experience" by means of simulated management exercises (cases). The biggest justification for cases is that few, if any, students during the course of their college education have an opportunity to come into direct personal contact with different kinds of companies and real-life managerial situations.

¹ Charles I. Gragg, "Because Wisdom Can't Be Told," in *The Case Method at the Harvard Business School*, ed. M. P. McNair, (New York: McGraw-Hill, 1954), p. 11.

Cases offer a viable substitute by bringing a variety of organizations and management problems into the classroom and permitting students to assume the manager's role. Management cases therefore provide students with a kind of experiential exercise in which to test their ability to apply their textbook knowledge about management.

Objectives of the Case Method

As the foregoing discussion suggests, the use of cases as an instructional technique embraces four chief objectives.²

1. Helping you to acquire the skills of putting textbook knowledge about management into practice.
2. Getting you out of the habit of being a receiver of facts, concepts, and techniques and into the habit of diagnosing problems, analyzing and evaluating alternatives, and formulating workable plans of action.
3. Training you to work out answers and solutions for yourself, as opposed to relying upon the authoritative crutch of the professor or a textbook.
4. Providing you with exposure to a range of firms and managerial situations (which might take a lifetime to experience personally), thus offering you a basis for comparison when you begin your own management career.

If you understand that these are the objectives of the case method of instruction, then you are less likely to be bothered by something that puzzles some students: "What is the answer to the case?" Being accustomed to textbook statements of fact and supposedly definitive lecture notes, students often find that discussions and analyses of managerial cases do not produce an absolute answer. Instead, issues in the case are discussed pro and con. Various alternatives and relevant aspects of the situation are evaluated. Usually, a good argument can be made for one decision or another, or one plan of action or another. When the class discussion concludes without a clear consensus, some students may, at first, feel cheated or dissatisfied because they are not told "what the answer is" or "what the company actually did."

However, case descriptions of managerial situations where answers are not clear-cut are quite realistic. Organizational problems whose analysis leads to a definite, single-pronged solution are likely to be so oversimplified and rare as to be trivial or devoid of practical value. In reality, several feasible courses of action may exist for dealing with the same set of circumstances. Moreover, in real-life management situations when one makes a decision or elects a particular course of action, there is no peeking at the back of a book to see if you have chosen the best thing to do. No book of provably correct answers exists; in fact, the first test of management action

² Ibid., pp. 12-14; and D. R. Schoen and Philip A. Sprague, "What Is the Case Method?" in McNair, *Case Method*, pp. 78-79.

is *results*. If the results turn out to be good, the decision may be presumed right; if not, then, it was “wrong”. Hence, the important thing for the student to understand in dealing with cases is that it is the exercise of managerial analysis and decision making that counts, rather than discovering the right answer or finding out what actually happened.

To put it another way, *the purpose of management cases is not to learn authoritative answers to specific managerial problems, but to become skilled in the process of designing a workable (and, hopefully, effective) plan of action through evaluation of the prevailing circumstances*. The aim of case analysis is not for you to try to guess what the instructor is thinking or what the instructor’s solution is. Rather, it is to see whether you can support your views against the counterviews of others in the group or, failing to do so, whether you can accept the merits of the reasoning underlying the approaches of others. Therefore, *in case analysis you are expected to bear the strains of thinking actively, or making managerial assessments that may be vigorously challenged, and of defending your analysis and plan of action*. Only in this way can case analysis provide you with any meaningful practice at being a manager.

In sum, the purpose of the case method is to initiate you and to encourage you in the ways of thinking managerially and exercising responsible judgment. At the same time, you should use the cases that follow to test the rigor and effectiveness of your own theories about the practice of management and to begin to evolve your own management philosophy and management style.

Preparing a Case for Class Discussion

Given that cases rest on the principle of learning by doing, their effectiveness hinges upon *you* making *your* analysis and reaching *your* own decisions and then in the classroom participating in a collective analysis and decision-making process. If this is your first experience with the case method, you may have to reorient your study habits. Since a case assignment emphasizes student participation, it is obvious that the effectiveness of the class discussion depends upon each student having studied the case *beforehand*. Consequently, unlike lecture courses in which there is no imperative of specific preparation before each class and for which assigned readings and reviews of lecture notes may be done at irregular intervals, *a case assignment requires conscientious preparation before class*. You cannot, after all, expect to get much out of practicing managing in a situation with which you are totally unfamiliar.

Unfortunately, though, there is no nice, proven procedure for studying cases that can be recommended to you. There is no formula, no fail-safe, step-by-step technique that we can recommend. Each case is a new situation and you will need to adjust accordingly. Moreover, you will, after a time, discover an approach that suits you best. Thus, the following suggestions are offered simply to get you started.

A first step in understanding how the case method of teaching/learning works is to recognize that it represents a radical departure from the lecture/discussion/problem classroom technique. To begin with, members of the class do most of the talking. The instructor's role is to solicit student participation and guide the discussion. Expect the instructor to begin the class with such questions as: What is the organization's strategy? What do you consider to be the real problem confronting the company? What factors have contributed most to the organization's successes? Its failures? Which manager is doing a good job? Are the organization's objectives and strategies compatible with its skills and resources? Typically, members of the class will evaluate and test their opinions as much in discussions with each other as with the instructor. But irrespective of whether the discussion emphasis is instructor-student or student-student, members of the class carry the burden for analyzing the situation and for being prepared to present and defend their analysis in the classroom. Thus, you should expect an absence of professorial "here's how to do it," "right answers," and "hard knowledge for your notebook"; instead, be prepared for a discussion involving what *you* think, what *you* would do, and what *you* think is important.³

Begin your analysis by reading the case once for familiarity. An initial reading should give you the general flavor of the situation and make possible preliminary identification of issues. On the second reading, attempt to gain full command of the facts. You may wish to make notes about apparent organizational goals, objectives, strategies, policies, symptoms of problems, problems, root causes of problems, unresolved issues, and roles of key individuals. Be alert for issues or problems that are not necessarily made explicit, but that nevertheless are lurking beneath the surface. Read between the lines and do not hesitate to do some detective work on your own. For instance, the apparent issue in the case might be whether a product has ample market potential at the current selling price, but the root problem might be that the method being used to compensate salespeople fails to generate adequate incentive for achieving greater unit volume. Needless to say, a sharp, clear-cut evaluation of the company and its problems is an essential function of management: one cannot devise sensible solutions to an organization's troubles until the troubles have first been correctly identified. In short, before a company's problems can be solved, they must be understood; they must be analyzed; they must be evaluated; and they must be placed in proper perspective.

To help gain this perspective, put yourself in the position of some manager or managerial group portrayed in the case, and get attuned to the organizational environment within which the manager or management group must make decisions. Try to get a good feel for the personality of the company, the management, and the organizational climate. This is essential if you are to come up with solutions that will be both workable and acceptable in light of the prevailing environmental constraints and realities. Do not be

³ Schoen and Sprague, "What Is the Case Method?" p. 80.

dismayed if you find it impractical to isolate the problems and issues into distinct categories that can be treated separately. Very few significant, real-world management problems can be neatly sorted into mutually exclusive areas of concern.

Most important of all, you must arrive at a solid evaluation of the company, based upon the information in the case. Developing an ability to evaluate companies and size up their situations is *the key* to case analysis. How do you evaluate a company? There is no pat answer. But in general you need to identify the firm's strategy, evaluate its competitive position and financial condition, pinpoint external threats and opportunities as well as internal strengths and weaknesses, and assess its future potential. For more specific suggestions consult Table 1.

TABLE 1
Checklist for Evaluating a Company's Present Position and Future Potential

-
- A. Product lines and competitive position
1. How do the firm's products (or services) stack up against those of rival firms? Has the firm been successful in differentiating its products from those of its rivals and in carving out a viable market niche for itself? Does the firm enjoy a position of market advantage and, if so, what is the basis for this advantage?
 2. How do customers and potential customers regard the company's products? What market shares does it have, and how firmly does it hold them? Have market shares been increasing or decreasing? Is the company dependent upon a few large customers for the bulk of its sales?
 3. What are the firm's profit margins? Have these been increasing or decreasing? Are the firm's margins above or below those of the industry? Is the firm in a position to be competitive on price?
 4. Where do the company's chief products stand in the life cycle? Is the industry young or mature? Are the markets for the firm's products expanding or contracting, and at what rates? How is the company's business affected by upswings and downswings in the economy? Is the firm's target market big enough to generate the revenues needed to be profitable?
 5. Is the company confronted with increasing competition? What is the nature of this competition, and how vulnerable is the firm's strategy to new competition? Is entry into the industry easy or hard? Has the firm demonstrated an ability to compete effectively?
 6. Is the company a leader in its market area? Is the company being forced into head-to-head competition with proven leaders? If so, does the company have the competitive artillery it needs, or is it trying to go to war with a popgun? Is the firm relying on a "me, too" or "copycat" strategy?
 7. What are the strengths and weaknesses of the company's marketing strategy? How well do its marketing efforts compare with those of rival firms? Is there a capability for exploiting new products and developing new markets? Does it have the necessary distribution channels or the ability to develop them?
 8. If the firm is diversified, then are its product lines compatible? Is there evidence of strategic fit? Is the diversification plan well thought-out, or has the company been seduced by the illusions of glamour products and glamour technology?

What is your summary evaluation of the firm's product line and competitive position? What are its particular strengths and weaknesses, and how important are these to the firm's ultimate success or failure?

- B. Profitability and financial condition
1. What is the trend in the firm's profitability as concerns total profits, earnings per share, return on sales, return on assets, return on total capital investment, and return on equity investment? How does the firm's profitability compare with that of other firms in the industry? What is the "quality" of the firm's earnings?

TABLE 1 (continued)

2. How is the company viewed by investors? What is the trend in the company's stock price, its price-earnings ratio, dividend payout, and dividend yield on common stock?
3. Is the firm liquid and able to meet its maturing obligations? What trends are evident in the firm's current ratio and quick (or acid-test) ratio? See Table 2 for a summary of how these ratios are calculated and what they indicate.
4. To what extent is the firm leveraged? What are the trends in the firm's debt ratios, its times-interest-earned coverages, and its fixed-charge coverages? (See Table 2 for a summary of how these ratios are calculated and what they indicate.) Has the firm exhausted its debt capacity? Does it have the ability to raise new equity capital?
5. How effectively is the firm employing the resources at its command? What problems are revealed by such ratios as inventory turnover, accounts receivable turnover, fixed asset turnover, total asset turnover, and average collection period? (See Table 2 for a summary of how these ratios are calculated and what they indicate.)
6. Is cash flow adequate to supply the company with working capital? Is the company (or some of its businesses) a "cash hog" or a "cash cow"? (A cash hog business uses more cash than it generates, whereas a cash cow business generates more cash than is required to finance working capital and expansion needs.)
7. Is the company well managed from a financial standpoint? Does it have adequate financial controls and careful cash planning? Have capital investment decisions been based on thorough calculations?

What strengths and weaknesses are evident in the firm's overall financial condition? How do these relate to the company's present competitive situation and strategy?

C. Operations and internal organization

1. How well do the firm's resources and capability match its strategy in the marketplace? Does the firm have the talent, the knowhow, and the financial strength to succeed in executing its strategy? Does the company have the resources to make a commitment to see its strategy through to a successful implementation?
2. To what extent is the firm's manufacturing strategy, marketing strategy, R&D strategy, and financial strategy, integrated, coordinated, and compatible? Are the organization's goals, objectives, and strategies suited to its skills and resources?
3. Is the firm threatened by new technological developments? Does it have enough R&D capability? What is its track record in innovation?
4. Is the firm large enough to take advantage of economies of scale? Is it efficient in its manufacturing and production activities? Are its equipment and facilities modern? Have capital expenditures been either inadequate or excessive with regard to ensuing future operating efficiency?
5. How vulnerable is the company to adverse shifts in raw-material supply and labor supply conditions? Is there a major problem with unions or a history of poor union-management relations?
6. Is the firm developing the kinds of information it needs to solve its problems? Do operating-level managers have solid, pertinent, and timely data on the status of current operations? Is too much reliance placed on unsupported opinion or management hunch or seat-of-the-pants guesstimates?
7. Does the firm have adequate knowledge about costs? Do its costs appear to be in line with other comparable firms? Is it generating the right kind of cost information?
8. How strong is the company's financial management? Are its inventory controls adequate? Are its purchasing procedures adequate?
9. Is the organization adequately staffed? Do key personnel appear knowledgeable and capable in performing their jobs?
10. Are the firm's pay scales and overall reward structure adequate? Is motivation a problem? Is there ample opportunity to promote good people? Are performance appraisals made on a regular basis? Does the company appear to treat employees fairly?

What distinctive competence(s) has the firm developed? How important has this been in accounting for the firm's success (or failure)? What distinctive competence(s) is it missing?

D. Management capability

1. Is the firm well-organized? Is the organization structure supportive of strategy?