chapter 13

**Analyzing Strategic Management Cases**

**After reading this chapter, you should have a good understanding of the following learning objectives:**

[**LO13.1**](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#lo1)  How strategic case analysis is used to simulate real-world experiences.

[**LO13.2**](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#lo2)  How analyzing strategic management cases can help develop the ability to differentiate, speculate, and integrate when evaluating complex business problems.

[**LO13.3**](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#lo3)  The steps involved in conducting a strategic management case analysis.

[**LO13.4**](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#lo4)  How to get the most out of case analysis.

[**LO13.5**](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#lo5)  How integrative thinking and conflict-inducing discussion techniques can lead to better decisions.

[**LO13.6**](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#lo6)  How to use the strategic insights and material from each of the 12 previous chapters in the text to analyze issues posed by strategic management cases.

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**LO13.1**

How strategic case analysis is used to simulate real-world experiences.

**Why Analyze Strategic Management Cases?**

*“If you don’t ask the right questions, then you‘re never going to get the right solution. I spent too much of my career feeling like I’d done a really good job answering the wrong question. And that was because I was letting other people give me the question. One of the things that I’ve tried to do more and more—and I obviously have the opportunity to do as a leader—is to take ownership of the question. And so I’m much more interested these days in having debates about what the questions should be than I necessarily am about the solutions.”*[1](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-1)

*—Tim Brown, CEO of IDEO (a leading design consulting firm)*

It is often said that the key to finding good answers is to ask good questions. Strategic managers and business leaders are required to evaluate options, make choices, and find solutions to the challenges they face every day. To do so, they must learn to ask the right questions. The study of strategic management poses the same challenge. The process of analyzing, decision making, and implementing strategic actions raises many good questions.

•   Why do some firms succeed and others fail?

•   Why are some companies higher performers than others?

•   What information is needed in the strategic planning process?

•   How do competing values and beliefs affect strategic decision making?

•   What skills and capabilities are needed to implement a strategy effectively?

How does a student of strategic management answer these questions? By strategic case analysis. [**Case analysis**](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#key1) simulates the real-world experience that strategic managers and company leaders face as they try to determine how best to run their companies. It places students in the middle of an actual situation and challenges them to figure out what to do.[2](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-2)

case analysis

a method of learning complex strategic management concepts—such as environmental analysis, the process of decision making, and implementing strategic actions—through placing students in the middle of an actual situation and challenging them to figure out what to do.

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Asking the right questions is just the beginning of case analysis. In the previous chapters we have discussed issues and challenges that managers face and provided analytical frameworks for understanding the situation. But once the analysis is complete, decisions have to be made. Case analysis forces you to choose among different options and set forth a plan of action based on your choices. But even then the job is not done. Strategic case analysis also requires that you address how you will implement the plan and the implications of choosing one course of action over another.

A strategic management case is a detailed description of a challenging situation faced by an organization.[3](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-3) It usually includes a chronology of events and extensive support materials, such as financial statements, product lists, and transcripts of interviews with employees. Although names or locations are sometimes changed to provide anonymity, cases usually report the facts of a situation as authentically as possible.

One of the main reasons to analyze strategic management cases is to develop an ability to evaluate business situations critically. In case analysis, memorizing key terms and conceptual frameworks is not enough. To analyze a case, it is important that you go beyond textbook prescriptions and quick answers. It requires you to look deeply into the information that is provided and root out the essential issues and causes of a company’s problems.

The types of skills that are required to prepare an effective strategic case analysis can benefit you in actual business situations. Case analysis adds to the overall learning experience by helping you acquire or improve skills that may not be taught in a typical lecture course. Three capabilities that can be learned by conducting case analysis are especially useful to strategic managers—the ability to differentiate, speculate, and integrate.[4](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-4) Here’s how case analysis can enhance those skills.

**LO13.2**

How analyzing strategic management cases can help develop the ability to differentiate, speculate, and integrate when evaluating complex business problems.

1.   ***Differentiate***. Effective strategic management requires that many different elements of a situation be evaluated at once. This is also true in case analysis. When analyzing cases, it is important to isolate critical facts, evaluate whether assumptions are useful or faulty, and distinguish between good and bad information. Differentiating between the factors that are influencing the situation presented by a case is necessary for making a good analysis. Strategic management also involves understanding that problems are often complex and multilayered. This applies to case analysis as well. Ask whether the case deals with operational, business-level, or corporate issues.

Do the problems stem from weaknesses in the internal value chain or threats in the external environment? Dig deep. Being too quick to accept the easiest or least controversial answer will usually fail to get to the heart of the problem.

2.   ***Speculate***. Strategic managers need to be able to use their imagination to envision an explanation or solution that might not readily be apparent. The same is true with case analysis. Being able to imagine different scenarios or contemplate the outcome of a decision can aid the analysis. Managers also have to deal with uncertainty since most decisions are made without complete knowledge of the circumstances. This is also true in case analysis. Case materials often seem to be missing data or the information provided is contradictory. The ability to speculate about details that are unknown or the consequences of an action can be helpful.

3.   ***Integrate***. Strategy involves looking at the big picture and having an organization-wide perspective. Strategic case analysis is no different. Even though the chapters in this textbook divide the material into various topics that may apply to different parts of an organization, all of this information must be integrated into one set of recommendations that will affect the whole company. A strategic manager needs to comprehend how all the factors that influence the organization will interact. This also applies to case analysis. Changes made in one part of the organization affect other parts. Thus, a holistic perspective that integrates the impact of various decisions and environmental influences on all parts of the organization is needed.

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In business, these three activities sometimes “compete” with each other for your attention. For example, some decision makers may have a natural ability to differentiate among elements of a problem but are not able to integrate them very well. Others have enough innate creativity to imagine solutions or fill in the blanks when information is missing. But they may have a difficult time when faced with hard numbers or cold facts. Even so, each of these skills is important. The mark of a good strategic manager is the ability to simultaneously make distinctions and envision the whole, and to imagine a future scenario while staying focused on the present. Thus, another reason to conduct case analysis is to help you develop and exercise your ability to differentiate, speculate, and integrate. David C. Novak, the CEO of Young Brands, provides a useful insight on this matter:[5](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-5)

“I think what we need in our leaders, the people who ultimately run our companies and run our functions, is whole-brained people—people who can be analytical but also have the creativity, the right-brain side of the equation. There’s more and more of a premium on that today than ever before.”

Case analysis takes the student through the whole cycle of activity that a manager would face. Beyond the textbook descriptions of concepts and examples, case analysis asks you to “walk a mile in the shoes” of the strategic decision maker and learn to evaluate situations critically. Executives and owners must make decisions every day with limited information and a swirl of business activity going on around them. Consider the example of Sapient Health Network, an Internet start-up that had to undergo some analysis and problem solving just to survive. Strategy [Spotlight 13](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13sp1).1 describes how this company transformed itself after a serious self-examination during a time of crisis.

As you can see from the experience of Sapient Health Network, businesses are often faced with immediate challenges that threaten their lives. The Sapient case illustrates how the strategic management process helped it survive. First, the company realistically assessed the environment, evaluated the marketplace, and analyzed its resources. Then it made tough decisions, which included shifting its market focus, hiring and firing, and redeploying its assets. Finally, it took action. The result was not only firm survival, but also a quick turnaround leading to rapid success.

**LO13.3**

The steps involved in conducting a strategic management case analysis.

**How to Conduct a Case Analysis**

The process of analyzing strategic management cases involves several steps. In this section we will review the mechanics of preparing a case analysis. Before beginning, there are two things to keep in mind that will clarify your understanding of the process and make the results of the process more meaningful.

First, unless you prepare for a case discussion, there is little you can gain from the discussion and even less that you can offer. Effective strategic managers don’t enter into problem-solving situations without doing some homework—investigating the situation, analyzing and researching possible solutions, and sometimes gathering the advice of others. Good problem solving often requires that decision makers be immersed in the facts, options, and implications surrounding the problem. In case analysis, this means reading and thoroughly comprehending the case materials before trying to make an analysis.

The second point is related to the first. To get the most out of a case analysis you must place yourself “inside” the case—that is, think like an actual participant in the case situation. However, there are several positions you can take. These are discussed in the following paragraphs:

•   ***Strategic decision maker***. This is the position of the senior executive responsible for resolving the situation described in the case. It may be the CEO, the business owner, or a strategic manager in a key executive position.

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| STRATEGY**SPOTLIGHT** | **13.1** |

ANALYSIS, DECISION MAKING, AND CHANGE AT SAPIENT HEALTH NETWORK

Sapient Health Network (SHN) had gotten off to a good start. CEO Jim Kean and his two cofounders had raised $5 million in investor capital to launch their vision: an Internet-based health care information subscription service. The idea was to create an Internet community for people suffering from chronic diseases. It would provide members with expert information, resources, a message board, and chat rooms so that people suffering from the same ailments could provide each other with information and support. “Who would be more voracious consumers of information than people who are faced with life-changing, life-threatening illnesses?” thought Bill Kelly, one of SHN’s cofounders. Initial market research and beta tests had supported that view.

During the beta tests, however, the service had been offered for free. The troubles began when SHN tried to convert its trial subscribers into paying ones. Fewer than 5 percent signed on, far less than the 15 percent the company had projected. Sapient hired a vice president of marketing who launched an aggressive promotion, but after three months of campaigning SHN still had only 500 members. SHN was now burning through $400,000 per month, with little revenue to show for it.

At that point, according to SHN board member Susan Clymer, “there was a lot of scrambling around trying to figure out how we could wring value out of what we’d already accomplished.” One thing SHN had created was an expert software system which had two components: an “intelligent profile engine” (IPE) and an “intelligent query engine” (IQE). SHN used this system to collect detailed information from its subscribers.

SHN was sure that the expert system was its biggest selling point. But how could they use it? Then the founders remembered that the original business plan had suggested there might be a market for aggregate data about patient populations gathered from the website. Could they turn the business around by selling patient data? To analyze the possibility, Kean tried out the idea on the market research arm of a huge East Coast health care conglomerate. The officials were intrigued. SHN realized that its expert system could become a market research tool.

Once the analysis was completed, the founders made the decision: They would still create Internet communities for chronically ill patients, but the service would be free. And they would transform SHN from a company that processed subscriptions to one that sold market research.

Finally, they enacted the changes. Some of it was painful, including laying off 18 employees. Instead, SHN needed more health care industry expertise. It even hired an interim CEO, Craig Davenport, a 25-year veteran of the industry, to steer the company in its new direction. Finally, SHN had to communicate a new message to its members. It began by reimbursing the $10,000 of subscription fees they had paid.

All of this paid off dramatically in a matter of just two years. Revenues jumped to $1.9 million and early in the third year, SHN was purchased by WebMD. Less than a year after that, WebMD merged with Healtheon. The combined company still operates a thriving office out of SHN’s original location in Portland, Oregon.

Sources: Ferguson, S. 2007. Health Care Gets a Better IT Prescription. *Baseline,* [*www.baselinemag.com*](http://www.baselinemag.com), May 24. Brenneman, K. 2000. Healtheon/WebMD’s Local Office Is Thriving. *Business Journal of Portland*, June 2; Raths, D. 1998. Reversal of Fortune. *Inc. Technology*, 2: 52–62.

•   ***Board of directors***. Since the board of directors represents the owners of a corporation, it has a responsibility to step in when a management crisis threatens the company. As a board member, you may be in a unique position to solve problems.

•   ***Outside consultant***. Either the board or top management may decide to bring in outsiders. Consultants often have an advantage because they can look at a situation objectively. But they also may be at a disadvantage since they have no power to enforce changes.

Before beginning the analysis, it may be helpful to envision yourself assuming one of these roles. Then, as you study and analyze the case materials, you can make a diagnosis and recommend solutions in a way that is consistent with your position. Try different perspectives. You may find that your view of the situation changes depending on the role you play. As an outside consultant, for example, it may be easy for you to conclude that certain individuals should be replaced in order to solve a problem presented in the case. However, if you take the role of the CEO who knows the individuals and the challenges they have been facing, you may be reluctant to fire them and will seek another solution instead.

The idea of assuming a particular role is similar to the real world in various ways. In your career, you may work in an organization where outside accountants, bankers,

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lawyers, or other professionals are advising you about how to resolve business situations or improve your practices. Their perspective will be different from yours but it is useful to understand things from their point of view. Conversely, you may work as a member of the audit team of an accounting firm or the loan committee of a bank. In those situations, it would be helpful if you understood the situation from the perspective of the business leader who must weigh your views against all the other advice that he or she receives. Case analysis can help develop an ability to appreciate such multiple perspectives.

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| STRATEGY**SPOTLIGHT** | **13.2** |

USING A BUSINESS PLAN FRAMEWORK TO ANALYZE STRATEGIC CASES

Established businesses often have to change what they are doing in order to improve their competitive position or sometimes simply to survive. To make the changes effectively, businesses usually need a plan. Business plans are no longer just for entrepreneurs. The kind of market analysis, decision making, and action planning that is considered standard practice among new ventures can also benefit going concerns that want to make changes, seize an opportunity, or head in a new direction.

The best business plans, however, are not those loaded with decades of month-by-month financial projections or that depend on rigid adherence to a schedule of events that is impossible to predict. The good ones are focused on four factors that are critical to new-venture success. These same factors are important in case analysis as well because they get to the heart of many of the problems found in strategic cases.

1.   *The People*. “When I receive a business plan, I always read the résumé section first,” says Harvard Professor William Sahlman. The people questions that are critically important to investors include: What are their skills? How much experience do they have? What is their reputation? Have they worked together as a team? These same questions also may be used in case analysis to evaluate the role of individuals in the strategic case.

2.   *The Opportunity*. Business opportunities come in many forms. They are not limited to new ventures. The chance to enter new markets, introduce new products, or merge with a competitor provides many of the challenges that are found in strategic management cases. What are the consequences of such actions? Will the proposed changes affect the firm’s business concept? What factors might stand in the way of success? The same issues are also present in most strategic cases.

3.   *The Context*. Things happen in contexts that cannot be controlled by a firm’s managers. This is particularly true of the general environment where social trends, economic changes, or events such as the September 11, 2001, terrorist attacks can change business overnight. When evaluating strategic cases, ask: Is the company aware of the impact of context on the business? What will it do if the context changes? Can it influence the context in a way that favors the company?

4.   *Risk and Reward*. With a new venture, the entrepreneurs and investors take the risks and get the rewards. In strategic cases, the risks and rewards often extend to many other stakeholders, such as employees, customers, and suppliers. When analyzing a case, ask: Are the managers making choices that will pay off in the future? Are the rewards evenly distributed? Will some stakeholders be put at risk if the situation in the case changes? What if the situation remains the same? Could that be even riskier?

Whether a business is growing or shrinking, large or small, industrial or service oriented, the issues of people, opportunities, context, and risks and rewards will have a large impact on its performance. Therefore, you should always consider these four factors when evaluating strategic management cases.

Sources: Wasserman, E. 2003. A Simple Plan. *MBA Jungle*, February: 50–55: DeKluyver, C. A. 2000. *Strategic Thinking: An Executive Perspective*. Upper Saddle River, NJ: Prentice Hall; and Sahlman, W. A. 1997. How to Write a Great Business Plan. *Harvard Business Review*, 75(4): 98–108.

One of the most challenging roles to play in business is as a business founder or owner. For small businesses or entrepreneurial start-ups, the founder may wear all hats at once—key decision maker, primary stockholder, and CEO. Hiring an outside consultant may not be an option. However, the issues faced by young firms and established firms are often not that different, especially when it comes to formulating a plan of action. Business plans that entrepreneurial firms use to raise money or propose a business expansion typically revolve around a few key issues that must be addressed no matter what the size or age of the business. Strategy [Spotlight 13.2](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13sp2) reviews business planning issues that are most important to consider when evaluating any case, especially from the perspective of the business founder or owner.

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Next we will review five steps to follow when conducting a strategic management case analysis: becoming familiar with the material, identifying the problems, analyzing the strategic issues using the tools and insights of strategic management, proposing alternative solutions, and making recommendations.[6](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-6)

**Become Familiar with the Material**

Written cases often include a lot of material. They may be complex and include detailed financials or long passages. Even so, to understand a case and its implications, you must become familiar with its content. Sometimes key information is not immediately apparent. It may be contained in the footnotes to an exhibit or an interview with a lower-level employee. In other cases the important points may be difficult to grasp because the subject matter is so unfamiliar. When you approach a strategic case try the following technique to enhance comprehension:

•   Read quickly through the case one time to get an overall sense of the material.

•   Use the initial read-through to assess possible links to strategic concepts.

•   Read through the case again, in depth. Make written notes as you read.

•   Evaluate how strategic concepts might inform key decisions or suggest alternative solutions.

•   After formulating an initial recommendation, thumb through the case again quickly to help assess the consequences of the actions you propose.

**Identify Problems**

When conducting case analysis, one of your most important tasks is to identify the problem. Earlier we noted that one of the main reasons to conduct case analysis was to find solutions. But you cannot find a solution unless you know the problem. Another saying you may have heard is, “A good diagnosis is half the cure.” In other words, once you have determined what the problem is, you are well on your way to identifying a reasonable solution.

Some cases have more than one problem. But the problems are usually related. For a hypothetical example, consider the following: Company A was losing customers to a new competitor. Upon analysis, it was determined that the competitor had a 50 percent faster delivery time even though its product was of lower quality. The managers of company A could not understand why customers would settle for an inferior product. It turns out that no one was marketing to company A’s customers that its product was superior. A second problem was that falling sales resulted in cuts in company A’s sales force. Thus, there were two related problems: inferior delivery technology and insufficient sales effort.

When trying to determine the problem, avoid getting hung up on symptoms. Zero in on the problem. For example, in the company A example above, the symptom was losing customers. But the problems were an underfunded, understaffed sales force combined with an outdated delivery technology. Try to see beyond the immediate symptoms to the more fundamental problems.

Another tip when preparing a case analysis is to articulate the problem.[7](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-7) Writing down a problem statement gives you a reference point to turn to as you proceed through the case analysis. This is important because the process of formulating strategies or evaluating implementation methods may lead you away from the initial problem. Make sure your recommendation actually addresses the problems you have identified.

One more thing about identifying problems: Sometimes problems are not apparent until *after* you do the analysis. In some cases the problem will be presented plainly, perhaps in the opening paragraph or on the last page of the case. But in other cases the problem does not emerge until after the issues in the case have been analyzed. We turn next to the subject of strategic case analysis.

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**Conduct Strategic Analyses**

This textbook has presented numerous analytical tools (e.g., five-forces analysis and value-chain analysis), contingency frameworks (e.g., when to use related rather than unrelated diversification strategies), and other techniques that can be used to evaluate strategic situations. The previous 12 chapters have addressed practices that are common in strategic management, but only so much can be learned by studying the practices and concepts. The best way to understand these methods is to apply them by conducting analyses of specific cases.

The first step is to determine which strategic issues are involved. Is there a problem in the company’s competitive environment? Or is it an internal problem? If it is internal, does it have to do with organizational structure? Strategic controls? Uses of technology? Or perhaps the company has overworked its employees or underutilized its intellectual capital. Has the company mishandled a merger? Chosen the wrong diversification strategy? Botched a new product introduction? Each of these issues is linked to one or more of the concepts discussed earlier in the text. Determine what strategic issues are associated with the problems you have identified. Remember also that most real-life case situations involve issues that are highly interrelated. Even in cases where there is only one major problem, the strategic processes required to solve it may involve several parts of the organization.

Once you have identified the issues that apply to the case, conduct the analysis. For example, you may need to conduct a five-forces analysis or dissect the company’s competitive strategy. Perhaps you need to evaluate whether its resources are rare, valuable, difficult to imitate, or difficult to substitute. Financial analysis may be needed to assess the company’s economic prospects. Perhaps the international entry mode needs to be reevaluated because of changing conditions in the host country. Employee empowerment techniques may need to be improved to enhance organizational learning. Whatever the case, all the strategic concepts introduced in the text include insights for assessing their effectiveness. Determining how well a company is doing these things is central to the case analysis process.

[**Financial ratio analysis**](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#key2) is one of the primary tools used to conduct case analysis. Appendix 1 to [Chapter 13](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml) includes a discussion and examples of the financial ratios that are often used to evaluate a company’s performance and financial well-being. [Exhibit 13.1](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh1) provides a summary of the financial ratios presented in Appendix 1 to this chapter.

financial ratio analysis

a method of evaluating a company’s performance and financial well-being through ratios of accounting values, including short-term solvency, long-term solvency, asset utilization, profitability, and market value ratios.

In this part of the overall strategic analysis process, it is also important to test your own assumptions about the case.[8](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-8) First, what assumptions are you making about the case materials? It may be that you have interpreted the case content differently than your team members or classmates. Being clear about these assumptions will be important in determining how to analyze the case. Second, what assumptions have you made about the best way to resolve the problems? Ask yourself why you have chosen one type of analysis over another. This process of assumption checking can also help determine if you have gotten to the heart of the problem or are still just dealing with symptoms.

As mentioned earlier, sometimes the critical diagnosis in a case can only be made after the analysis is conducted. However, by the end of this stage in the process, you should know the problems and have completed a thorough analysis of them. You can now move to the next step: finding solutions.

**Propose Alternative Solutions**

It is important to remember that in strategic management case analysis, there is rarely one right answer or one best way. Even when members of a class or a team agree on what the problem is, they may not agree upon how to solve the problem. Therefore, it is helpful to consider several different solutions.

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**EXHIBIT 13.1 Summary of Financial Ratio Analysis Techniques**

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| **Ratio** | **What It Measures** |
| **Short-term solvency, or liquidity, ratios:** |   |
| Current ratio | Ability to use assets to pay off liabilities. |
| Quick ratio | Ability to use liquid assets to pay off liabilities quickly. |
| Cash ratio | Ability to pay off liabilities with cash on hand. |
| **Long-term solvency, or financial leverage, ratios:** |   |
| Total debt ratio | How much of a company’s total assets are financed by debt. |
| Debt-equity ratio | Compares how much a company is financed by debt with how much it is financed by equity. |
| Equity multiplier | How much debt is being used to finance assets. |
| Times interest earned ratio | How well a company has its interest obligations covered. |
| Cash coverage ratio | A company’s ability to generate cash from operations. |
| **Asset utilization, or turnover, ratios:** |   |
| Inventory turnover | How many times each year a company sells its entire inventory. |
| Days’ sales in inventory | How many days on average inventory is on hand before it is sold. |
| Receivables turnover | How frequently each year a company collects on its credit sales. |
| Days’ sales in receivables | How many days on average it takes to collect on credit sales (average collection period). |
| Total asset turnover | How much of sales is generated for every dollar in assets. |
| Capital intensity | The dollar investment in assets needed to generate $1 in sales. |
| **Profitability ratios:** |   |
| Profit margin | How much profit is generated by every dollar of sales. |
| Return on assets (ROA) | How effectively assets are being used to generate a return. |
| Return on equity (ROE) | How effectively amounts invested in the business by its owners are being used to generate a return. |
| **Market value ratios:** |   |
| Price-earnings ratio | How much investors are willing to pay per dollar of current earnings. |
| Market-to-book ratio | Compares market value of the company’s investments to the cost of those investments. |

After conducting strategic analysis and identifying the problem, develop a list of options. What are the possible solutions? What are the alternatives? First, generate a list of all the options you can think of without prejudging any one of them. Remember that not all cases call for dramatic decisions or sweeping changes. Some companies just need to make small adjustments. In fact, “Do nothing” may be a reasonable alternative in some cases. Although that is rare, it might be useful to consider what will happen if the company does nothing. This point illustrates the purpose of developing alternatives: to evaluate what will happen if a company chooses one solution over another.

Thus, during this step of a case analysis, you will evaluate choices and the implications of those choices. One aspect of any business that is likely to be highlighted in this part of the analysis is strategy implementation. Ask how the choices made will be implemented. It may be that what seems like an obvious choice for solving a problem

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creates an even bigger problem when implemented. But remember also that no strategy or strategic “fix” is going to work if it cannot be implemented. Once a list of alternatives is generated, ask:

•   Can the company afford it? How will it affect the bottom line?

•   Is the solution likely to evoke a competitive response?

•   Will employees throughout the company accept the changes? What impact will the solution have on morale?

•   How will the decision affect other stakeholders? Will customers, suppliers, and others buy into it?

•   How does this solution fit with the company’s vision, mission, and objectives?

•   Will the culture or values of the company be changed by the solution? Is it a positive change?

The point of this step in the case analysis process is to find a solution that both solves the problem and is realistic. A consideration of the implications of various alternative solutions will generally lead you to a final recommendation that is more thoughtful and complete.

**Make Recommendations**

The basic aim of case analysis is to find solutions. Your analysis is not complete until you have recommended a course of action. In this step the task is to make a set of recommendations that your analysis supports. Describe exactly what needs to be done. Explain why this course of action will solve the problem. The recommendation should also include suggestions for how best to implement the proposed solution because the recommended actions and their implications for the performance and future of the firm are interrelated.

Recall that the solution you propose must solve the problem you identified. This point cannot be overemphasized; too often students make recommendations that treat only symptoms or fail to tackle the central problems in the case. Make a logical argument that shows how the problem led to the analysis and the analysis led to the recommendations you are proposing. Remember, an analysis is not an end in itself; it is useful only if it leads to a solution.

The actions you propose should describe the very next steps that the company needs to take. Don’t say, for example, “If the company does more market research, then I would recommend the following course of action….” Instead, make conducting the research part of your recommendation. Taking the example a step further, if you also want to suggest subsequent actions that may be different *depending* on the outcome of the market research, that’s OK. But don’t make your initial recommendation conditional on actions the company may or may not take.

In summary, case analysis can be a very rewarding process but, as you might imagine, it can also be frustrating and challenging. If you will follow the steps described above, you will address the different elements of a thorough analysis. This approach can give your analysis a solid footing. Then, even if there are differences of opinion about how to interpret the facts, analyze the situation, or solve the problems, you can feel confident that you have not missed any important steps in finding the best course of action.

Students are often asked to prepare oral presentations of the information in a case and their analysis of the best remedies. This is frequently assigned as a group project. Or you may be called upon in class to present your ideas about the circumstances or solutions for a case the class is discussing. [Exhibit 13.2](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh2) provides some tips for preparing an oral case presentation.

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**EXHIBIT 13.2 Preparing an Oral Case Presentation**

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| **Rule** | **Description** |
| **Organize your thoughts.** | Begin by becoming familiar with the material. If you are working with a team, compare notes about the key points of the case and share insights that other team members may have gleaned from tables and exhibits. Then make an outline. This is one of the best ways to organize the flow and content of the presentation. |
| **Emphasize strategic analysis.** | The purpose of case analysis is to diagnose problems and find solutions. In the process, you may need to unravel the case material as presented and reconfigure it in a fashion that can be more effectively analyzed. Present the material in a way that lends itself to analysis—don’t simply restate what is in the case. This involves three major categories with the following emphasis: |
|   | Background/Problem Statement    10–20% |
|   | Strategic Analysis/Options           60–75% |
|   | Recommendations/Action Plan    10–20% |
|   | As you can see, the emphasis of your presentation should be on analysis. This will probably require you to reorganize the material so that the tools of strategic analysis can be applied. |
| **Be logical and consistent.** | A presentation that is rambling and hard to follow may confuse the listener and fail to evoke a good discussion. Present your arguments and explanations in a logical sequence. Support your claims with facts. Include financial analysis where appropriate. Be sure that the solutions you recommend address the problems you have identified. |
| **Defend your position.** | Usually an oral presentation is followed by a class discussion. Anticipate what others might disagree with and be prepared to defend your views. This means being aware of the choices you made and the implications of your recommendations. Be clear about your assumptions. Be able to expand on your analysis. |
| **Share presentation responsibilities.** | Strategic management case analyses are often conducted by teams. Each member of the team should have a clear role in the oral presentation, preferably a speaking role. It’s also important to coordinate the different parts of the presentation into a logical, smooth-flowing whole. How well a team works together is usually very apparent during an oral presentation. |

**LO13.4**

How to get the most out of case analysis.

**How to Get the Most from Case Analysis**

One of the reasons case analysis is so enriching as a learning tool is that it draws on many resources and skills besides just what is in the textbook. This is especially true in the study of strategy. Why? Because strategic management itself is a highly integrative task that draws on many areas of specialization at several levels, from the individual to the whole of society. Therefore, to get the most out of case analysis, expand your horizons beyond the concepts in this text and seek insights from your own reservoir of knowledge. Here are some tips for how to do that.[9](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-9)

•   ***Keep an open mind***. Like any good discussion, a case analysis discussion often evokes strong opinions and high emotions. But it’s the variety of perspectives that makes case analysis so valuable: Many viewpoints usually lead to a more complete analysis. Therefore, avoid letting an emotional response to another person’s style or opinion keep you from hearing what he or she has to say. Once you evaluate what is said, you may disagree with it or dismiss it as faulty. But unless you keep an open mind in the first place, you may miss the importance of the other person’s contribution. Also, people often place a higher value on the opinions of those they consider to be good listeners.

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•   ***Take a stand for what you believe***. Although it is vital to keep an open mind, it is also important to state your views proactively. Don’t try to figure out what your friends or the instructor wants to hear. Analyze the case from the perspective of your own background and belief system. For example, perhaps you feel that a decision is unethical or that the managers in a case have misinterpreted the facts. Don’t be afraid to assert that in the discussion. For one thing, when a person takes a strong stand, it often encourages others to evaluate the issues more closely. This can lead to a more thorough investigation and a more meaningful class discussion.

•   ***Draw on your personal experience***. You may have experiences from work or as a customer that shed light on some of the issues in a case. Even though one of the purposes of case analysis is to apply the analytical tools from this text, you may be able to add to the discussion by drawing on your outside experiences and background. Of course, you need to guard against carrying that to extremes. In other words, don’t think that your perspective is the only viewpoint that matters! Simply recognize that firsthand experience usually represents a welcome contribution to the overall quality of case discussions.

•   ***Participate and persuade***. Have you heard the phrase, “Vote early … and often”? Among loyal members of certain political parties, it has become rather a joke. Why? Because a democratic system is built on the concept of one person, one vote. Even though some voters may want to vote often enough to get their candidate elected, it is against the law. Not so in a case discussion. People who are persuasive and speak their mind can often influence the views of others. But to do so, you have to be prepared and convincing. Being persuasive is more than being loud or long-winded. It involves understanding all sides of an argument and being able to overcome objections to your own point of view. These efforts can make a case discussion more lively. And they parallel what happens in the real world; in business, people frequently share their opinions and attempt to persuade others to see things their way.

•   ***Be concise and to the point***. In the previous point, we encouraged you to speak up and “sell” your ideas to others in a case discussion. But you must be clear about what you are selling. Make your arguments in a way that is explicit and direct. Zero in on the most important points. Be brief. Don’t try to make a lot of points at once by jumping around between topics. Avoid trying to explain the whole case situation at once. Remember, other students usually resent classmates who go on and on, take up a lot of “airtime,” or repeat themselves unnecessarily. The best way to avoid this is to stay focused and be specific.

•   ***Think out of the box***. It’s OK to be a little provocative; sometimes that is the consequence of taking a stand on issues. But it may be equally important to be imaginative and creative when making a recommendation or determining how to implement a solution. Albert Einstein once stated, “Imagination is more important than knowledge.” The reason is that managing strategically requires more than memorizing concepts. Strategic management insights must be applied to each case differently—just knowing the principles is not enough. Imagination and out-of-the-box thinking help to apply strategic knowledge in novel and unique ways.

•   ***Learn from the insights of others***. Before you make up your mind about a case, hear what other students have to say. Get a second opinion, and a third, and so forth. Of course, in a situation where you have to put your analysis in writing, you may not be able to learn from others ahead of time. But in a case discussion, observe how various students attack the issues and engage in problem solving.

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Such observation skills also may be a key to finding answers within the case. For example, people tend to believe authority figures, so they would place a higher value on what a company president says. In some cases, however, the statements of middle managers may represent a point of view that is even more helpful for finding a solution to the problems presented by the case.

•   ***Apply insights from other case analyses***. Throughout the text, we have used examples of actual businesses to illustrate strategy concepts. The aim has been to show you how firms think about and deal with business problems. During the course, you may be asked to conduct several case analyses as part of the learning experience. Once you have performed a few case analyses, you will see how the concepts from the text apply in real-life business situations. Incorporate the insights learned from the text examples and your own previous case discussions into each new case that you analyze.

•   ***Critically analyze your own performance***. Performance appraisals are a standard part of many workplace situations. They are used to determine promotions, raises, and work assignments. In some organizations, everyone from the top executive down is subject to such reviews. Even in situations where the owner or CEO is not evaluated by others, they often find it useful to ask themselves regularly, Am I being effective? The same can be applied to your performance in a case analysis situation. Ask yourself, Were my comments insightful? Did I make a good contribution? How might I improve next time? Use the same criteria on yourself that you use to evaluate others. What grade would you give yourself? This technique will not only make you more fair in your assessment of others but also will indicate how your own performance can improve.

•   ***Conduct outside research***. Many times, you can enhance your understanding of a case situation by investigating sources outside the case materials. For example, you may want to study an industry more closely or research a company’s close competitors. Recent moves such as mergers and acquisitions or product introductions may be reported in the business press. The company itself may provide useful information on its website or in its annual reports. Such information can usually spur additional discussion and enrich the case analysis. (*Caution*: It is best to check with your instructor in advance to be sure this kind of additional research is encouraged. Bringing in outside research may conflict with the instructor’s learning objectives.)

Several of the points suggested above for how to get the most out of case analysis apply only to an open discussion of a case, like that in a classroom setting. [Exhibit 13.3](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh3) provides some additional guidelines for preparing a written case analysis.

**LO13.5**

How integrative thinking and conflict-inducing discussion techniques can lead to better decisions.

**Useful Decision-Making Techniques in Case Analysis**

The demands on today’s business leaders require them to perform a wide variety of functions. The success of their organizations often depends on how they as individuals—and as part of groups—meet the challenges and deliver on promises. In this section we address two different techniques that can help managers make better decisions and, in turn, enable their organizations to achieve higher performance.

First, we discuss integrative thinking, a technique that helps managers make better decisions through the resolution of competing demands on resources, multiple contingencies, and diverse opportunities. Second, we introduce devil’s advocacy and dialectical inquiry. Both of these approaches to decision making involve the effective use of conflict in the decision-making process.

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The challenges facing today’s leaders require them to confront a host of opposing forces. As the previous section indicated, maintaining consistency across a company’s culture, vision, and organizational design can be difficult, especially if the three activities are out of alignment.

**EXHIBIT 13.3 Preparing a Written Case Analysis**

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| **Rule** | **Description** |
| **Be thorough.** | Many of the ideas presented in [Exhibit 13.2](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh2) about oral presentations also apply to written case analysis. However, a written analysis typically has to be more complete. This means writing out the problem statement and articulating assumptions. It is also important to provide support for your arguments and reference case materials or other facts more specifically. |
| **Coordinate team efforts.** | Written cases are often prepared by small groups. Within a group, just as in a class discussion, you may disagree about the diagnosis or the recommended plan of action. This can be healthy if it leads to a richer understanding of the case material. But before committing your ideas to writing, make sure you have coordinated your responses. Don’t prepare a written analysis that appears contradictory or looks like a patchwork of disconnected thoughts. |
| **Avoid restating the obvious.** | There is no reason to restate material that everyone is familiar with already, namely, the case content. It is too easy for students to use up space in a written analysis with a recapitulation of the details of the case—this accomplishes very little. Stay focused on the key points. Only restate the information that is most central to your analysis. |
| **Present information graphically.** | Tables, graphs, and other exhibits are usually one of the best ways to present factual material that supports your arguments. For example, financial calculations such as break-even analysis, sensitivity analysis, or return on investment are best presented graphically. Even qualitative information such as product lists or rosters of employees can be summarized effectively and viewed quickly by using a table or graph. |
| **Exercise quality control.** | When presenting a case analysis in writing, it is especially important to use good grammar, avoid misspelling words, and eliminate typos and other visual distractions. Mistakes that can be glossed over in an oral presentation or class discussion are often highlighted when they appear in writing. Make your written presentation appear as professional as possible. Don’t let the appearance of your written case keep the reader from recognizing the importance and quality of your analysis. |

How does a leader make good strategic decisions in the face of multiple contingencies and diverse opportunities? A recent study by Roger L. Martin reveals that executives who have a capability known as [**integrative thinking**](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#key3) are among the most effective leaders. In his book *The Opposable Mind*, Martin contends that people who can consider two conflicting ideas simultaneously, without dismissing one of the ideas or becoming discouraged about reconciling them, often make the best problem solvers because of their ability to creatively synthesize the opposing thoughts. In explaining the source of his title, Martin quotes F. Scott Fitzgerald, who observed, “The test of a first-rate intelligence is the ability to hold two opposing ideas in mind at the same time and still retain the ability to function. One should, for example, be able to see that things are hopeless yet be determined to make them otherwise.”[10](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-10)

In contrast to conventional thinking, which tends to focus on making choices between competing ideas from a limited set of alternatives, integrative thinking is the process by which people reconcile opposing thoughts to identify creative solutions that provide them with more options and new alternatives. [Exhibit 13.4](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh4) outlines the

integrative thinking

a process of reconciling opposing thoughts by generating new alternatives and creative solutions rather than rejecting one thought in favor of another.

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four stages of the integrative thinking and deciding process. Martin uses the admittedly simple example of deciding where to go on vacation to illustrate the stages:

**EXHIBIT 13.4 Integrative Thinking: The Process of Thinking and Deciding**

Source: Reprinted by permission of Harvard Business School Press from R. L. Martin. *The Opposable Mind*, 2007. Copyright 2007 by the Harvard Business School Publishing Corporation; all rights reserved.

•   ***Salience***—Take stock of what features of the decision you consider relevant and important. For example: Where will you go? What will you see? Where will you stay? What will it cost? Is it safe? Other features may be less important, but try to think of everything that may matter.

•   ***Causality***—Make a mental map of the causal relationships between the features, that is, how the various features are related to one another. For example, is it worth it to invite friends to share expenses? Will an exotic destination be less safe?

•   ***Architecture***—Use the mental map to arrange a sequence of decisions that will lead to a specific outcome. For example, will you make the hotel and flight arrangements first, or focus on which sightseeing tours are available? No particular decision path is right or wrong, but considering multiple options simultaneously may lead to a better decision.

•   ***Resolution***—Make your selection. For example, choose which destination, which flight, and so forth. You final resolution is linked to how you evaluated the first three stages; if you are dissatisfied with your choices, the dotted arrows in the diagram ([Exhibit 13.4](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh4)) suggest you can go back through the process and revisit your assumptions.

Applied to business, an integrative thinking approach enables decision makers to consider situations not as forced trade-offs—either decrease costs or invest more; either satisfy shareholders or please the community—but as a method for synthesizing opposing ideas into a creative solution. The key is to think in terms of “both-and” rather than “either-or.” “Integrative thinking,” says Martin, “shows us that there’s a way to integrate the advantages of one solution without canceling out the advantages of an alternative solution.”

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| STRATEGY**SPOTLIGHT** | **13.3** |

INTEGRATIVE THINKING AT RED HAT, INC.

How can a software developer make money giving away free software? That was the dilemma Red Hat founder Bob Young was facing during the early days of the open-source software movement. A Finnish developer named Linus Torvalds, using freely available UNIX software, had developed an operating system dubbed “Linux” that was being widely circulated in the freeware community. The software was intended specifically as an alternative to the pricey proprietary systems sold by Microsoft and Oracle. To use proprietary software, corporations had to pay hefty installation fees and were required to call Microsoft or Oracle engineers to fix it when anything went wrong. In Young’s view it was a flawed and unsustainable business model.

But the free model was flawed as well. Although several companies had sprung up to help companies use Linux, there were few opportunities to profit from using it. As Young said, “You couldn’t make any money selling [the Linux] operating system because all this stuff was free, and if you started to charge money for it, someone else would come in and price it lower. It was a commodity in the truest sense of the word.” To complicate matters, hundreds of developers were part of the software community that was constantly modifying and debugging Linux—at a rate equivalent to three updates per day. As a result, systems administrators at corporations that tried to adopt the software spent so much time keeping track of updates that they didn’t enjoy the savings they expected from using free software.

Young saw the appeal of both approaches but also realized a new model was needed. While contemplating the dilemma, he realized a salient feature that others had overlooked—because most major corporations have to live with software decisions for at least 10 years, they will nearly always choose to do business with the industry leader. Young realized he had to position Red Hat as the top provider of Linux software. To do that, he proposed a radical solution: provide the authoritative version of Linux and deliver it in a new way—as a download rather than on CD. He hired programmers to create a downloadable version—still free—and promised, in essence, to maintain its quality (for a fee, of course) by dealing with all the open-source programmers who were continually suggesting changes. In the process, he created a product companies could trust and then profited by establishing ongoing service relationships with customers. Red Hat’s version of Linux became the de facto standard. By 2000, Linux was installed in 25 percent of server operating systems worldwide and Red Hat had captured over 50 percent of the global market for Linux systems.

By recognizing that a synthesis of two flawed business models could provide the best of both worlds, Young exhibited the traits of integrative thinking. He pinpointed the causal relationships between the salient features of the marketplace and Red Hat’s path to prosperity. He then crafted an approach that integrated aspects of the two existing approaches into a new alternative. By resolving to provide a free downloadable version, Young also took responsibility for creating his own path to success. The pay-off was substantial: when Red Hat went public in 1999, Young became a billionaire on the first day of trading. And by February 2011 Red Hat had over $850 million in annual revenues and a market capitalization of nearly $9 billion.

Source: Martin, R. L. 2007. *The Opposable Mind*. Boston: Harvard Business School Press; and [*finance.yahoo.com*](http://finance.yahoo.com).

Although Martin found that integrative thinking comes naturally to some people, he also believes it can be taught. But it may be difficult to learn, in part because it requires people to unlearn old patterns and become aware of how they think. For executives willing to take a deep look at their habits of thought, integrative thinking can be developed into a valuable skill. Strategy [Spotlight 13.3](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13sp3) tells how Red Hat Inc. cofounder Bob Young made his company a market leader by using integrative thinking to resolve a major problem in the domain of open-source software.

**Conflict Inducing Techniques**

Next we address some techniques often used to improve case analyses that involve the constructive use of conflict. In the classroom—as well as in the business world—you will frequently be analyzing cases or solving problems in groups. While the word *conflict* often has a negative connotation (e.g., rude behavior, personal affronts), it can be very helpful in arriving at better solutions to cases. It can provide an effective means for new insights as well as for rigorously questioning and analyzing assumptions and

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strategic alternatives. In fact, if you don’t have constructive conflict, you may only get consensus. When this happens, decisions tend to be based on compromise rather than collaboration.

In your organizational behavior classes, you probably learned the concept of “group-think.”[11](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-11) Groupthink, a term coined by Irving Janis after he conducted numerous studies on executive decision making, is a condition in which group members strive to reach agreement or consensus without realistically considering other viable alternatives. In effect, group norms bolster morale at the expense of critical thinking and decision making is impaired.[12](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-12)

Many of us have probably been “victims” of groupthink at one time or another in our life. We may be confronted with situations when social pressure, politics, or “not wanting to stand out” may prevent us from voicing our concerns about a chosen course of action. Nevertheless, decision making in groups is a common practice in the management of many businesses. Most companies, especially large ones, rely on input from various top managers to provide valuable information and experience from their specialty area as well as their unique perspectives. Organizations need to develop cultures and reward systems that encourage people to express their perspectives and create open dialogues. Constructive conflict can be very helpful in that it emphasizes the need for managers to consider other people’s perspectives and not simply become a strong advocate for positions that they may prefer.

[Chapter 11](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter11.xhtml) emphasized the importance of empowering individuals at all levels to participate in decision-making processes. After all, many of us have experienced situations where there is not a perfect correlation between one’s rank and the viability of their ideas! In terms of this course, case analysis involves a type of decision making that is often conducted in groups. Strategy [Spotlight 13.4](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13sp4) provides guidelines for making team-based approaches to case analysis more effective.

Clearly, understanding how to work in groups and the potential problems associated with group decision processes can benefit the case analysis process. Therefore, let’s first look at some of the symptoms of groupthink and suggest ways of preventing it. Then, we will suggest some conflict-inducing decision-making techniques—devil’s advocacy and dialectical inquiry—that can help to prevent groupthink and lead to better decisions.

**Symptoms of Groupthink and How to Prevent It** Irving Janis identified several symptoms of groupthink, including:

•   ***An illusion of invulnerability***. This reassures people about possible dangers and leads to overoptimism and failure to heed warnings of danger.

•   ***A belief in the inherent morality of the group***. Because individuals think that what they are doing is right, they tend to ignore ethical or moral consequences of their decisions.

•   ***Stereotyped views of members of opposing groups***. Members of other groups are viewed as weak or not intelligent.

•   ***The application of pressure to members who express doubts about the group’s shared illusions or question the validity of arguments proposed***.

•   ***The practice of self-censorship***. Members keep silent about their opposing views and downplay to themselves the value of their perspectives.

•   ***An illusion of unanimity***. People assume that judgments expressed by members are shared by all.

•   ***The appointment of mindguards***. People sometimes appoint themselves as mindguards to protect the group from adverse information that might break the climate of consensus (or agreement).

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| STRATEGY**SPOTLIGHT** | **13.4** |

MAKING CASE ANALYSIS TEAMS MORE EFFECTIVE

Working in teams can be very challenging. Not all team members have the same skills, interests, or motivations. Some team members just want to get the work done. Others see teams as an opportunity to socialize. Occasionally, there are team members who think they should be in charge and make all the decisions; other teams have freeloaders—team members who don’t want to do anything except get credit for the team’s work.

One consequence of these various styles is that team meetings can become time wasters. Disagreements about how to proceed, how to share the work, or what to do at the next meeting tend to slow down teams and impede progress toward the goal. While the dynamics of case analysis teams are likely to always be challenging depending on the personalities involved, one thing nearly all members realize is that, ultimately, the team’s work must be completed. Most team members also aim to do the highest quality work possible. The following guidelines provide some useful insights about how to get the work of a team done more effectively.

**Spend More Time Together**

One of the factors that prevents teams from doing a good job with case analysis is their failure to put in the necessary time. Unless teams really tackle the issues surrounding case analysis—both the issues in the case itself and organizing how the work is to be conducted—the end result will probably be lacking because decisions that are made too quickly are unlikely to get to the heart of the problem(s) in the case. “Meetings should be a precious resource, but they’re treated like a necessary evil,” says Kenneth Sole, a consultant who specializes in organizational behavior. As a result, teams that care more about finishing the analysis than getting the analysis right often make poor decisions.

Therefore, expect to have a few meetings that run long, especially at the beginning of the project when the work is being organized and the issues in the case are being sorted out, and again at the end when the team must coordinate the components of the case analysis that will be presented. Without spending this kind of time together, it is doubtful that the analysis will be comprehensive and the presentation is likely to be choppy and incomplete.

**Make a Focused and Disciplined Agenda**

To complete tasks and avoid wasting time, meetings need to have a clear purpose. To accomplish this at Roche, the Swiss drug and diagnostic product maker, CEO Franz Humer implemented a “decision agenda.” The agenda focuses only on Roche’s highest value issues and discussions are limited to these major topics. In terms of case analysis, the major topics include sorting out the issues of the case, linking elements of the case to the strategic issues presented in class or the text, and assigning roles to various team members. Such objectives help keep team members on track.

Agendas also can be used to address issues such as the time line for accomplishing work. Otherwise the purpose of meetings may only be to manage the “crisis” of getting the case analysis finished on time. One solution is to assign a team member to manage the agenda. That person could make sure the team stays focused on the tasks at hand and remains mindful of time constraints. Another role could be to link the team’s efforts to the steps presented in [Exhibits 13.2](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh2) and [Exhibit 13.3](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh3) on how to prepare a case analysis.

**Pay More Attention to Strategy**

Teams often waste time by focusing on unimportant aspects of a case. These may include details that are interesting but irrelevant or operational issues rather than strategic issues. It is true that useful clues to the issues in the case are sometimes embedded in the conversations of key managers or the trends evident in a financial statement. But once such insights are discovered, teams need to focus on the underlying strategic problems in the case. To solve such problems, major corporations such as Cadbury Schweppes and Boeing hold meetings just to generate strategic alternatives for solving their problems. This gives managers time to consider the implications of various courses of action. Separate meetings are held to evaluate alternatives, make strategic decisions, and approve an action plan.

Once the strategic solutions or “course corrections” are identified—as is common in most cases assigned—the operational implications and details of implementation will flow from the strategic decisions that companies make. Therefore, focusing primarily on strategic issues will provide teams with insights for making recommendations that are based on a deeper understanding of the issues in the case.

**Produce Real Decisions**

Too often, meetings are about discussing rather than deciding. Teams often spend a lot of time talking without reaching any conclusions. As Raymond Sanchez, CEO of Florida-based Security Mortgage Group, says, meetings are often used to “rehash the hash that’s already been hashed.” To be efficient and productive, team meetings need to be about more than just information sharing and group input. For example, an initial meeting may result in the team realizing that it needs to study the case in greater depth and examine links to strategic issues more carefully. Once more analysis is conducted, the team needs to reach a consensus so that the decisions that are made will last once the meeting is

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over. Lasting decisions are more actionable because it frees team members to take the next steps.

One technique for making progress in this way is recapping each meeting with a five-minute synthesis report. According to Pamela Schindler, director of the Center for Applied Management at Wittenberg University, it’s important to think through the implications of the meeting before ending it. “The real joy of synthesis,” says Schindler, “is realizing how many meetings you won’t need.”

Not only are these guidelines useful for helping teams finish their work, but they can also help resolve some of the difficulties that teams often face. By involving every team member, using a meeting agenda, and focusing on the strategic issues that are critical to nearly every case, the discussion is limited and the criteria for making decisions become clearer. This allows the task to dominate rather than any one personality. And if the team finishes its work faster, this frees up time to focus on other projects or put the finishing touches on a case analysis presentation.

Sources: Mankins, M. C. 2004. Stop Wasting Valuable Time. *Harvard Business Review*, September: 58–65; and Sauer, P. J. 2004. Escape from Meeting Hell. *Inc. Magazine*, May, [*www.inc.com*](http://www.inc.com).

Clearly, groupthink is an undesirable and negative phenomenon that can lead to poor decisions. Irving Janis considers it to be a key contributor to such faulty decisions as the failure to prepare for the attack on Pearl Harbor, the escalation of the Vietnam conflict, and the failure to prepare for the consequences of the Iraqi invasion. Many of the same sorts of flawed decision making occur in business organizations. Janis has provided several suggestions for preventing groupthink that can be used as valuable guides in decision making and problem solving:

•   Leaders must encourage group members to address their concerns and objectives.

•   When higher-level managers assign a problem for a group to solve, they should adopt an impartial stance and not mention their preferences.

•   Before a group reaches its final decision, the leader should encourage members to discuss their deliberations with trusted associates and then report the perspectives back to the group.

•   The group should invite outside experts and encourage them to challenge the group’s viewpoints and positions.

•   The group should divide into subgroups, meet at various times under different chairpersons, and then get together to resolve differences.

•   After reaching a preliminary agreement, the group should hold a “second chance” meeting which provides members a forum to express any remaining concerns and rethink the issue prior to making a final decision.

**Using Conflict to Improve Decision Making** In addition to the above suggestions, the effective use of conflict can be a means of improving decision making. Although conflict can have negative outcomes, such as ill will, anger, tension, and lowered motivation, both leaders and group members must strive to assure that it is managed properly and used in a constructive manner.

Two conflict-inducing decision-making approaches that have become quite popular are *devil’s advocacy* and *dialectical inquiry*. Both approaches incorporate conflict into the decision-making process through formalized debate. A group charged with making a decision or solving a problem is divided into two subgroups and each will be involved in the analysis and solution.

With [**devil’s advocacy**](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#key4), one of the groups (or individuals) acts as a critic to the plan. The devil’s advocate tries to come up with problems with the proposed alternative and

devil’s advocacy

a method of introducing conflict into a decision-making process by having specific individuals or groups act as a critic to an analysis or planned solution.

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suggest reasons why it should not be adopted. The role of the devil’s advocate is to create dissonance. This ensures that the group will take a hard look at its original proposal or alternative. By having a group (or individual) assigned the role of devil’s advocate, it becomes clear that such an adversarial stance is legitimized. It brings out criticisms that might otherwise not be made.

Some authors have suggested that the use of a devil’s advocate can be very helpful in helping boards of directors to ensure that decisions are addressed comprehensively and to avoid groupthink.[13](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref-13) And Charles Elson, a director of Sunbeam Corporation, has argued that:

Devil’s advocates are terrific in any situation because they help you to figure a decision’s numerous implications.… The better you think out the implications prior to making the decision, the better the decision ultimately turns out to be. That’s why a devil’s advocate is always a great person, irritating sometimes, but a great person.

As one might expect, there can be some potential problems with using the devil’s advocate approach. If one’s views are constantly criticized, one may become demoralized. Thus, that person may come up with “safe solutions” in order to minimize embarrassment or personal risk and become less subject to criticism. Additionally, even if the devil’s advocate is successful with finding problems with the proposed course of action, there may be no new ideas or counterproposals to take its place. Thus, the approach sometimes may simply focus on what is wrong without suggesting other ideas.

[**Dialectical inquiry**](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#key5) attempts to accomplish the goals of the devil’s advocate in a more constructive manner. It is a technique whereby a problem is approached from two alternative points of view. The idea is that out of a critique of the opposing perspectives—a thesis and an antithesis—a creative synthesis will occur. Dialectical inquiry involves the following steps:

1.   Identify a proposal and the information that was used to derive it.

2.   State the underlying assumptions of the proposal.

3.   Identify a counterplan (antithesis) that is believed to be feasible, politically viable, and generally credible. However, it rests on assumptions that are opposite to the original proposal.

4.   Engage in a debate in which individuals favoring each plan provide their arguments and support.

5.   Identify a synthesis which, hopefully, includes the best components of each alternative.

dialectical inquiry

a method of introducing conflict into a decision-making process by devising different proposals that are feasible, politically viable, and credible, but rely on different assumptions; and debating the merits of each.

There are some potential downsides associated with dialectical inquiry. It can be quite time consuming and involve a good deal of training. Further, it may result in a series of compromises between the initial proposal and the counterplan. In cases where the original proposal was the best approach, this would be unfortunate.

Despite some possible limitations associated with these conflict-inducing decision-making techniques, they have many benefits. Both techniques force debate about underlying assumptions, data, and recommendations between subgroups. Such debate tends to prevent the uncritical acceptance of a plan that may seem to be satisfactory after a cursory analysis. The approach serves to tap the knowledge and perspectives of group members and continues until group members agree on both assumptions and recommended actions. Given that both approaches serve to use, rather than minimize or suppress, conflict, higher quality decisions should result. [Exhibit 13.5](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh5) briefly summarizes these techniques.

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**EXHIBIT 13.5 Two Conflict-Inducing Decision-Making Processes**

**LO13.6**

How to use the strategic insights and material from each of the 12 previous chapters in the text to analyze issues posed by strategic management cases.

**Following the Analysis-Decision-Action Cycle in Case Analysis**

In [Chapter 1](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter01.xhtml) we defined strategic management as the analysis, decisions, and actions that organizations undertake to create and sustain competitive advantages. It is no accident that we chose that sequence of words because it corresponds to the sequence of events that typically occurs in the strategic management process. In case analysis, as in the real world, this cycle of events can provide a useful framework. First, an analysis of the case in terms of the business environment and current events is needed. To make such an analysis, the case background must be considered. Next, based on that analysis, decisions must be made. This may involve formulating a strategy, choosing between difficult options, moving forward aggressively, or retreating from a bad situation. There are many possible decisions, depending on the case situation. Finally, action is required. Once decisions are made and plans are set, the action begins. The recommended action steps and the consequences of implementing these actions are the final stage.

Each of the previous 12 chapters of this book includes techniques and information that may be useful in a case analysis. However, not all of the issues presented will be important in every case. As noted earlier, one of the challenges of case analysis is to identify the most critical points and sort through material that may be ambiguous or unimportant.

In this section we draw on the material presented in each of the 12 chapters to show how it informs the case analysis process. The ideas are linked sequentially and in terms of an overarching strategic perspective. One of your jobs when conducting case analysis is to see how the parts of a case fit together and how the insights from the study of strategy can help you understand the case situation.

1.   ***Analyzing organizational goals and objectives***. A company’s vision, mission, and objectives keep organization members focused on a common purpose. They also influence how an organization deploys its resources, relates to its stakeholders, and matches its short-term objectives with its long-term goals. The goals may even impact how a company formulates and implements strategies. When exploring issues of goals and objectives, you might ask:

•   Has the company developed short-term objectives that are inconsistent with its long-term mission? If so, how can management realign its vision, mission, and objectives?

•   Has the company considered all of its stakeholders equally in making critical decisions? If not, should the views of all stakeholders be treated the same or are some stakeholders more important than others?

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•   Is the company being faced with an issue that conflicts with one of its longstanding policies? If so, how should it compare its existing policies to the potential new situation?

2.   ***Analyzing the external environment***. The business environment has two components. The general environment consists of demographic, sociocultural, political/legal, technological, economic, and global conditions. The competitive environment includes rivals, suppliers, customers, and other factors that may directly affect a company’s success. Strategic managers must monitor the environment to identify opportunities and threats that may have an impact on performance. When investigating a firm’s external environment, you might ask:

•   Does the company follow trends and events in the general environment? If not, how can these influences be made part of the company’s strategic analysis process?

•   Is the company effectively scanning and monitoring the competitive environment? If so, how is it using the competitive intelligence it is gathering to enhance its competitive advantage?

•   Has the company correctly analyzed the impact of the competitive forces in its industry on profitability? If so, how can it improve its competitive position relative to these forces?

3.   ***Analyzing the internal environment***. A firm’s internal environment consists of its resources and other value-adding capabilities. Value-chain analysis and a resource-based approach to analysis can be used to identify a company’s strengths and weaknesses and determine how they are contributing to its competitive advantages. Evaluating firm performance can also help make meaningful comparisons with competitors. When researching a company’s internal analysis, you might ask:

•   Does the company know how the various components of its value chain are adding value to the firm? If not, what internal analysis is needed to determine its strengths and weakness?

•   Has the company accurately analyzed the source and vitality of its resources? If so, is it deploying its resources in a way that contributes to competitive advantages?

•   Is the company’s financial performance as good as or better than that of its close competitors? If so, has it balanced its financial success with the performance criteria of other stakeholders such as customers and employees?

4.   ***Assessing a firm’s intellectual assets***. Human capital is a major resource in today’s knowledge economy. As a result, attracting, developing, and retaining talented workers is a key strategic challenge. Other assets such as patents and trademarks are also critical. How companies leverage their intellectual assets through social networks and strategic alliances, and how technology is used to manage knowledge may be a major influence on a firm’s competitive advantage. When analyzing a firm’s intellectual assets, you might ask:

•   Does the company have underutilized human capital? If so, what steps are needed to develop and leverage its intellectual assets?

•   Is the company missing opportunities to forge strategic alliances? If so, how can it use its social capital to network more effectively?

•   Has the company developed knowledge-management systems that capture what it learns? If not, what technologies can it employ to retain new knowledge?

5.   ***Formulating business-level strategies***. Firms use the competitive strategies of differentiation, focus, and overall cost leadership as a basis for overcoming the five competitive forces and developing sustainable competitive advantages.

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Combinations of these strategies may work best in some competitive environments. Additionally, an industry’s life cycle is an important contingency that may affect a company’s choice of business-level strategies. When assessing business-level strategies, you might ask:

•   Has the company chosen the correct competitive strategy given its industry environment and competitive situation? If not, how should it use its strengths and resources to improve its performance?

•   Does the company use combination strategies effectively? If so, what capabilities can it cultivate to further enhance profitability?

•   Is the company using a strategy that is appropriate for the industry life cycle in which it is competing? If not, how can it realign itself to match its efforts to the current stage of industry growth?

6.   ***Formulating corporate-level strategies***. Large firms often own and manage portfolios of businesses. Corporate strategies address methods for achieving synergies among these businesses. Related and unrelated diversification techniques are alternative approaches to deciding which business should be added to or removed from a portfolio. Companies can diversify by means of mergers, acquisitions, joint ventures, strategic alliances, and internal development. When analyzing corporate-level strategies, you might ask:

•   Is the company competing in the right businesses given the opportunities and threats that are present in the environment? If not, how can it realign its diversification strategy to achieve competitive advantages?

•   Is the corporation managing its portfolio of businesses in a way that creates synergies among the businesses? If so, what additional business should it consider adding to its portfolio?

•   Are the motives of the top corporate executives who are pushing diversification strategies appropriate? If not, what action can be taken to curb their activities or align them with the best interests of all stakeholders?

7.   ***Formulating international-level strategies***. Foreign markets provide both opportunities and potential dangers for companies that want to expand globally. To decide which entry strategy is most appropriate, companies have to evaluate the trade-offs between two factors that firms face when entering foreign markets: cost reduction and local adaptation. To achieve competitive advantages, firms will typically choose one of three strategies: global, multidomestic, or transnational. When evaluating international-level strategies, you might ask:

•   Is the company’s entry into an international marketplace threatened by the actions of local competitors? If so, how can cultural differences be minimized to give the firm a better chance of succeeding?

•   Has the company made the appropriate choices between cost reduction and local adaptation to foreign markets? If not, how can it adjust its strategy to achieve competitive advantages?

•   Can the company improve its effectiveness by embracing one international strategy over another? If so, how should it choose between a global, multidomestic, or transnational strategy?

8.   ***Formulating entrepreneurial strategies***. New ventures add jobs and create new wealth. To do so, they must identify opportunities that will be viable in the marketplace as well as gather resources and assemble an entrepreneurial team to enact the opportunity. New entrants often evoke a strong competitive response from incumbent firms in a given marketplace. When examining the role of strategic

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thinking on the success of entrepreneurial ventures and the role of competitive dynamics, you might ask:

•   Is the company engaged in an ongoing process of opportunity recognition? If not, how can it enhance its ability to recognize opportunities?

•   Do the entrepreneurs who are launching new ventures have vision, dedication and drive, and a commitment to excellence? If so, how have these affected the performance and dedication of other employees involved in the venture?

•   Have strategic principles been used in the process of developing strategies to pursue the entrepreneurial opportunity? If not, how can the venture apply tools such as five-forces analysis and value-chain analysis to improve its competitive position and performance?

9.   ***Achieving effective strategic control***. Strategic controls enable a firm to implement strategies effectively. Informational controls involve comparing performance to stated goals and scanning, monitoring, and being responsive to the environment. Behavioral controls emerge from a company’s culture, reward systems, and organizational boundaries. When assessing the impact of strategic controls on implementation, you might ask:

•   Is the company employing the appropriate informational control systems? If not, how can it implement a more interactive approach to enhance learning and minimize response times?

•   Does the company have a strong and effective culture? If not, what steps can it take to align its values and rewards system with its goals and objectives?

•   Has the company implemented control systems that match its strategies? If so, what additional steps can be taken to improve performance?

10.   ***Creating effective organizational designs***. Organizational designs that align with competitive strategies can enhance performance. As companies grow and change, their structures must also evolve to meet new demands. In today’s economy, firm boundaries must be flexible and permeable to facilitate smoother interactions with external parties such as customers, suppliers, and alliance partners. New forms of organizing are becoming more common. When evaluating the role of organizational structure on strategy implementation, you might ask:

•   Has the company implemented organizational structures that are suited to the type of business it is in? If not, how can it alter the design in ways that enhance its competitiveness?

•   Is the company employing boundaryless organizational designs where appropriate? If so, how are senior managers maintaining control of lower-level employees?

•   Does the company use outsourcing to achieve the best possible results? If not, what criteria should it use to decide which functions can be outsourced?

11.   ***Creating a learning organization and an ethical organization***. Strong leadership is essential for achieving competitive advantages. Two leadership roles are especially important. The first is creating a learning organization by harnessing talent and encouraging the development of new knowledge. Second, leaders play a vital role in motivating employees to excellence and inspiring ethical behavior. When exploring the impact of effective strategic leadership, you might ask:

•   Do company leaders promote excellence as part of the overall culture? If so, how has this influenced the performance of the firm and the individuals in it?

•   Is the company committed to being a learning organization? If not, what can it do to capitalize on the individual and collective talents of organizational members?

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•   Have company leaders exhibited an ethical attitude in their own behavior? If not, how has their behavior influenced the actions of other employees?

12.   ***Fostering corporate entrepreneurship***. Many firms continually seek new growth opportunities and avenues for strategic renewal. In some corporations, autonomous work units such as business incubators and new-venture groups are used to focus corporate venturing activities. In other corporate settings, product champions and other firm members provide companies with the impetus to expand into new areas. When investigating the impact of entrepreneurship on strategic effectiveness, you might ask:

•   Has the company resolved the dilemmas associated with managing innovation? If so, is it effectively defining and pacing its innovation efforts?

•   Has the company developed autonomous work units that have the freedom to bring forth new product ideas? If so, has it used product champions to implement new venture initiatives?

•   Does the company have an entrepreneurial orientation? If not, what can it do to encourage entrepreneurial attitudes in the strategic behavior of its organizational members?

summary

Strategic management case analysis provides an effective method of learning how companies analyze problems, make decisions, and resolve challenges. Strategic cases include detailed accounts of actual business situations. The purpose of analyzing such cases is to gain exposure to a wide variety of organizational and managerial situations. By putting yourself in the place of a strategic decision maker, you can gain an appreciation of the difficulty and complexity of many strategic situations. In the process you can learn how to ask good strategic questions and enhance your analytical skills. Presenting case analyses can also help develop oral and written communication skills.

In this chapter we have discussed the importance of strategic case analysis and described the five steps involved in conducting a case analysis: becoming familiar with the material, identifying problems, analyzing strategic issues, proposing alternative solutions, and making recommendations. We have also discussed how to get the most from case analysis. Finally, we have described how the case analysis process follows the analysis-decision-action cycle of strategic management and outlined issues and questions that are associated with each of the previous 12 chapters of the text.

key terms

[case analysis](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#key-1)

[financial ratio analysis](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#key-2)

[integrative thinking](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#key-3)

[devil’s advocacy](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#key-4)

[dialectical inquiry](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#key-5)

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[6](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref6).      This section is based on Lundberg & Enz, op. cit., and Ronstadt, op. cit.

[7](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref7).      The importance of problem definition was emphasized in Mintzberg, H., Raisinghani, D. & Theoret, A. 1976. The structure of “unstructured” decision processes. *Administrative Science Quarterly*, 21(2): 246–275.

[8](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref8).      Drucker, P. F. 1994. The theory of the business. *Harvard Business Review*, 72(5): 95–104.

[9](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref9).      This section draws on Edge & Coleman, op. cit.

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[10](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref10).    Evans, R. 2007. The either/or dilemma, [*www.ft.com*](http://www.ft.com), December 19; np; and Martin, R. L. 2007. *The opposable mind*. Boston: Harvard Business School Press.

[11](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref11).    Irving Janis is credited with coining the term *groupthink*, and he applied it primarily to fiascos in government (such as the Bay of Pigs incident in 1961). Refer to Janis, I. L. 1982. *Victims of groupthink* (2nd ed.). Boston: Houghton Mifflin.

[12](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13ref12).    Much of our discussion is based upon Finkelstein, S. & Mooney, A. C. 2003. Not the usual suspects: How to use board process to make boards better. *Academy of Management Executive*, 17(2): 101–113; Schweiger, D. M., Sandberg, W. R., & Rechner, P. L. 1989. Experiential effects of dialectical inquiry, devil’s advocacy, and consensus approaches to strategic decision making. *Academy of Management Journal*, 32(4): 745–772; and Aldag, R. J. & Stearns, T. M. 1987. *Management*. Cincinnati: South-Western Publishing.

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**APPENDIX 1 TO CHAPTER 13**

**Financial Ratio Analysis**[**\***](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#fn1ast1)

**Standard Financial Statements**

One obvious thing we might want to do with a company’s financial statements is to compare them to those of other, similar companies. We would immediately have a problem, however. It’s almost impossible to directly compare the financial statements for two companies because of differences in size.

For example, Oracle and IBM are obviously serious rivals in the computer software market, but IBM is much larger (in terms of assets), so it is difficult to compare them directly. For that matter, it’s difficult to even compare financial statements from different points in time for the same company if the company’s size has changed. The size problem is compounded if we try to compare IBM and, say, SAP (of Germany). If SAP’s financial statements are denominated in Euros, then we have a size *and* a currency difference.

To start making comparisons, one obvious thing we might try to do is to somehow standardize the financial statements. One very common and useful way of doing this is to work with percentages instead of total dollars. The resulting financial statements are called *common-size statements*. We consider these next.

**Common-Size Balance Sheets**

For easy reference, Prufrock Corporation’s 2012 and 2013 balance sheets are provided in [Exhibit 13A.1](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh1a). Using these, we construct common-size balance sheets by expressing each item as a percentage of total assets. Prufrock’s 2012 and 2013 common-size balance sheets are shown in [Exhibit 13 A.2](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh2a).

Notice that some of the totals don’t check exactly because of rounding errors. Also notice that the total change has to be zero since the beginning and ending numbers must add up to 100 percent.

In this form, financial statements are relatively easy to read and compare. For example, just looking at the two balance sheets for Prufrock, we see that current assets were 19.7 percent of total assets in 2013, up from 19.1 percent in 2012. Current liabilities declined from 16.0 percent to 15.1 percent of total liabilities and equity over that same time. Similarly, total equity rose from 68.1 percent of total liabilities and equity to 72.2 percent.

Overall, Prufrock’s liquidity, as measured by current assets compared to current liabilities, increased over the year. Simultaneously, Prufrock’s indebtedness diminished as a percentage of total assets. We might be tempted to conclude that the balance sheet has grown “stronger.”

[\*](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#rfn1ast1)This entire Appendix is adapted from Rows, S. A., Westerfield, R. W., & Jordan, B. D. 1999. *Essentials of Corporate Finance* (2nd ed.). chap. 3. New York: McGraw-Hill.

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**EXHIBIT 13A.1 Prufrock Corporation**

|  |  |  |
| --- | --- | --- |
|   | **2012** | **2013** |
| **Assets** |   |   |
| Current assets |   |   |
| Cash | $   84 | $   98 |
| Accounts receivable |    165 |    188 |
| Inventory |    393 |    422 |
| Total | $  642 | $  708 |
| Fixed assets |
| Net plant and equipment | $2,731     | $2,880     |
| Total assets | $3,373 | $3,588 |
| **Liabilities and Owners’ Equity** |   |   |
| Current liabilities |   |   |
| Accounts payable | $   312 | $   344 |
| Notes payable |      231 |      196 |
| Total | $  543 | $  540 |
| Long-term debt | $   531 | $   457 |
| Owners’ equity |
| Common stock and paid-in surplus | $   500 | $   550 |
| Retained earnings |   1,799 |   2,041 |
| Total | $2,299 | $2,591 |
| Total liabilities and owners’ equity | $3,373 | $3,588 |

Balance Sheets as of December 31, 2012 and 2013 ($ in millions)

**Common-Size Income Statements**

A useful way of standardizing the income statement, shown in [Exhibit 13A.3](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh3a), is to express each item as a percentage of total sales, as illustrated for Prufrock in [Exhibit 13A.4](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh4a).

This income statement tells us what happens to each dollar in sales. For Prufrock, interest expense eats up $.061 out of every sales dollar and taxes take another $.081. When all is said and done, $.157 of each dollar flows through to the bottom line (net income), and that amount is split into $.105 retained in the business and $.052 paid out in dividends.

These percentages are very useful in comparisons. For example, a relevant figure is the cost percentage. For Prufrock, $.582 of each $1.00 in sales goes to pay for goods sold. It would be interesting to compute the same percentage for Prufrock’s main competitors to see how Prufrock stacks up in terms of cost control.

**Ratio Analysis**

Another way of avoiding the problems involved in comparing companies of different sizes is to calculate and compare *financial ratios*. Such ratios are ways of comparing and investigating the relationships between different pieces of financial information. We cover some of the more common ratios next, but there are many others that we don’t touch on.

One problem with ratios is that different people and different sources frequently don’t compute them in exactly the same way, and this leads to much confusion. The specific definitions

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**EXHIBIT 13A.2 Prufrock Corporation**

|  |  |  |  |
| --- | --- | --- | --- |
|   | **2012** | **2013** | **Change** |
| **Assets** 1 |
| Current assets |
| Cash | 2.5% | 2.7% | + .2% |
| Accounts receivable | 4.9 | 5.2 | + .3 |
| Inventory |   11.7   |   11.8   |   + .1   |
| Total |   19.1   |   19.7   |   + .6   |
| Fixed assets |
| Net plant and equipment |   80.9   |   80.3   |   – .6   |
| Total assets |   100.0%   |   100.0%   |   .0%   |
| **Liabilities and Owners’ Equity** |
| Current liabilities |  |  |  |
| Accounts payable | 9.2% | 9.6% | + .4% |
| Notes payable |   6.8   |   5.5   |   –1.3   |
| Total |   16.0 |   15.1 |   – .9 |
| Long-term debt |   15.7 |   12.7 |   –3.0 |
| Owners’ equity |
| Common stock and paid-in surplus | 14.8 | 15.3 | + .5 |
| Retained earnings |   53.3 |   56.9 |   + 3.6 |
| Total | 68.1 | 72.2 | +4.1 |
| Total liabilities and owners’ equities | 100.0% | 100.0% | .0% |

Common-Size Balance Sheets as of December 31, 2012 and 2013 (%)

Note: Numbers may not add up to 100.0% due to rounding.

**EXHIBIT 13A.3 Prufrock Corporation**

|  |  |
| --- | --- |
| Sales | $2,311 |
| Cost of goods sold | 1,344 |
| Depreciation |      276 |
| Earnings before interest and taxes | $   691 |
| Interest paid |      141 |
| Taxable income | $   550 |
| Taxes (34%) |      187 |
| Net income | $   363 |
| Dividends | $121 |
| Addition to retained earnings | 242 |

2013 Income Statement ($ in millions)

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we use here may or may not be the same as others you have seen or will see elsewhere. If you ever use ratios as a tool for analysis, you should be careful to document how you calculate each one, and, if you are comparing your numbers to those of another source, be sure you know how its numbers are computed.

**EXHIBIT 13A.4 Prufrock Corporation**

|  |  |
| --- | --- |
| Sales | 100.0% |
| Cost of goods sold | 58.2 |
| Depreciation | 11.9   |
| Earnings before interest and taxes | 29.9 |
| Interest paid |   6.1   |
| Taxable income | 23.8   |
| Taxes (34%) |   8.1   |
| Net income |   15.7% |
| Dividends | 5.2% |
| Addition to retained earnings | 10.5 |

2013 Common-Size Income Statement (%)

For each of the ratios we discuss, several questions come to mind:

1.   How is it computed?

2.   What is it intended to measure, and why might we be interested?

3.   What is the unit of measurement?

4.   What might a high or low value be telling us? How might such values be misleading?

5.   How could this measure be improved?

Financial ratios are traditionally grouped into the following categories:

1.   Short-term solvency, or liquidity, ratios.

2.   Long-term solvency, or financial leverage, ratios.

3.   Asset management, or turnover, ratios.

4.   Profitability ratios.

5.   Market value ratios.

We will consider each of these in turn. In calculating these numbers for Prufrock, we will use the ending balance sheet (2013) figures unless we explicitly say otherwise. The numbers for the various ratios come from the income statement and the balance sheet.

**Short-Term Solvency, or Liquidity, Measures**

As the name suggests, short-term solvency ratios as a group are intended to provide information about a firm’s liquidity, and these ratios are sometimes called *liquidity measures*. The primary concern is the firm’s ability to pay its bills over the short run without undue stress. Consequently, these ratios focus on current assets and current liabilities.

For obvious reasons, liquidity ratios are particularly interesting to short-term creditors. Since financial managers are constantly working with banks and other short-term lenders, an understanding of these ratios is essential.

One advantage of looking at current assets and liabilities is that their book values and market values are likely to be similar. Often (though not always), these assets and liabilities just don’t live long enough for the two to get seriously out of step. On the other hand, like any type of near cash, current assets and liabilities can and do change fairly rapidly, so today’s amounts may not be a reliable guide to the future.

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**Current Ratio** One of the best-known and most widely used ratios is the *current ratio*. As you might guess, the current ratio is defined as:

Current ratio = Current assetsCurrent liabilities

For Prufrock, the 2011 current ratio is:

Current ratio = *$*708*$*540 = 1.31 times

Because current assets and liabilities are, in principle, converted to cash over the following 12 months, the current ratio is a measure of short-term liquidity. The unit of measurement is either dollars or times. So, we could say Prufrock has $1.31 in current assets for every $1 in current liabilities, or we could say Prufrock has its current liabilities covered 1.31 times over.

To a creditor, particularly a short-term creditor such as a supplier, the higher the current ratio, the better. To the firm, a high current ratio indicates liquidity, but it also may indicate an inefficient use of cash and other short-term assets. Absent some extraordinary circumstances, we would expect to see a current ratio of at least 1, because a current ratio of less than 1 would mean that net working capital (current assets less current liabilities) is negative. This would be unusual in a healthy firm, at least for most types of businesses.

The current ratio, like any ratio, is affected by various types of transactions. For example, suppose the firm borrows over the long term to raise money. The short-run effect would be an increase in cash from the issue proceeds and an increase in long-term debt. Current liabilities would not be affected, so the current ratio would rise.

Finally, note that an apparently low current ratio may not be a bad sign for a company with a large reserve of untapped borrowing power.

**Quick (or Acid-Test) Ratio** Inventory is often the least liquid current asset. It’s also the one for which the book values are least reliable as measures of market value, since the quality of the inventory isn’t considered. Some of the inventory may later turn out to be damaged, obsolete, or lost.

More to the point, relatively large inventories are often a sign of short-term trouble. The firm may have overestimated sales and overbought or overproduced as a result. In this case, the firm may have a substantial portion of its liquidity tied up in slow-moving inventory.

To further evaluate liquidity, the *quick*, or *acid-test, ratio* is computed just like the current ratio, except inventory is omitted:

Quick ratio = Current assets − InventoryCurrent liabilities

Notice that using cash to buy inventory does not affect the current ratio, but it reduces the quick ratio. Again, the idea is that inventory is relatively illiquid compared to cash.

For Prufrock, this ratio in 2011 was:

Quick ratio = *$*708 − 422*$*540 = .53 times

The quick ratio here tells a somewhat different story than the current ratio, because inventory accounts for more than half of Prufrock’s current assets. To exaggerate the point, if this inventory consisted of, say, unsold nuclear power plants, then this would be a cause for concern.

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**Cash Ratio** A very short-term creditor might be interested in the *cash ratio:*

Cash ratio = CashCurrent liabilities

You can verify that this works out to be .18 times for Prufrock.

**Long-Term Solvency Measures**

Long-term solvency ratios are intended to address the firm’s long-run ability to meet its obligations, or, more generally, its financial leverage. These ratios are sometimes called *financial leverage ratios* or just *leverage ratios*. We consider three commonly used measures and some variations.

**Total Debt Ratio** The *total debt ratio* takes into account all debts of all maturities to all creditors. It can be defined in several ways, the easiest of which is:

|  |  |
| --- | --- |
| Total debt ratio | = Total assets  −Total equityTotal assets |
|   | = *$*3,588 − 2,591*$*3,588 = .28 times |

In this case, an analyst might say that Prufrock uses 28 percent debt.[1](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#rp422-1) Whether this is high or low or whether it even makes any difference depends on whether or not capital structure matters.

Prufrock has $.28 in debt for every $1 in assets. Therefore, there is $.72 in equity ($1 – .28) for every $.28 in debt. With this in mind, we can define two useful variations on the total debt ratio, the *debt-equity ratio* and the equity multiplier:

|  |  |
| --- | --- |
| Debt-equity ratio | = Total debt/Total equity |
|   | = $.28/$.72 = .39 times |
| Equity multiplier | = Total assets/Total equity |
|   | = $l/$.72 = 1.39 times |

The fact that the equity multiplier is 1 plus the debt-equity ratio is not a coincidence:

|  |  |
| --- | --- |
| Equity multiplier | = Total assets/Total equity = $l/$.72 = 1.39 |
|   | = (Total equity + Total debt)/Total equity |
|   | = 1 + Debt-equity ratio = 1.39 times |

The thing to notice here is that given any one of these three ratios, you can immediately calculate the other two, so they all say exactly the same thing.

**Times Interest Earned** Another common measure of long-term solvency is the *times interest earned* (TIE) *ratio*. Once again, there are several possible (and common) definitions, but we’ll stick with the most traditional:

|  |  |
| --- | --- |
| Times interest earned ratio | = EBITInterest |
|   | = *$*691*$*141 = 4.9 times |

As the name suggests, this ratio measures how well a company has its interest obligations covered, and it is often called the interest coverage ratio. For Prufrock, the interest bill is covered 4.9 times over.

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**Cash Coverage** A problem with the TIE ratio is that it is based on earnings before interest and taxes (EBIT), which is not really a measure of cash available to pay interest. The reason is that depreciation, a noncash expense, has been deducted. Since interest is most definitely a cash outflow (to creditors), one way to define the *cash coverage ratio* is:

|  |  |
| --- | --- |
| Cash coverage ratio | = EBIT + DepreciationInterest |
|   | = *$*691 + 276*$*141 = *$*976*$*141 = 6.9 times |

The numerator here, EBIT plus depreciation, is often abbreviated EBDIT (earnings before depreciation, interest, and taxes). It is a basic measure of the firm’s ability to generate cash from operations, and it is frequently used as a measure of cash flow available to meet financial obligations.

**Asset Management, or Turnover, Measures**

We next turn our attention to the efficiency with which Prufrock uses its assets. The measures in this section are sometimes called *asset utilization ratios*. The specific ratios we discuss can all be interpreted as measures of turnover. What they are intended to describe is how efficiently, or intensively, a firm uses its assets to generate sales. We first look at two important current assets: inventory and receivables.

**Inventory Turnover and Days’ Sales in Inventory** During the year, Prufrock had a cost of goods sold of $1,344. Inventory at the end of the year was $422. With these numbers, *inventory turnover* can be calculated as:

|  |  |
| --- | --- |
| Inventory turnover | = Cost of goods soldInventory |
|   | = *$*1,344*$*422 = 3.2 times |

In a sense, we sold off, or turned over, the entire inventory 3.2 times. As long as we are not running out of stock and thereby forgoing sales, the higher this ratio is, the more efficiently we are managing inventory.

If we know that we turned our inventory over 3.2 times during the year, then we can immediately figure out how long it took us to turn it over on average. The result is the average *days’ sales in inventory:*

|  |  |
| --- | --- |
| Days’ sales in inventory | = 365 daysInventory turnover |
|   | = 3653.2 = 114 days |

This tells us that, on average, inventory sits 114 days before it is sold. Alternatively, assuming we used the most recent inventory and cost figures, it will take about 114 days to work off our current inventory.

For example, we frequently hear things like “Majestic Motors has a 60 days’ supply of cars.” This means that, at current daily sales, it would take 60 days to deplete the available inventory. We could also say that Majestic has 60 days of sales in inventory.

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**Receivables Turnover and Days’ Sales in Receivables** Our inventory measures give some indication of how fast we can sell products. We now look at how fast we collect on those sales. The *receivables turnover* is defined in the same way as inventory turnover:

|  |  |
| --- | --- |
| Receivables turnover | = SalesAccounts receivable |
|   | = *$*2,311*$*188 = 12.3 times |

Loosely speaking, we collected our outstanding credit accounts and reloaned the money 12.3 times during the year.[2](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#rp444-2)

This ratio makes more sense if we convert it to days, so the *days’ sales in receivables* is:

|  |  |
| --- | --- |
| Days’ sales in receivables | = 365 daysReceivables turnover |
|   | = 36512.3 = 30 days |

Therefore, on average, we collect on our credit sales in 30 days. For obvious reasons, this ratio is very frequently called the *average collection period* (ACP).

Also note that if we are using the most recent figures, we can also say that we have 30 days’ worth of sales currently uncollected.

**Total Asset Turnover** Moving away from specific accounts like inventory or receivables, we can consider an important “big picture” ratio, the *total asset turnover ratio*. As the name suggests, total asset turnover is:

|  |  |
| --- | --- |
| Total asset turnover | = SalesTotal assets |
|   | = *$*2,311*$*3,588 = .64 times |

In other words, for every dollar in assets, we generated $.64 in sales.

A closely related ratio, the *capital intensity ratio*, is simply the reciprocal of (i.e., 1 divided by) total asset turnover. It can be interpreted as the dollar investment in assets needed to generate $1 in sales. High values correspond to capital intensive industries (e.g., public utilities). For Prufrock, total asset turnover is .64, so, if we flip this over, we get that capital intensity is $1/.64 = $1.56. That is, it takes Prufrock $1.56 in assets to create $1 in sales.

**Profitability Measures**

The three measures we discuss in this section are probably the best known and most widely used of all financial ratios. In one form or another, they are intended to measure how efficiently the firm uses its assets and how efficiently the firm manages its operations. The focus in this group is on the bottom line, net income.

**Profit Margin** Companies pay a great deal of attention to their profit margin:

|  |  |
| --- | --- |
| Profit margin | = Net incomeSales |
|   | = *$*363*$*2,311 = 15.7*%* |

This tells us that Prufrock, in an accounting sense, generates a little less than 16 cents in profit for every dollar in sales.

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All other things being equal, a relatively high profit margin is obviously desirable. This situation corresponds to low expense ratios relative to sales. However, we hasten to add that other things are often not equal.

For example, lowering our sales price will usually increase unit volume, but will normally cause profit margins to shrink. Total profit (or, more importantly, operating cash flow) may go up or down; so the fact that margins are smaller isn’t necessarily bad. After all, isn’t it possible that, as the saying goes, “Our prices are so low that we lose money on everything we sell, but we make it up in volume!”[3](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#rp445-1)

**Return on Assets***Return on assets* (ROA) is a measure of profit per dollar of assets. It can be defined several ways, but the most common is:

|  |  |
| --- | --- |
| Return on assets | = Net incomeTotal assets |
|   | = *$*363*$*3,588 = 10.12*%* |

**Return on Equity***Return on equity* (ROE) is a measure of how the stockholders fared during the year. Since benefiting shareholders is our goal, ROE is, in an accounting sense, the true bottom-line measure of performance. ROE is usually measured as:

|  |  |
| --- | --- |
| Return on equity | = Net incomeTotal equity |
|   | = *$*363*$*2,591 = 14*%* |

For every dollar in equity, therefore, Prufrock generated 14 cents in profit, but, again, this is only correct in accounting terms.

Because ROA and ROE are such commonly cited numbers, we stress that it is important to remember they are accounting rates of return. For this reason, these measures should properly be called *return on book assets* and *return on book equity*. In addition, ROE is sometimes called *return on net worth*. Whatever it’s called, it would be inappropriate to compare the results to, for example, an interest rate observed in the financial markets.

The fact that ROE exceeds ROA reflects Prufrock’s use of financial leverage. We will examine the relationship between these two measures in more detail below.

**Market Value Measures**

Our final group of measures is based, in part, on information not necessarily contained in financial statements—the market price per share of the stock. Obviously, these measures can only be calculated directly for publicly traded companies.

We assume that Prufrock has 33 million shares outstanding and the stock sold for $88 per share at the end of the year. If we recall that Prufrock’s net income was $363 million, then we can calculate that its earnings per share were:

EPS = Net incomeShares outstanding = *$*36333 = *$*11

**Price-Earnings Ratio** The first of our market value measures, the *price-earnings*, or PE, *ratio* (or multiple), is defined as:

|  |  |
| --- | --- |
| PE ratio | = Price per shareEarnings per share |
|   | = *$*88*$*11 = 8 times |

[3](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#p445-1)No, it’s not; margins can be small, but they do need to be positive!

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In the vernacular, we would say that Prufrock shares sell for eight times earnings, or we might say that Prufrock shares have, or “carry,” a PE multiple of 8.

Since the PE ratio measures how much investors are willing to pay per dollar of current earnings, higher PEs are often taken to mean that the firm has significant prospects for future growth. Of course, if a firm had no or almost no earnings, its PE would probably be quite large; so, as always, be careful when interpreting this ratio.

**Market-to-Book Ratio** A second commonly quoted measure is the *market-to-book ratio:*

|  |  |
| --- | --- |
| Market-to-book ratio | = Market value per shareBook value per share |
|   | = *$*88(*$*2,591/33) = *$*88*$*78.5 = 1.12 times |

Notice that book value per share is total equity (not just common stock) divided by the number of shares outstanding.

Since book value per share is an accounting number, it reflects historical costs. In a loose sense, the market-to-book ratio therefore compares the market value of the firm’s investments to their cost. A value less than 1 could mean that the firm has not been successful overall in creating value for its stockholders.

**Conclusion**

This completes our definition of some common ratios. [Exhibit 13A.5](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#ch13exh5a) summarizes the ratios we’ve discussed.

**EXHIBIT 13A.5 A Summary of Five Types of Financial Ratios**

**I.   Short-term solvency, or liquidity, ratios**

Current ratio=Current assetsCurrent liabilities

Quick ratio = Current assets − InventoryCurrent liabilities

Cash ratio = CashCurrent liabilities

**II.   Long-term solvency, or financial leverage, ratios**

Total debt ratio = Total assets − Total equityTotal assets

Debt-equity ratio5 Total debt/Total equity

Equity multiplier 5 Total assets/Total equity

**III.   Asset utilization, or turnover, ratios**

Inventory turnover = Cost of goods soldInventory

Days' sales in inventory = 365 daysInventory turnover

Receivables turnover = SalesAccounts receivable

Days' sales in receivables =365 daysReceivables turnover

Total asset turnover =SalesTotal assets

Capital intensity =Total assetsSales

**IV.   Profitability ratios**

Profit margin = Net incomeSales

Return on assets (ROA) = Net incomeTotal assets

Return on equity (ROE) = Net incomeTotal equity

ROE =Net incomeSales × SalesAssets × AssetsEquity

**V.   Market value ratios**

Price-earnings ratio = Price per shareEarnings per share

Market-to-book ratio =Market value per shareBook value per share

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**APPENDIX 2 TO CHAPTER 13**

**Sources of Company and Industry Information**[**\***](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#fnlink2)

In order for business executives to make the best decisions when developing corporate strategy, it is critical for them to be knowledgeable about their competitors and about the industries in which they compete. The process used by corporations to learn as much as possible about competitors is often called “competitive intelligence.” This appendix provides an overview of important and widely available sources of information that may be useful in conducting basic competitive intelligence. Much information of this nature is available in libraries in article databases, business reference books, and on websites. This list will recommend a variety of them. Ask a librarian for assistance, because library collections and resources vary.

The information sources are organized into 10 categories:

Competitive Intelligence

Public or Private—Subsidiary or Division—U.S. or Foreign?

Finding Public Company Information

Guides and Tutorials

SEC Filings/EDGAR—Company Disclosure Reports

Company Rankings

Business Websites

Strategic and Competitive Analysis—Information Sources

Sources for Industry Research and Analysis

Search Engines

**Competitive Intelligence**

Students and other researchers who want to learn more about the value and process of competitive intelligence should see four recent books on this subject. Ask a librarian about electronic (ebook) versions of the following titles.

Michaeli Rainer. *Competitive Intelligence: Competitive Advantage through Analysis of Competition, Markets and Technologies*. London: Springer-Verlag, 2012.

John J. McGonagle and Carolyn M. Vella. *Proactive Intelligence: The Successful Executive’s Guide to Intelligence*. London: Springer-Verlag, 2012.

Hans Hedin, Irmeli Hirvensalo, and Markko Vaarnas. *Handbook of Market Intelligence: Understand, Compete and Grow in Global Markets*. Chichester, West Sussex, U.K.: John Wiley & Sons, 2011.

Benjamin Gilad. *Early Warning: Using Competitive Intelligence to Anticipate Market Shifts, Control Risk, and Create Powerful Strategies*. New York: American Management Association, 2004.

**Public or Private—Subsidiary or Division—U.S. or Foreign?**

Companies traded on stock exchanges in the United States are required to file a variety of reports that disclose information about the company. This begins the process that produces a wealth of data on public companies and at the same time distinguishes them from private companies, which often lack available data. Similarly, financial data of subsidiaries and divisions are typically filed in a consolidated financial statement by the parent company, rather

[\*](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#rfn1ast2)This information was compiled by Ruthie Brock and Carol Byrne, Business Librarians at The University of Texas at Arlington. We greatly appreciate their valuable contribution.

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than treated independently, thus limiting the kind of data available on them. On the other hand, foreign companies that trade on U.S. stock exchanges are required to file 20F reports, similar to the 10-K for U.S. companies, the most comprehensive of the required reports. The following directories provide brief facts about companies, including whether they are public or private, subsidiary or division, U.S. or foreign.

The *Corporate Directory* provides company profiles of more than 9,000 publicly traded companies in the United States, including foreign companies trading on the U.S. exchanges (ADRs). Some libraries may subscribe to an alternative online version at [*www.walkersresearch.com*](http://www.walkersresearch.com).

*Corporate Affiliations*. New Providence, NJ: LexisNexis, 2011.

This 8-volume directory features brief profiles of major U.S. and foreign corporations, both public and private, as well as their subsidiaries, divisions, and affiliates. The directory also indicates hierarchies of corporate relationships. An online version of the directory allows retrieval of a list of companies that meet specific criteria. Results can be downloaded to a spreadsheet. The online version requires a subscription, available in some libraries.

*ReferenceUSA*. Omaha, NE: Infogroup.Inc.

*ReferenceUSA* is an online directory of more than 14 million businesses located in the United States. One of the unique features is that it includes public and private companies, both large and small. Custom and Guided search tabs are available. Also, results can be analyzed using Quick, the data summary feature, which allows for a snapshot of how the industry breaks down by size, geographic location, etc. Other subscription modules are available using the ReferenceUSA interface and may be available in some libraries.

*Ward’s Business Directory* lists brief profiles on more than 112,000 public and private companies and indicates whether they are public or private, a subsidiary or division. Two volumes of the set are arranged using the Standard Industrial Classifications (SIC) and the North American Industry Classification System (NAICS) and feature company rankings within industries. Some libraries may offer this business directory as part of a database called *Gale Directory Library*.

**Finding Public Company Information**

Most companies have their annual report to shareholders and other financial reports available on their corporate website. Note that some companies use a variation of their company name in their Web address, such as Procter & Gamble: [*www.pg.com*](http://www.pg.com). A few “aggregators” have also conveniently provided an accumulation of links to many reports of U.S. and international corporations or include a PDF document as part of their database, although these generally do not attempt to be comprehensive.

*The Public Register Online*. Woodstock Valley, CT: Bay Tact Corp.

*Public Register Online* includes over 5,000 public company shareholder annual reports and 10-K filings for online viewing. Links are provided to reports on individual companies’ websites, official filings from the Securities and Exchange Commission website, stock information from the NYSE Euronext exchange, or some combination of these sources. A link is also provided on this website for ordering personal copies of hard copy annual reports.

[*http://www.annualreportservice.com/*](http://www.annualreportservice.com/)

*Mergent Online*. New York: Mergent, Inc.

*Mergent Online* is a database that provides company reports and financial statements for both U.S. and foreign public companies. Mergent’s database has up to 25 years of quarterly and annual financial data that can be downloaded into a spreadsheet for analysis across time or across companies. Students should check with a librarian to determine the availability of this database at their college or university library.

[*http://mergentonline.com*](http://mergentonline.com)

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**Guides & Tutorials for Researching Companies and Industries**

*Researching Companies Online*. Debbie Flanagan. Fort Lauderdale, FL

This site provides a step-by-step process for finding free company and industry information on the web.

[*www.learnwebskills.com/company/*](http://www.learnwebskills.com/company/)

*Guide to Financial Statements* and *How to Read Annual Reports*. Armonk, NY: IBM These two educational guides, located on IBM’s website, provide basic information on how to read and make sense of financial statements and other information in 10-K and shareholder annual reports for companies in general, not IBM specifically.

[*www.ibm.com/investor/help/guide/introduction.wss*](http://www.ibm.com/investor/help/guide/introduction.wss)

[*www.ibm.com/investor/help/reports/introduction.wss*](http://www.ibm.com/investor/help/reports/introduction.wss)

*EDGAR Full-Text Search Frequently Asked Questions (FAQ)*. Washington DC: U.S. Securities and Exchange Commission

The capability to search full-text SEC filings (popularly known as EDGAR filings), was vastly improved when the SEC launched its new search form in late 2006. Features are explained at the FAQ page.

[*www.sec.gov/edgar/searchedgar/edgarfulltextfaq.htm*](http://www.sec.gov/edgar/searchedgar/edgarfulltextfaq.htm)

*Locating Company Information*. Tutorial. William and Joan Schreyer Business Library, Penn State University, University Park, PA

Created by librarians at Penn State, this outstanding tutorial provides suggestions for online and print resources for company information.

Click on “how to” links for each item to view a brief instruction vignette.

[*www.libraries.psu.edu/psul/researchguides/business.html*](http://www.libraries.psu.edu/psul/researchguides/business.html)

*Ten Steps to Industry Intelligence*. Industry Tutorial. George A. Smathers Libraries, University of Florida, Gainesville, FL

Provides a step-by-step approach for finding information about industries, with embedded links to recommended sources.

[*http://businesslibrary.uflib.ufl.edu/industryresearch*](http://businesslibrary.uflib.ufl.edu/industryresearch)

*Conducting Business Research*. This tutorial provides a step-by-step process for business research. <http://www.lib.utexas.edu/services/instruction/learningmodules/businessresearch/intro.html>

**SEC Filings/EDGAR—Company Disclosure Reports**

SEC Filings are the various reports that publicly traded companies must file with the Securities and Exchange Commission to disclose information about their corporation. These are often referred to as “EDGAR” filings, an acronym for the Electronic Data Gathering, Analysis and Retrieval System. Some websites and commercial databases improve access to these reports by offering additional retrieval features not available on the official ([*www.sec.gov*](http://www.sec.gov)) website.

*EDGAR Database Full-Text Search*. U.S. Securities and Exchange Commission (SEC), Washington, DC

10-K reports and other required corporate documents are made available in the SEC’s EDGAR database within 24 hours after being filed. Annual reports, on the other hand, are typically sent directly to shareholders and are not required as part of EDGAR by the SEC, although some companies voluntarily include them. Both 10-Ks and shareholder’s annual reports are considered basic sources of company research. The SEC offers a search interface for full-text searching of the content and exhibits of EDGAR SEC filings. The advanced search is recommended to locate “hard-to-find” information within documents filed by corporations and their competitors. Searches for specific types of reports or certain industries can also be performed.

[*http://searchwww.sec.gov/EDGARFSClient/jsp/EDGAR\_MainAccess.jsp*](http://searchwww.sec.gov/EDGARFSClient/jsp/EDGAR_MainAccess.jsp)

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*LexisNexis Academic—SEC Filings & Reports*. Bethesda, MD: LexisNexis.

Company Securities Exchange Commission filings and reports are available through a database called LexisNexis Academic. These reports and filings can be retrieved by company name, industry code, or ticker symbol for a particular time period or by a specific report. Proxy, 10-K, prospectus, and registration filings are also available.

*Mergent Online—EDGAR Search*. New York: Mergent, Inc.

As an alternative to [*sec.gov*](http://sec.gov), the Securities and Exchange Commission website, it is possible to use the *Mergent Online* database to search for official company filings. Check to be sure if your library subscribes to the *Mergent Online* database. Select the “Filings” tab and then click on the “EDGAR Search” link. Next, Mergent’s Government Filings search allows searching by company name, ticker, CIK (Central Index Key) number, or industry SIC number. The search can be limited by date and by type of SEC filing. The URL below should also work if your library subscribes to the Mergent Online database.

[*www.mergentonline.com/filingsearch.php?type=edgar&criteriatype=findall&submitvalues*](http://www.mergentonline.com/filingsearch.php?type=edgar&criteriatype=findall&submitvalues)

**Company Rankings**

*Fortune 500*. New York: Time Inc.

The *Fortune 500* list and other company rankings are published in the printed edition of *Fortune* magazine and are also available online.

[*http://money.cnn.com/magazines/fortune/fonune500/2012/full\_list/index.html*](http://money.cnn.com/magazines/fortune/fonune500/2012/full_list/index.html)

*Forbes Global 2000*. Forbes, Inc.

The companies listed on The Forbes Global 2000 are the biggest and most powerful in the world.

[*http://www.forbes.com/global2000/*](http://www.forbes.com/global2000/)

**Business Websites**

*Big Charts*. San Francisco: MarketWatch, Inc.

*BigCharts* is a comprehensive and easy-to-use investment research website, providing access to professional-level research tools such as interactive charts, current and historical quotes, industry analysis, and intraday stock screeners, as well as market news and commentary.

MarketWatch operates this website, a service of Dow Jones & Company. Supported by site sponsors, it is free to self-directed investors.

[*http://bigcharts.marketwatch.com/*](http://bigcharts.marketwatch.com/)

*GlobalEdge*. East Lansing, MI: Michigan State University

*GlobalEdge* is a web portal providing a significant amount of information about international business, countries around the globe, the U.S. states, industries, and news.

[*http://globaledge.msu.edu/Yahoo*](http://globaledge.msu.edu/Yahoo) *Finance*. Sunnyvale, CA: Yahoo! Inc.

This website links to information on U.S. markets, world markets, data sources, finance references, investment editorials, financial news, and other helpful websites.

[*http://finance.yahoo.com*](http://finance.yahoo.com)

**Strategic and Competitive Analysis—Information Sources**

Analyzing a company can take the form of examining its internal and external environment. In the process, it is useful to identify the company’s strengths, weaknesses, opportunities, and threats (SWOT). Sources for this kind of analysis are varied, but perhaps the best would be to locate articles from *The Wall Street Journal*, business magazines and industry trade publications. Publications such as these can be found in the following databases available at many public and academic libraries. When using a database that is structured to allow it, try searching the company name combined with one or more keywords, such as “IBM and competition” or

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“Microsoft and lawsuits” or “AMR and fuel costs” to retrieve articles relating to the external environment.

*ABI/INFORM Complete*. Ann Arbor, MI: ProQuest LLC.

*ABI/INFORM Complete* provides abstracts and full-text articles covering disciplines such as management, law, taxation, economics, health care, and information technology from more than 6,800 scholarly, business, and trade publications. Other types of resources include company and industry reports, case studies, market research reports, and a variety of downloadable economic data.

*Business Insights: Essentials*. Farmington Hills, MI: Gale CENGAGE Learning.

*Business Insights* provides company and industry intelligence for a selection of public and private companies. Company profiles include parent-subsidiary relationships, industry rankings, products and brands, industry statistics, and financial ratios. Selections of SWOT analysis reports are also available. The Company and Industry comparison tool allows a researcher to compare up to six companies’ revenues, employees, and sales data over time. Results are available as an image, chart, or spreadsheet.

*Business Source Complete*. Ipswich, MA: EBSCO Publishing

*Business Source Complete* is a full-text database with over 3,800 scholarly business journals covering management, economics, finance, accounting, international business, and more. The database also includes detailed company profiles for the world’s 10,000 largest companies, as well as selected country economic reports provided by the Economist Intelligence Unit (EIU). The database includes case studies, investment and market research reports, SWOT analyses, and more. *Business Source Complete* contains over 2,400 peer-reviewed business journals.

*Thomson ONE Research*.

*Thomson ONE Research* offers full-text analytical reports on more than 65,000 companies worldwide. The research reports are excellent sources for strategic and financial profiles of a company and its competitors and of industry trends. Developed by a global roster of brokerage, investment banking, and research firms, these full-text investment reports include a wealth of current and historical information useful for evaluating a company or industry over time.

*International Directory of Company Histories*. Detroit, MI: St. James Press, 1988–present. 141 volumes to date.

This directory covers more than 11,000 multinational companies, and the series is still adding volumes. Each company history is approximately three to five pages in length and provides a summary of the company’s mission, goals, and ideals, followed by company milestones, principal subsidiaries, and competitors. Strategic decisions made during the company’s period of existence are usually noted. This series covers public and private companies and nonprofit entities. Entry information includes a company’s legal name, headquarters information, URL, incorporation date, ticker symbol, stock exchange, sales figures, and the primary North American Industry Classification System (NAICS) code. Further reading selections complete the entry information. Volume 59 to current date, is available electronically in the Gale Virtual Reference Library database from Gale CENGAGE Learning.

*LexisNexis Academic*. Bethesda, MD: LexisNexis

This advanced search provides access to major business publications, broadcast transcripts, and industry news. Industry and market information cover over 25 industries. The Companies section provides access to company dossiers, company profiles and SEC filings. The Company Dossier research tool allows a researcher to compare up to five companies’ financial statements at one time with download capabilities.

*The Wall Street Journal*. New York: Dow Jones & Co.

This respected business newspaper is available in searchable full-text from 1984 to the present in the *Factiva* database. The “News Pages” link provides access to current articles and issues of *The Wall Street Journal*. Dow Jones, publisher of the print version of the *Wall*

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*Street Journal*, also has an online subscription available at [wsj.com](http://wsj.com). Some libraries provide access to *The Wall Street Journal* through the ProQuest Newspapers database.

**Sources for Industry Research and Analysis**

*Factiva*. New York: Dow Jones & Co.

The *Factiva* database has several options for researching an industry. One would be to search the database for articles in the business magazines and industry trade publications. A second option in *Factiva* would be to search in the Companies/Markets category for company/industry comparison reports.

*Mergent Online*. New York: Mergent Inc.

*Mergent Online* is a searchable database of over 60,000 global public companies. The database offers worldwide industry reports, U.S. and global competitors, and executive biographical information. *Mergent’*s Basic Search option permits searching by primary industry codes (either SIC or NAICS). Once the search is executed, companies in that industry should be listed. A comparison or standard peer group analysis can be created to analyze companies in the same industry on various criteria. The Advanced Search allows the user to search a wider range of financial and textual information. Results, including ratios for a company and its competitors, can be downloaded to a spreadsheet.

North American Industry Classification System (NAICS)

The North American Industry Classification System has officially replaced the Standard Industrial Classification (SIC) as the numerical structure used to define and analyze industries, although some publications and databases offer both classification systems. The NAICS codes are used in Canada, the United States, and Mexico. In the United States, the NAICS codes are used to conduct an Economic Census every five years providing a snapshot of the U.S. economy at a given moment in time.

NAICS: [*www.census.gov/eos/www/naics/*](http://www.census.gov/eos/www/naics/)

Economic Census: [*www.census.gov/econ/census07/*](http://www.census.gov/econ/census07/)

*NetAdvantage*. New York: S & P Capital IQ

The database includes company, financial, and investment information as well as the well-known publication called *Industry Surveys*. Each industry report includes information on the current environment, industry trends, key industry ratios and statistics, and comparative company financial analysis. Available in HTML, PDF, or Excel formats.

*Business Insights: Essentials*. Farmington Hills, MI: Gale CENGAGE Learning.

*Business Insights* provides company and industry intelligence for a selection of public and private companies. Company profiles include parent-subsidiary relationships, industry rankings, products and brands, industry statistics, and financial ratios. Selections of SWOT analysis reports are also available. The Company and Industry comparison tool allows a researcher to compare up to six companies’ revenues, employees, and sales data over time. Results are available as an image, chart, or spreadsheet.

*Plunkett Research Online*. Houston, TX: Plunkett Research, Ltd.

Plunkett’s provides industry-specific market research, trends analysis, and business intelligence for 34 industries.

**Search Engines**

*Google*. Mountain View, CA: Google, Inc.

Recognized for its advanced technology, quality of results, and simplicity, the search engine Google is highly recommended by librarians and other expert Web surfers.

[*www.google.com*](http://www.google.com)

*Dogpile*. Bellevue, WA: InfoSpace, Inc.

Dogpile is a metasearch engine that searches and compiles the most relevant results from more than 12 individual search engines.

[*http://www.dogpile.com/*](http://www.dogpile.com/)

[1](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#p442-1)Total equity here includes preferred stock, if there is any. An equivalent numerator in this ratio would be (Current liabilities + Long-term debt).

[2](http://e.pub/rajqyb79zv21voexyjk7.vbk/OPS/xhtml/Chapter13.xhtml#p444-2)Here we have implicitly assumed that all sales are credit sales. If they were not, then we would simply use total credit sales in these calculations, not total sales.