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CHAPTER NOTES

CASE NOTES

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STRATEGIC MANAGEMENT

AND

BUSINESS POLICY

13th Edition

CHAPTER NOTES

CHAPTER ONE

BASIC CONCEPTS OF STRATEGIC MANAGEMENT

This chapter sets the stage for the study of strategic management and business policy. It summarizes research supporting the conclusion that those corporations that are able to learn from their experiences and manage strategically perform at a higher level than corporations which do not. It describes a number of triggering events which act to initiate strategic change in most organizations. A normative model of strategic management is presented as the basic structure underlying the book. Key concepts are defined and explained as part of the discussion of the model. The chapter also introduces the strategic audit as a method of operationalizing strategic decision making.

TOPICS COVERED

- Phases of strategic management.
- Benefits of strategic management.
- Globalization and environmental sustainability as challenges to strategic management.
- Theories of organizational adaptation
- The learning organization.
- Basic model of strategic management.
- Triggering events initiating strategy.
- Mintzberg's modes of strategic decision making.
- Strategic decision making process.
- The strategic audit.

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

1. Why has strategic management become so important to today's corporations?

Research indicates that organizations that engage in strategic management generally outperform those that do not. The attainment of an appropriate match or fit between an organization's environment and its strategy, structure, and processes has positive effects on the organization's performance. The three most highly-rated benefits of strategic management are a clearer sense of a firm’s strategic vision, a sharper focus on what is strategically important, and an improved understanding of a rapidly changing environment. As the world's environment becomes increasingly complex and changing, strategic management is used by today's corporations as one way to make the environment more manageable.

2. How does strategic management typically evolve in a corporation?

Strategic management in a corporation appears to evolve through four sequential phases according to Gluck, Kaufman and Walleck. Beginning with basic financial planning, it develops into forecast-based planning, and then into externally-oriented planning, and finally into a full-blown strategic management system. The evolution is most likely caused by increasing change and complexity in the corporation's external environment. The phases are thus likely to be characterized by a change from primarily an inward-looking orientation in the first phase to primarily an outward-looking orientation in the third phase, and to a more integrative orientation in the final strategic management phase with equal emphasis on both the external and internal environments.

3. What is a learning organization? Is this approach to strategic management better than the more traditional top-down approach in which strategic planning is primarily done by top management?

Simply put, a learning organization is one which is able to learn from its experiences. In reality, it is much more complicated. The text points out that learning organizations are skilled at four main activities: (1) systematic problem solving, (2) experimenting with new approaches, (3) learning from their own experience and past history as well as from the experiences of others, and (4) transferring knowledge quickly and efficiently throughout the organization. This means that people at all levels, not just top management, need to be involved in strategic management - by helping to scan the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures, and evaluation techniques. Research indicates that those organizations that are willing to experiment and able to learn from their experiences are more successful than are those which do not.

Top-down strategic management assumes that only top management is in a position to contribute to strategic planning. This approach can work reasonably well in bureaucratic organization with very little horizontal communication. Top-down strategic planning forces all units to get involved in the planning process and makes sure that all units fit into the overall corporate mission, objectives, strategies, and policies. A limitation of the top-down approach is that all motivation comes from the top and lower units may simply go through the motions in order to please the boss. The likelihood of fresh, new strategic concepts at lower levels of the organization becomes less, the more the stimulus for strategic planning comes from above.

4. Why are strategic decisions different from other types of decisions?

Strategic decisions deal with the long-run future of the entire organization and have three characteristics which differentiate them from other types of decisions: (1) They are rare. Strategic decisions are unusual and typically have no precedent to follow; (2) They are consequential. Strategic decisions commit substantial resources and demand a great deal of commitment; (3) They are directive. Strategic decisions set precedents for lesser decisions and future actions throughout the organization. See *Top Decisions: Strategic Decision-Making in Organizations* by Hickson, Butler, Cray, Mallory, and Wilson for further discussion.

5. When is the planning mode of strategic decision making superior to the entrepreneurial and adaptive modes?

The planning mode is generally superior to the entrepreneurial and adaptive modes when the organization is fairly large, when knowledge is spread throughout the organization, and when the organization has at least a moderate amount of time to engage in strategic planning. The book proposes that the planning mode is more rational and thus a better way of making most strategic decisions. It may not, however, always be possible. The entrepreneurial mode can be very useful when time is short, one person or group is able to grasp the essentials of the business and its environment, and that person or group is able to influence the rest of the organization to accept its strategic decision. The adaptive mode is generally not considered to be very effective in most situations, but seems to be the fallback mode when entrepreneurial or planning modes can't operate effectively because of political infighting or lethargy.

ADDITIONAL DISCUSSION QUESTIONS

A1. What is meant by a hierarchy of strategy?

A hierarchy of strategy is a term used to describe the interrelationships among the three levels of strategy (corporate, business, and functional) typically found in large business corporations. Beginning with the corporate level, each level of strategy forms the strategic environment of the next level in the corporation. This means that corporate level objectives, strategies, and policies form a key part of the environment of a division or business unit. The objectives, strategies, and policies of the division or unit must therefore be formulated so as to help achieve the plans of the corporate level. The same is true of functional departments which must operate within the objectives, strategies, and policies of a division or unit.

A2. Does every business firm have business strategies?

Every business firm should have a business strategy for every industry or market segment it serves. A business strategy aims at improving the competitive position of a business firm's products or services in a specific industry or market segment. Firms must therefore have business strategies even if they are not organized on the basis of operating divisions. Nevertheless, it is still possible that some business firms do not have clearly stated business strategies. If they hope to be successful, however, they must have at least some rudimentary (even though unstated) position they take in terms of getting and keeping customers or clients.

A3. What information is needed for the proper formulation of strategy? Why?

In order to properly formulate strategy, it is essential to have information on the important variables in both the external and internal environments of the corporation. This includes general forces in the societal environment as well as the more easy-to-identify groups such as customers and competitors in the task environment. A corporation needs to have this information in order to identify a need it can fulfill via its corporate mission. It is also important to have information on the corporation's structure, culture, and resources. A corporation needs to have this information in order to assess its capabilities to satisfy a customer's need by making and/or distributing a product or service. Information on both the internal and external environments can also help a corporation to predict likely opportunities and threats. Long-term strategies can be designed with these in mind.

A4. Reconcile the strategic decision-making process depicted in Fig. 1.5 with the strategic management model depicted in Fig. 1.2.

The strategic management model depicts the key input variables (internal and external environments) and the key output factors (mission, objectives, strategy, and policies). It shows how strategy formulation, implementation, and evaluation and control are related and how a change in any one factor (e.g., corporate objectives) affects other factors (e.g., strategies, policies, programs, budgets, procedures, evaluation and control techniques). This model, however, does not depict how these output factors are generated. In contrast, the strategic decision-making model depicts how the process of strategic management happens in the form of strategic decisions. It is a series of interrelated activities depicted as eight distinct steps. These two models therefore complement one another and are very useful in increasing one's understanding of strategic management.

SUGGESTIONS FOR STRATEGIC PRACTICE EXERCISE

This end of chapter exercise is a good way to motivate students to apply some of the concepts in the chapter, particularly those from the strategic management model. There are a lot of bad mission statements being written. The most blatant are the ones that simply say "Our mission is to build shareholder value."

The text states that a good mission statement should define the fundamental, unique purpose that sets the company apart from other firms of its type and identifies the scope of the company's operations in terms of products offered and markets served. It may also include the firm's philosophy about how it does business and treats its employees. It puts into words not only what the company is now, but what it wants to become - management's strategic vision of the firm's future. Simply put, a good mission statement tells who we are, what we do, and what we'd like to become.

Andrew Campbell proposes ten questions for evaluating a mission statement. Both exercises request the reader to use Campbell’s questions as a starting point to develop suitable criteria for evaluating any mission statement.

• *Exercise 1: Evaluate the mission statement of Celestial Seasonings.*

This is a good example of a mission statement. Even if someone had never heard of Celestial Seasonings, the mission statement tells clearly that this is a company which makes specialty teas. Its scope of operations is natural hot and iced teas. Its domain is the U.S. specialty tea market. Its strategic vision is to grow and dominate this market by satisfying the customer more than does the competition. It indicates a strong quality orientation and a focus on continuous improvement. This mission statement does a good job of establishing a solid foundation upon which can be built objectives, strategies, and policies as part of strategy formulation. Depending upon one's answers to Campbell's ten questions, the Celestial Seasonings mission statement could earn a total score of around 12. (1=Y; 2=S; 3=S; 4=Y; 5=S; 6=S; 7=S; 8=N; 9=S; 10=Y for a total of 11.) Ask the class if they agree that all of Campbell's ten questions are equally important. Should some be dropped and others added? Why?

• *Exercise 2: Using the Internet, find the mission statements of three different organizations and tell which is best. Why?*

This is a good exercise to encourage students to begin Internet research. This exercise serves two purposes. It gets everyone up to speed in terms of doing Internet research. It also forces them to re-read chapter one to get a solid understanding of what differentiates a good from a poor mission statement. Encourage them to use Campbell's ten questions to develop criteria. You can give them this assignment on the first day of class and then use the second day to discuss chapter one and the various mission statements people have found. This is a good way to encourage student participation in the class.

CHAPTER TWO

CORPORATE GOVERNANCE

This chapter describes the basic governance mechanisms of the corporation: the board of directors and top management. These are the people who are primarily tasked with the strategic management process if the corporation is to have long-term success in accomplishing its mission. The responsibilities of both are described and explained. It proposes a board of directors' continuum on which boards can be placed in terms of their involvement in strategic management. Agency theory is contrasted with stewardship theory. The chapter explains how the composition of the board can affect both its performance and that of the corporation. It also describes the impact of the Sarbanes-Oxley Act on corporate governance in the U.S. and trends in corporate governance around the world. Top management is discussed in terms of executive leadership, strategic vision, and managing the strategic planning process.

TOPICS COVERED

- Responsibilities of the board of directors and its role in strategic management.
- Board of directors' continuum
- Composition of the board of directors.
- Agency theory versus stewardship theory.
- Codetermination and interlocking directorates.
- Impact of the Sarbanes-Oxley Act on U.S. corporate governance.
- Trends in corporate governance.
- Responsibilities of top management in strategic management.
- Executive leadership and the importance of strategic vision.

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

1. When does a corporation need a board of directors?

A board of directors is needed to protect the interests of the corporation's owners, its shareholders. By law, when a company incorporates, it must have a board of directors - even if the stock is only held by the founder and his/her spouse. A good case can be made that a small, closely-help corporation has no need of a board. Since the owners are likely to compose both top management and board membership, the board becomes superfluous at best and may even create more problems that it solves by getting in the way of management's quick response to opportunities and threats. The board meets only to satisfy legal requirements. Even when stock is more widely owned in a publicly-held corporation, the board may be composed of nothing but a few insiders who occupy key executive positions and few friendly outsiders who go along with the CEO on all major issues. Nevertheless, the rationale for the board of directors seems to be changing from simply one of safeguarding stockholder investments to a broader role of buffering the corporation from its task environment and forcing management to manage strategically. If nothing else, the board can do the corporation a great service by simply offering top management a different point of view. The board's connections to key stakeholders in the corporation's task environment can also provide invaluable information for strategic decision-making. This is the main reason why advisory boards are often used by companies that are not incorporated and thus have no shareholders.

2. Who should and should not serve on a board of directors? What about environmentalists or union leaders?

This is a wide-open question with no simple answer. Some may argue that representatives from each stakeholder group in the corporation's task environment should be included so as to keep top management aware of key environmental considerations. Others may argue that only outsiders with no personal stake in the corporation (i.e., not a member of a local bank or a key supplier, etc.) would be best able to bring the amount of objectivity needed to help make strategic decisions. This is the point of view taken in the U.S. by the Sarbanes-Oxley Act. A good argument can be started by suggesting that a representative from labor be a director. This is done in Germany. If this makes some sense, who should it be – a union member that is an employee of the corporation or an employee of another corporation? If the firm is not unionized, what then? Further discussion can be generated by suggesting that the composition of the board reflect the key demographics of the corporation's workforce in terms of race, sex, and age. Environmentalists could provide excellent information to top management, but could be a problem if they argue only for environmental considerations without regard to the corporation's other stakeholders.

This question provides the instructor with the opportunity to get the class involved in a discussion of agency and stewardship theories. *Agency theory* suggests that insiders should be kept to a minimum and that the board be heavily composed of objective outsiders who own large blocks of stock. Because of their stake in corporate decisions, affiliated directors would not be considered for board membership. This would ensure that the board would primarily represent shareholder interests and objectively monitor the “hired hands” serving as top management. This is the point of view taken by the Sarbanes-Oxley Act in the U.S. In contrast, stewardship theory views top management as concerned “stewards” of the corporation – people who may have a greater concern for the corporation as a whole and its survival than do the shareholders, who may only be interested in earnings per share and little else. *Stewardship theory* suggests that the board should be composed of people who can provide important information from the task environment and valuable insight to top management. It would work to consider interests beyond shareholder value.

3. Should a CEO be allowed to serve on another company’s board of directors?

The majority of outside directors are active or retired CEOs of other corporations. The chapter states that the average board member of a U.S. Fortune 500 firm serves on three boards and that only 40% of U.S. boards limit the number of directorships a board member many hold in other corporations. CEOs from other firms are highly valued because they can provide excellent advice to the CEO. Having a CEO from another firm serve on a corporation’s board of directors results in an interlocking directorate between the two corporations. The text points out that this is a good way to obtain inside information about an uncertain environment and objective expertise about potential strategies and tactics. For these and other reasons, well-interlocked firms are better able to survive in a highly competitive environment. This is a good reason for allowing a firm’s CEO to serve on the boards of other companies. The CEO is likely to bring back information and contacts that are be very useful to the corporation.

There is a down side, however, to allowing a CEO to sit on the boards of other firms. For one thing, serving on another company’s board requires time and energy being devoted to something other than the job he/she is paid to fulfill. Given the increasing pressure being placed on board members, such service is becoming increasingly onerous. Because of this, the typical CEO now sits on only one board in addition to his/her own – down from two additional boards in the 1990s. Consequently, a board should work closely with its CEO to decide which other board(s) are most useful to the company for the CEO to join.

4. What would be the result if the only insider on a corporation’s board were the CEO?

One result would be a board composed primarily of outsiders who would be objective, but also dependent upon the CEO for information about the company and its activities. Thanks to Sarbanes-Oxley and other actions by the New York Stock Exchange, this appears to be a trend in most U.S. Fortune 500 companies. As of 2007, the typical U.S. Fortune 500 board had an average of ten directors, only two of whom being insiders. The number of insiders tends to be higher for boards in other countries. Even when a CEO might be the sole insider on the board, he/she still has a great deal of influence because the CEO usually also serves as the Chairman of the Board. Nevertheless, an increasing number of boards are selecting a “lead director” to oversee the evaluation of top management, so this can counter the dual CEO/Chair’s power. A positive result of the CEO being the only insider on a board is that the board would be more likely to be objective and serious about its responsibility to oversee the corporation’s management. A negative result would be the lessened opportunity to view potential successors in action or to obtain alternate points of view to management decisions.

5. Should all CEOs be transformation leaders? Would you like to work for a transformational leader?

According to the text, top management must successfully handle two responsibilities that are crucial to the effective strategic management of the corporation: (1) provide executive leadership and a strategic vision and (2) manage the strategic planning process. The text further argues that successful CEOs often provide this executive leadership by taking on many of the characteristics of the transformation leader by communicating a clear strategic vision, demonstrating a strong passion for the company, and communicating clear directions to others. Such transformational leaders, like Bill Gates at Microsoft, Steve Jobs at Apple, and Anita Roddick at The Body Shop, have been able to command respect and energize their employees. They not only articulated a strategic vision, but they also presented a role for others in the company to identify with and to follow. Their communication of high performance standards coupled with their confidence in their fellow employees often raised performance to a high level. Nevertheless, such transformation leaders can be very difficult to work for and their overconfidence may even get the firm in trouble. Their forcefulness may drive other competent people away when they fail to allow for differences of opinion. Hint to the instructor: Once the class has discussed the pros and cons of transformation leaders, ask them how many would like to work for such an executive? Use Donald Trump as an example. (“You’re fired!” You may be surprised by the number of people who would not like to work for such a CEO.

ADDITIONAL DISCUSSION QUESTIONS

A1. What recommendations would you make to improve the effectiveness of today's boards of directors?

Among the many suggestions often made are the following:

- Add more outsiders (people not affiliated with the corporation) to the board of directors. Keep the percentage of insiders (typically top management) to less than 50% of board membership.

- Separate the positions of CEO and Chairman so that top management cannot unduly influence the board's meetings and agenda. This should improve the board's ability to properly evaluate top management. If can't separate Chair from CEO, select a Lead Director from among the outside directors.

- Use a committee composed of outsiders to nominate potential new directors. This will help to ensure that potential members are not friends of top management who may owe more allegiance to the CEO than to the shareholders.

- Nominate people to the board who have knowledge valuable to the board and who have expertise of value to top management. These should be people who will have the respect of top management and who can both advise and criticize top management as needed. Make sure that they are diverse in terms of background and experience.

- Require board members to own substantial amounts of stock in the corporation to ensure that they have a personal as well as professional stake in the welfare of the corporation.

- Allow shareholders to nominate people for election to director.

A2. Is there a conflict between Agency Theory and the concept of organizational stakeholders?

Agency theory is concerned with problems that occur in relationships between principals (owners) and their agents (top management). Because agents are, in effect, "hired hands," their interests are not usually aligned with those of the owner (stockholders) of a corporation. Consequently, agency theory is primarily interested in ways to better align these two sets of interests, such as management owning significant shares of stock or having a strong financial stake in the long-term performance of the corporation via long-term incentive plans. This helps to ensure that management looks beyond selfish short-term benefits of a decision to the more strategic issues that concern stockholders. The *concept of organizational stakeholders*, in contrast, looks at more than just owners and managers. It argues that groups other than stockholders and top management have a significant stake in the actions of the corporation and need to be considered in strategic decisions. What might benefit owners and management might hurt employees, the local community, or the environment. The concept of stakeholders thus proposes that the suggestions of agency theory are incomplete and insufficient to ensure that top management deals fairly not only with stockholders, but also with the needs of all concerned stakeholder groups. As it is currently defined, agency theory is more in agreement with Milton Friedman's narrow view of the responsibilities of a corporation than with the stakeholder view more common to concerns of social responsibility. (See Chapter Three for Friedman's view of corporate responsibility.) This could change if society begins to consider top management not only as direct agents for stockholders, but also as indirect agents for other groups with a stake in the corporation's activities. Agency theory could thus be expanded to include the concerns of other interested groups and thus incorporate the stakeholder approach.

SUGGESTIONS FOR STRATEGIC PRACTICE EXERCISE

The end of chapter exercise asks the student to evaluate the "best" and the "worst" manager for whom the student has worked. The questionnaire is based on the concept of French and Raven's "bases of power." This concept is usually discussed in Introduction to Management as well as in Organizational Behavior textbooks as a part of their discussion of leadership. You may need to briefly explain what each base means as part of your discussion of their scores. Briefly, reward power is based on someone's ability to give another something that is valued for doing what the other person wants. Coercive power is based on someone's ability to give someone something that is disliked if the other person does not do what is desired. Legitimate power is like authority in that it is based on one person's belief that another person has the right to ask him/her to do something. Referent power is like charisma in that it is one person's ability to get others to identify with him/her and to want to be like that person. Expert power is based on a person's knowledge or abilities in an area that is important for job performance and that the person is willing to share with someone else.

List the five bases of power on the board. Ask around five members of the class to provide you with their scores for their "best manager" on each of bases. Write their totals under each of the five bases on the board and then calculate the average for each base. Do the same thing for the same five students for their "worst boss." In most instances, the average "best boss" will score higher than the average "worst boss" on referent, expert, and reward power and lower on coercive and legitimate power. Since the "best manager" tends to have many of the characteristics of the transformational leader, this questionnaire provides some interesting information to use in answering the fifth discussion question: *Would you like to work for a transformational leader?*

ADDITIONAL TEACHING MODULE

CORPORATE GOVERNANCE STYLES

Just as boards of directors vary widely on a continuum of involvement in the strategic management process, so do top management teams. For example, a top management team with a low involvement in strategic management will tend to be functionally oriented and will focus its energies on day-to-day operational problems; this type of team is likely either to be disorganized or to have a dominant CEO who continues to identify with his or her old division. In contrast, a top management team with high involvement will be active in strategic planning. It will try to get division managers involved in planning so that top management will have more time to scan the environment for challenges and opportunities.

Both the board of directors and top management can be placed on a matrix that reflects four basic styles of corporate governance.

Styles of Corporate Governance

Degree of Involvement by Top Management

High	Entrepreneurship Management	Partnership Management
Low	Chaos Management	Marionette Management
	Low	High

Degree of Involvement by Board of Directors

<u>Chaos Management</u>

When both the board of directors and top management have little involvement in the strategic management process, their style is referred to as chaos management. The board waits for top management to bring it proposals. Top management is operationally oriented and continues to carry out strategies, policies, and programs specified by the founding entrepreneur who died years ago. The basic strategic philosophy seems to be, "If it was good enough for old J.B., it's good enough for us." There is no strategic management being done here.

<u>Entrepreneurship Management</u>

A corporation with an uninvolved board of directors but a highly involved top management has entrepreneurship management. The board is willing to be used as a rubber stamp for top management's decisions. The CEO, operating alone or with a team, dominates the corporation and its strategic decisions. An example is Control Data Corporation under the leadership of its founder William C. Norris. For twenty-nine years, Norris dominated both the company's top management and its board of directors. Insisting that the company could profit by addressing "society's unmet needs." Norris directed corporate investments into the rejuvenation of ghettos and support of wind-powered generators and tundra farming, among other projects. Although these investments tended to result in losses, few people were willing to challenge his strategic decisions. Some employees even referred to him as "the Pope." A former Control Data executive noted, "More often than not, he's proven his critics wrong, so now his visions aren't challenged."

<u>Marionette Management</u>

Probably the rarest form of strategic management style, marionette management occurs when the board of directors is deeply involved in strategic decision making, but top management is primarily concerned with operations. Such a style evolves when a board is composed of key stockholders who refuse to delegate strategic decision making to the president. The president is forced into a COO role and can do only what the board allows him/her to do. This style also occurs when a board fires a CEO but is slow to find a replacement. The COO or executive vice-president stays on as "acting" president or CEO until the selection process is complete. In the meantime, strategic management is firmly in the hands of the board of directors.

Marionette Management occurred at Winnebago Industries when the company's Board of Directors, chaired by its

Section C

Case Notes

Case 1
The Recalcitrant Director at Byte, Inc.: Corporate Legality Versus Corporate Responsibility

I. CASE ABSTRACT

Mr. James Elliot, CEO and Chairman of Byte Products, Inc., presents his recommendation to the Board of Directors to purchase an existing plant in Plainville as a temporary plant until the new one is on line in three years. All on the Board except one (10-1) seem to favor the proposal. What ensues is the discussion between Elliott and Kevin Williams, board member, over the proposal to purchase a plant with the intention of closing it in three years.

Byte Products has three existing plants operating at full capacity (24 hours a day and 7 days a week). The new plant proposed to be built in the southwestern United States will require three years before it is fully on line. This means that Byte cannot meet the anticipated demand for its products. Alternative courses have been explored - (1) license Byte products and technology to other United States manufacturers, and (2) overseas facilities and licensing. Top management found an existing plant in Plainville, New England, that would meet the company's immediate production needs until the new plant will be online in three years. The Plainville facility had been closed for the last eight years. It would take about three months to get the Plainville plant online.

The discussion between Elliott and Williams focuses on the impact on the town and on the potential 1,200 employees of opening this temporary plant. The town and the townspeople had gone through a catastrophic closing eight years ago when the plant in question was closed. After a lengthy discussion between Elliot and Williams, a recess in the meeting is called. When the board meeting is reconvened, a major shift has taken place. The vote could be 7-4, or 6—5 for the proposal, but Elliott desires a unanimous vote. As the case ends, Williams is asked if a compromise can be reached. He responds, respectively, "I have to say no."

Decision Date: No Date **Sales: $265,000,000**

II. CASE ISSUES AND SUBJECTS

Corporate Governance

Local Community
Board of Directors' Role
Corporate Stakeholders
Opening and Closing of Plants
- Impact on Town
- Impact on Employees

Strategic Alternatives
Communications
Ethics and Values
Strategic Decision Making
Social Responsibility to Local Community

Case 1
The Recalcitrant Director at Byte, Inc.

III. STEPS COVERED IN STRATEGIC DECISION-MAKING PROCESS

(See Figures 1.5 on pages 20 and 21)

Strategy Formulation								Strategy Implementation	Evaluation & Control
Performance	Strategic Posture	Corporate Governance	External Factors	Internal Factors	Strategic Factors	Review Objectives & Mission	Strategic Alternatives		
1A	1B	2	3	4	5A	5B	6	7	8
X		O	O		X		O	X	

O - Emphasized in Case X - Covered in Case

IV. CASE OBJECTIVES

1. To discuss the social responsibilities of a corporation regarding the opening of a temporary plant and it is closing on (a) town, and (b) potential employees.

2. To illustrate the role of board members in strategic decisions.

3. To discuss the ethical issues: Should the company executives inform the town and potential employees that this is a temporary plant?

4. To illustrate corporate governance in action.

5. To illustrate the power of the board of directors.

6. To show how one vote of dissent can sway a vote of the board after a long discussion of the pros and cons of a proposal. Point: The initial tentative vote was 10—1, and after the discussion the vote was likely to be 7—4 or 6—5.

7. To discuss how a compromise may be negotiated on a strategic issue so as to satisfy all affected stakeholders.

V. SUGGESTED CLASSROOM APPROACHES TO THE CASE

1. We ask the students to vote on the pending proposal before the board. We make everyone commit to a position. What should be the role of the board in such a decision?

2. This case is an excellent open-class discussion case. We get much better discussion after we force each student to take a position on the proposal. The case revolves around how executives and board members deal with questions of social responsibility.

3. Divide the class into two groups representing Elliott and Williams. Select students to represent these two gentlemen and allow them to debate the issues—without the use of the case.

4. It is an excellent case as an individual test case or a written paper. It has also been used as a final exam in class.

5. Have the class list all the corporate stakeholders who will be affected by this decision. List all the alternative solutions and how each group will be affected.

- Movie Suggestion! *Roger and Me*
    - This shows the impact of closing a plant on Flint, Michigan by General Motors.
    - It can be rented.

VI. DISCUSSION QUESTIONS

1. If you were one of the board members, how would you have initially voted for the proposal? What would your vote be after the recess in the meeting? Why?

2. Should the Byte executives tell the town administrators, and potential employees that this is a temporary plant for three years?

3. What impact does a plant closing have on a small town like Plainville? What impact does the closing have on the employees?

4. Can you suggest any compromise for the present impasse?

5. If you were Elliott, would you call for a vote on your proposal or postpone the vote until next meeting?

- Students need to remember that the proposal calls for a new plant. Elliott may want to make this a separate proposal and vote now.

VII. CASE AUTHORS' TEACHING NOTE

None was available for this case.

VIII. STUDENT STRATEGIC AUDIT/STUDENT PAPER

A lack of solid planning and forecasting has resulted in Byte's current facilities shortage. Construction on a facility that will take three years to complete should not begin when current facilities are working at 100 percent capacity around the clock, and demand continues to escalate. The state-of-the-art facility, to be located in the southwestern United States, will supply enough capacity to meet demand when it opens in three years, but it does nothing to stem the tide of the current crisis. Management's concern that Byte's market leadership is in jeopardy is valid, but they opened the door to new competition by their lack of foresight.

Elliott, Byte’s CEO, is now ready to undertake a stop-gap measure, but once again without enough concern for the future. Several stop-gap measures were proposed by Elliott’s staff. One stop-gap measure revolves around the renovation of an abandoned factory in New England. Renovation can inexpensively be completed in three months, and attractive lease terms are available because the facility has been abandoned for eight years.

Elliott is aware of some problems with the proposed plant. The plant would never be an efficient producer of Byte products. Profitability would be low for several reasons. High labor costs due to a strong union presence in the area, warehousing expenses, inadequate transportation links to Byte’s major markets and suppliers would all contribute to higher costs and lower margins. However, the New England plant would be closed in three years when the new plant opened.

Another option available to Byte is licensing, both domestic and international, of Byte product and process technology. Domestic licensing would result in higher production costs, and lower margins since the higher costs could not be passed on to the customer without losing market share. International licensing goes against Byte’s philosophy of remaining a domestic operation. Additionally, patent issues could not be properly protected in the international environment. Finally, both domestic and international licensing could result in lower product quality, another threat to Byte’s market share.

Considering the other options suggested to him by his staff, Elliott has chosen the temporary New England plant as the stop-gap solution. As Elliott prepares his presentation for the Board of Directors, of which he is a member, he anticipates little, if any, opposition to his proposal.

Opposition did come in the single, but very strong voice of Kevin Williams, an outside director, who vehemently opposed the temporary facility on the basis of corporate responsibility. Williams stated the influx of workers and their families, approximately 4,000 people, would seriously disrupt the small New England community. New schools, businesses, hospitals, housing and retail establishments would be necessary to care for the new Byte employees. If the temporary nature of the facility were known, the local government and banking community would not be forthcoming with the funds required to capitalize those projects. If Byte hid the temporary nature of the facility, the funding for the projects would be supplied, but in three years when the plant closed, and the community could become an unemployed ghost town. Williams concluded that it was not a legal issue, but a moral responsibility.

Examining the issue from an objective position, several items appear to require discussion. The temporary plant may supply enough products to meet demand, but the location is far away from the market. This

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may ultimately cause distribution and service problems. For the employee, the temporary plant is not a good solution. Not knowing the job is temporary, many employees may begin to make a permanent home for their families, buy houses, set down roots. When the layoffs begin due to the plant closing, the employees will be the ones to suffer. Knowing the job is temporary might encourage apathy among workers that could lead to lower quality products. It is clear that Byte would not be doing a public or community service by opening the plant, but that is not a corporation's main concern. The question is whether or not the new facility would meet the four top priorities.

The location of the temporary plant tends to make it ineffective. Lack of warehousing facilities and transportation systems add to the ineffectiveness of the plant. Elliott has already stated the renovated plant would never be an efficient producer of Byte products. If the temporary nature of the facility is known, then morale is sure to be low. It appears that even the top four priorities of a corporation are not met by this solution.

Employee relationships may be difficult to manage. The strong union presence would require complex negotiations and labor contracts. Legal issues might arise if the closing of Byte's plant violates a Union agreement.

A thoughtful consideration of all the issues involved with the opening of the temporary plant in New England reveals much conflicting information. In some ways, as compared with licensing, the temporary plant seems like the solution. In other ways it seems like Byte would just be starting more problems. Both licensing and the temporary plant share the same drawbacks: high production costs, lower margins, and that the temporary plant does not have to deal with control over the operation. In a shared facility, Byte would not have much control over production.

Recommendations

Opening a new temporary plant may be an ideal answer to the lack of capacity, but the New England location is far from ideal. Elliott must weigh the problems associated with the new plant to the benefits of increased capacity. If all forecasts confirm the need for the increased capacity before the new state-of-the-art facility opens in three years, then perhaps Elliott should seek an alternative location.

Since the new plant will be located in the southwest, perhaps temporary space can be found there. Another alternative would be to plan production of the new plant to open in stages. Perhaps that would forestall some of the demand requirements. A third alternative would be to try to locate manufacturing space nearby one of the existing Byte facilities. When the temporary plant would close, job opportunities could be found in the permanent facilities. Production efficiency might increase production at the existing facilities. If no other alternative is available, then Byte should be up front about the temporary nature of the work. Byte might have to offer assistance to workers in the form of housing or credit. Byte might also guarantee jobs in the new southwestern plant to any worker willing to relocate. Byte must see the opening of the temporary plant as a means to stop the erosion of the market share, but not as a way to increase profit margins. Understanding that the facility would never boost the bottom line is necessary. Sacrifices might, or must, be made by Byte if they go with the New England plant.

IX. EFAS, IFAS, AND SFAS EXHIBITS

Were inappropriate for this case.

X. FINANCIAL ANALYSIS

Was inappropriate for this case.

Case 2
The Wallace Group, Inc.

I. CASE ABSTRACT

Harold Wallace, founder, serves as Chairman and President of the Wallace Group. He owns 45 percent of the outstanding stock. The company consists of three operating groups—Electronics, Plastics, and Chemicals, which generate sales of $70 million. Mr. Wallace continues direct operational control over the Electronics Group. Several years ago, Wallace and the Board embarked on a strategy of diversification into plastics and chemicals in order to decrease the company's dependence on defense-related business.

Presently, the morale within The Wallace Group has deteriorated to the point where some of the employee stockholders made an attempt to force Wallace's resignation. As a result of this crisis, Wallace has hired Frances Rampar, a management consultant, to conduct a management survey into the problems facing The Wallace Group. Her task is to develop a series of priorities for Wallace's consideration.

Decision Date:	**No Date**	**Sales:**	**$70,000,000**
		Net Income:	**$ 1,760,000**

II. CASE ISSUES AND SUBJECTS

Corporate Governance	Morale and Culture
Diversification	Organizational Structure
Stages of Corporate Development	Top Management Responsibilities
Vertical Integration	Modes of Strategy Formulation
Transfer Pricing	Distinctive Competence
Sub optimization	Entrepreneurship

III. STEPS COVERED IN STRATEGIC DECISION-MAKING PROCESS

(See Figure 1.5 on pages 20 and 21)

Strategy Formulation								Strategy Implementation	Evaluation & Control
Performance	Strategic Posture	Corporate Governance	External Factors	Internal Factors	Strategic Factors	Review MBO & Mission	Strategic Alternatives		
1A	1B	2	3	4	5A	5B	6	7	8
X	O	O	X	O	O	X	X	O	X

O = Emphasized in Case X = Covered in Case

IV. CASE OBJECTIVES

1. To acquaint the students with a CEO’s management of a company that leads to conflict and power struggles among managers. To deal with an issue in corporate governance: Why hasn't the board of directors become involved in this issue?

2. To have the student act as a consultant. As such, the student should develop a list of the most important problem(s) facing The Wallace Group, and specific action plans to deal with each specific problem.

3. To discuss how to convey potentially negative information to the person who hired you, especially if that person is the principal cause of this negative information.

4. To review the corporation diversification plan from an area of expertise (electronics) into areas (plastics and chemicals) where it has no distinctive competence.

V. SUGGESTED CLASSROOM APPROACHES TO THE CASE

1. Dr. Laurence J. Stybel, the case author, suggests two possible ways of handling this case.

   A. The first option involves students individually formulating a response to the following questions:

   - What is the most important problem facing The Wallace Group?

   - Develop a specific action plan to deal with these problems.

   This option typically involves 1.5 to 2 hours for class discussion.

   B. The second option would be to bring in a guest who would take the role of Harold Wallace. A retired president would be ideal for this kind of exercise. Under this format, students are divided into consulting teams and are given the following instructions:

- Attached is some information about The Wallace Group, Inc. This information includes data regarding corporate operations and operating problems as perceived by various managers of the company.

- Your consulting team should review this material. The team will then meet to analyze critical issues facing The Wallace Group and to identify solutions that The Wallace Group management could either take alone or with consulting assistance by your firm.

- On (date) your team will have an opportunity to meet with Mr. Harold Wallace to discuss your diagnosis and action plans. These plans should be as specific as possible, as they may lead to a consulting assignment for your group. In calculating costs associated with your participation in the plan you propose, assume a professional fee of $100 per day plus out-of-pocket expenses for food, travel, hotel, graphics, etc.

- Each team will present its findings to Mr. Wallace separately. You will have thirty minutes for the presentation, plus fifteen minutes for Mr. Wallace to question the team. At the conclusion of the presentations, Mr. Wallace will determine which team, if any, would be awarded the consulting contract.

In addition to the substantive learning objectives discussed earlier, the second option would achieve the following additional objectives:

1. to have students learn to develop formal oral presentations,

2. to determine a proper approach in conveying potentially negatively-charged information to someone perceived as a superior, and

3. to cost-out a consulting project based on specific action plans developed by students.

It is most effective to go through this option in one evening lasting 3–4 hours, rather than to space it over two–three classes.

Special note from the case author

Regardless of the option selected, the key element of this case is that the acquisition strategy of The Wallace Group has been disastrous in producing the following problems:

A. The acquisition strategy has moved The Wallace Group away from its area of distinctive competence in electronics into areas where it does not have distinctive competence. In a small firm such as The Wallace Group, this has resulted in a tendency to not effectively utilize scarce technical personnel. It also contributes to lack of morale on the part of employees because the firm does not have a clear mission.

B. The acquisition strategy has locked the electronics group into using the plastics group as its major supplier, thus increasing costs for one group and making them less competitive. Presumably, the Plastics Group is also locked into using the Chemicals Group and is faced with a similar situation.

C. A complex MIS apparatus has been constructed by central office to collect data from three very different operational groups. In addition, the central office appears "staff heavy" for such a small firm. This analysis is based on an examination of the organization chart.

D. Problems resulting from being heavily dependent on defense-related contracts have not been solved.

Mr. Wallace was once heard to have remarked, "We'll get organized tomorrow. But we've got to deal with today's needs today." This all too common approach to management must be challenged by the students. This company desperately needs an organized approach to strategic planning which involves both the commitment of Mr. Wallace and the involvement of key employees within the company.

Designing such a process would not be easy. But the case does seem to indicate that this is the most pressing need faced by The Wallace Group.

2. We have used it as a written paper. The students find the case somewhat difficult to handle because of Mr. Wallace's direct involvement in the company's problems.

VI. DISCUSSION QUESTIONS

1. **What is (are) the most important problem(s) facing The Wallace Group?**

2. **What recommendation(s) would you (as a consultant) make to Mr. Wallace, and in what order of priorities?**

3. **How do you educate a Stage I manager (entrepreneur) to become a Stage II or III professional manager? What impact does this problem have on this case?**

4. **How do you handle the transfer pricing problems involved in the backward integration? The acquisition of the plastic company has locked the Electronics Group into using its plastic products at a higher cost.**

5. **If Mr. Wallace is found to be one of the major problems, should he be addressed directly or indirectly?**

6. **Has the Wallace Group's diversification strategy been effective? If yes, please explain. If no, please explain.**

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VII. CASE AUTHOR'S TEACHING NOTE by Laurence J. Stybel*

Presented earlier in Section V, "Suggested Classroom Approaches to the Case".

VIII. STUDENT STRATEGIC AUDIT/STUDENT PAPER

I. INTERNAL ENVIRONMENT

A. Tremendous dissatisfaction among management and employees. This resulted from Wallace's failure to delegate to subordinates and a lack of clear strategies or long term plans, goals, or objectives.

B. Lethargy and lack of direction on top management's part.

II. EXTERNAL ENVIRONMENT

A. Favorable market niche in electronics. Longstanding reputation of reliable government contracts. Potential for increased sales due to administration's commitment to a strong military with the latest technology.

B. Auto industry on an upward trend with high sales volume suggest solid future sales.

III. STRENGTHS

A. The company is able to supply many of its own component parts and raw materials because it is well-integrated.

B. Solid performance from the plastics and electronics divisions in the past. The electronics group has a good track record in developing and manufacturing countermeasure equipment.

C. Public corporation provides the firm with flexibility to attract equity capital versus long- or short-term debt.

IV. PROBLEM ANALYSIS

A. Heavy dependence on government contracts could put the corporation in financial difficulty if further sales diversification cannot be found.

B. Poor organizational design creates span of control problems and results in poor operations. Specific job responsibilities need to be defined at the management level.

C. The corporate policy of transfer pricing needs to be addressed in terms of product cost and profit margin.

D. Stage I management in Stage III Corporation.

E. Unprofitable chemical division needs new management or it needs to be analyzed for sale to someone else.

V. RECOMMENDATIONS AND IMPLEMENTATION COSTS

A. Develop new organization chart and clearly define job responsibilities. Let management manage! Mr. Wallace needs to stop trying to run the firm himself.

COST: $3,000

B. Diversify product mix and customer base to hedge against loss of large customers. See Mr. Williams.

COST: $30 to $50,000

C. Change management of chemical division or sell off based on cost/benefit analysis to corporation.

COST: Money is needed to buy Mr. Luskic's 5 percent and $45,000 to attract a good manager from another firm.

D. Change management style. Mr. Wallace has got to let his managers manage. At the same time he must develop long-term strategies and goals that will help the corporation grow.

E. Clarify transfer pricing policy. Make sure that all managers understand that it is a team effort. The overall profitability of the corporation is what is important. This policy needs to be weighed in terms of overall profitability to corporation and not individual departments.

IX. EFAS, IFAS, AND SFAS EXHIBITS

Were inappropriate for this case.

X. FINANCIAL ANALYSIS

Was inappropriate for this case.

CASE 3
EVERYONE DOES IT

I. CASE ABSTRACT

When Jim Willis, Marketing VP learns that the launch date for the company's new satellite will be late by at least a year, he is told by the company's president to continue using the earlier published date for the launch. When Jim protests that the use of an incorrect date to market contracts was unethical, he is told that spacecraft are never launched on time and that it is common industry practice to list unrealistic launch dates. If a realistic date was used, no one would contract with the company.

Decision Date: No Date

FY Sales: Unknown
FY Net Income: Unknown

II. CASE SUBJECTS AND ISSUES

Electronic Satellite Imaging	Ethics
Aerospace	
Industry Practice	Decision-Making
Code of Ethics	Moral Relativism
Role Conflict	Policies & Procedures
Marketing Strategy	Evaluations & Control
Competitive Tactics	Stakeholders
	Corporate Culture

Case 3
EVERYONE DOES IT

III. STEPS COVERED IN STRATEGIC DECISION-MAKING PROCESS

(See Figure 1.5 on pages 22 and 23)

Strategy Formulation								Strategy Implementation	Evaluation & Control
Performance	Strategic Posture	Corporate Governance	External Factors	Internal Factors	Strategic Factors	Review Objectives & Mission	Strategic Alternatives		
1A	1B	2	3	4	5A	5B	6	7	8
		X	O	X				X	O

O = Emphasized in Case   X = Covered in Case

IV. CASE OBJECTIVES

1. To provide students with an understanding of the internal factors which cause managers to be placed in ethically compromising positions.

2. To evaluate and determine an ethically responsible course of action for ISI.

3. To offer students an opportunity to identify and evaluate possible positive and negative ramifications to the course of action that they have selected.

4. To illustrate the concept of moral relativism in making ethically questionable decisions.

5. To illustrate Kohlberg’s levels of moral development.

6. To provide students an opportunity to discuss the value of a code of ethics in a business organization.

7. To provide a vehicle to apply the three basic approaches to ethical behavior: utilitarian, individual rights, and justice approach, plus Kant’s two categorical imperatives.

V. SUGGESTED CLASSROOM APPROACHES TO THE CASE

1. Assign this case along with Chapter Three: Ethics and Social Responsibility in Strategic Management. Students should be able to identify and apply relevant concepts from Section 3.2, Ethical Decision Making to the situation described in this case.

2. Treat the case as a role-play and assign students to play the roles of Fred Ballard, Jim Willis, a venture capitalist, and a customer. Ask each person to make a case for his or her point of view. The class can then comment on what should be done.

3. Ask the class how this case might illustrate the concepts of moral relativism and Kohlberg's levels of moral development. Which level of moral development seemed to fit Jim Willis and his boss, Fred Ballard?

4. Ask the students if a code of conduct would have resolved Jim Willis' dilemma. This is an opportunity to discuss the value of a code of ethics and the sorts of things that such a code would include.

5. Spilt the class into four groups. Have each group discuss how a particular approach to ethical behavior could be used to resolve Jim Willis' dilemma: utilitarian, individual rights, justice, and Kant's categorical imperatives. After each group discusses the case, ask each one to show how that concept would have resolved the ethical problem. Be prepared for disagreements!

VI. DISCUSSION QUESTIONS

1. What are sources of the factors, which created the ethical dilemma?

2. Is it ever appropriate to withhold negative information from the client?

3. What should ISI do?

4. What is meant by the term, "industry practice"? Is this an example of moral relativism?

5. In what level of moral development is Jim Willis? His boss, Fred Ballard?

6. Would a code of ethics have prevented/resolved this ethical dilemma? What should be in a code of ethics? What if ISI had a Code of Ethics which stated that proprietary information could not be disclosed to anyone outside the company and allowed no exceptions?

7. What would the utilitarian approach to ethical behavior say about full disclosure vs. withholding? Individual rights approach? Justice approach? Kant's categorical imperatives?

VII. CASE AUTHOR'S TEACHING NOTE by Steven Cox and Shawana P. Johnson *
(The Case Abstract, the first three Case Objective, the first three Discussion Questions, and second Suggested Classroom Approach were written by the case authors)

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The type of situation discussed in the case is unfortunately not

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uncommon. Sales people are routinely asked to withhold information concerning shipping delays, production delays, possible labor unrest, product quality issues, and other customer relevant information. One of the greatest threats to a sales person's personal integrity and long term relationship with clients is pressure from within their own company to withhold relevant information. The fear of losing contracts, income, and job status often cause members of a firm to act outside of integrity. Recent cases like Enron/Arthur Anderson (R. Berebeirn, "Executive Action, the Enron Ethics Breakdown," *The Conference Board,* No. 15, February,2002) have brought to the forefront hoe pressure to succeed can influence decision makers and subordinates alike into unethical decisions

1. **What are sources of the factors, which have created the ethical dilemma?**

   There are several internal and external forces at work here.
   - Internal forces included:
     1. Jim Willis' boss, Frank Ballard, has given Jim a specific instruction not to disclose the information.
     2. The company did not permit the disclosure of company proprietary information without prior approval.
     3. The financial health of the company could be jeopardized.
     4. Jim Willis' personal financial well being could be jeopardized.
   - External forces included:
     1. Jim Willis' boss, Frank Ballard, has given Jim a specific instruction not to disclose the information.
     2. The company did not permit the disclosure of company proprietary information without prior approval.
     3. The financial health of the company could be jeopardized.
     4. Jim Willis' personal financial well being could be jeopardized.

2. **Is it ever appropriate to withhold negative information from the client?**
   The answer is: it depends on the situation. Potential problems with production, delivery, and maintenance arise all the time. Most of these problems
3. **What should ISI do?**

IX. <u>EFAS, IFAS, and SFAS Exhibits</u>

Were inappropriate for this case

X. <u>FINANCIAL ANALYSIS</u>

Was inappropriate for this case.

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