In most strategic management courses, cases are used extensively as a teaching tool. A key reason is that cases provide active learners with opportunities to use the strategic management process to identify and solve organisational problems. Thus, by analysing situations that are described in cases and presenting the results, active learners (that is, students) become skilled at effectively using the tools, techniques and concepts that combine to form the strategic management process.

The cases that follow are concerned with actual companies. Presented within the cases are problems and situations that managers and those with whom they work must analyse and resolve. As you will see, a strategic management case can focus on an entire industry, a single organisation, or a business unit of a large, diversified firm. The strategic management issues facing not-for-profit organisations also can be examined using the case analysis method.

Basically, the case analysis method calls for a careful diagnosis of an organisation’s current conditions (as manifested by its external and internal environments) so that appropriate strategic actions can be recommended in view of the firm’s strategic intent and strategic mission. Strategic actions are taken to develop and then use a firm’s core competencies to select and implement different strategies, including business-level, corporate-level, acquisition and restructuring, international and cooperative strategies. Thus, appropriate strategic actions help the firm to survive in the long run as it creates and uses competitive advantages as the foundation for achieving strategic competitiveness and earning above-average returns. The case method that we are recommending to you has a rich heritage as a pedagogical approach to the study and understanding of managerial effectiveness.

As an active learner, your preparation is critical to successful use of the case analysis method. Without careful study and analysis, active learners lack the insights required to participate fully in the discussion of a firm’s situation and the strategic actions that are appropriate.

Instructors adopt different approaches in their application of the case analysis method. Some require active learners/students to use a specific analytical procedure to examine an organisation; others provide less structure, expecting students to learn by developing their own unique analytical method. Still other instructors believe that a moderately structured framework should be used to analyse a firm’s situation and make appropriate recommendations. Your lecturer or tutor will determine the specific approach you take. The approach we are presenting to you is a moderately structured framework.

We divide our discussion of a moderately structured case analysis method framework into four sections. First, we describe the importance of understanding the skills active learners can acquire through effective use of the case analysis method. In the second section, we provide you with a process-oriented framework. This framework can be of value in your efforts to analyse cases and then present the results of your work. Using this framework in a classroom setting yields valuable experiences that can, in turn, help you to successfully complete assignments that you will receive from your employer. The third section is where we describe briefly what you can expect to occur during in-class case discussions. As this description shows, the relationship and interactions between instructors and active learners/students during case discussions are different than they are during lectures. In the final section, we present a moderately structured framework that we believe can help you to prepare effective written and oral presentations. Written and oral communication skills also are valued highly in many organisational settings; hence, their development today can serve you well in the future.

**SKILLS GAINED THROUGH USE OF THE CASE ANALYSIS METHOD**

The case analysis method is based on a philosophy that combines knowledge acquisition with significant involvement from students as active learners. In the
words of Alfred North Whitehead, this philosophy ‘rejects
the doctrine that students had first learned passively,
and then, having learned should apply knowledge’.3 In
contrast to this philosophy, the case analysis method is
based on principles that were elaborated upon by John
Dewey:

Only by wrestling with the conditions of this problem
at hand, seeking and finding his own way out, does [the
student] think . . . If he cannot devise his own solution
(not, of course, in isolation, but in correspondence with
the teacher and other pupils) and find his own way out
he will not learn, not even if he can recite some correct
answer with a hundred percent accuracy.4

The case analysis method brings reality into the
classroom. When developed and presented effectively,
with rich and interesting detail, cases keep conceptual
discussions grounded in reality. Experience shows that
simple fictional accounts of situations and collections
of actual organisational data and articles from public
sources are not as effective for learning as fully developed
cases. A comprehensive case presents you with a partial
clinical study of a real-life situation that faced managers
as well as other stakeholders, including employees. A
case presented in narrative form provides motivation for
involvement with and analysis of a specific situation. By
framing alternative strategic actions and by confronting
the complexity and ambiguity of the practical world,
case analysis provides extraordinary power for your
involvement with a personal learning experience. Some
of the potential consequences of using the case method
are summarised in Exhibit 1.

EXHIBIT 1

1 Case analysis requires students to practise important managerial skills – diagnosing, making decisions, observing,
listening and persuading – while preparing for a case discussion.
2 Cases require students to relate analysis and action, to develop realistic and concrete actions despite the complexity
and partial knowledge characterising the situation being studied.
3 Students must confront the intractability of reality – complete with absence of needed information, an imbalance
between needs and available resources, and conflicts among competing objectives.
4 Students develop a general managerial point of view – where responsibility is sensitive to action in a diverse
environmental context.

Case Research Journal, 13 (Summer): 134.

As Exhibit 1 suggests, the case analysis method
can assist active learners in the development of their
analytical and judgement skills. Case analysis also helps
students to learn how to ask the right questions. By this
we mean questions that focus on the core issues
that are included in a case. Active learners/students with
managerial aspirations can improve their ability to identify
underlying problems rather than focusing on superficial
symptoms as they develop skills at asking probing, yet
appropriate, questions.

The collection of cases your instructor chooses to
assign can expose you to a wide variety of organisations
and decision situations. This approach vicariously
broadens your experience base and provides insights
into many types of managerial situations, tasks and
responsibilities. Such indirect experience can help you to
make a more informed career decision about the industry
and managerial situation you believe will prove to be
challenging and satisfying. Finally, experience in analysing
cases definitely enhances your problem-solving skills, and
research indicates that the case method for this subject is
better than the lecture method.5

Furthermore, when your instructor requires oral
and written presentations, your communication skills will
be honed through use of the case method. Of course, these
added skills depend on your preparation as well as your
instructor’s facilitation of learning. However, the primary
responsibility for learning is yours. The quality of case dis-
cussion is generally acknowledged to require, at a minimum,
a thorough mastery of case facts and some independent
analysis of them. The case method therefore first requires
that you read and think carefully about each case. Additional
comments about the preparation you should complete to
successfully discuss a case appear in the next section.
STUDENT PREPARATION FOR CASE DISCUSSION

If you are inexperienced with the case method, you may need to alter your study habits. A lecture-oriented course may not require you to do intensive preparation for each class period. In such a course, you have the latitude to work through assigned readings and review lecture notes according to your own schedule. However, an assigned case requires significant and conscientious preparation before class. Without it, you will be unable to contribute meaningfully to in-class discussion. Therefore, careful reading and thinking about case facts, as well as reasoned analyses and the development of alternative solutions to case problems, are essential. Recommended alternatives should flow logically from core problems identified through study of the case. Exhibit 2 shows a set of steps that can help you to familiarise yourself with a case, identify problems and propose strategic actions that increase the probability that a firm will achieve strategic competitiveness and earn above-average returns.

EXHIBIT 2

<table>
<thead>
<tr>
<th>Step 1: Gaining Familiarity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a In general – determine who, what, how, where and when (the critical facts of the case).</td>
<td></td>
</tr>
<tr>
<td>b In detail – identify the places, persons, activities and contexts of the situation.</td>
<td></td>
</tr>
<tr>
<td>c Recognise the degree of certainty/uncertainty of acquired information.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 2: Recognising Symptoms</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a List all indicators (including stated ‘problems’) that something is not as expected or as desired.</td>
<td></td>
</tr>
<tr>
<td>b Ensure that symptoms are not assumed to be the problem. (Symptoms should lead to identification of the problem.)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 3: Identifying Goals</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a Identify critical statements by major parties (e.g. people, groups, the work unit, etc.).</td>
<td></td>
</tr>
<tr>
<td>b List all goals of the major parties that exist or can be reasonably inferred.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 4: Conducting the Analysis</th>
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</tr>
</thead>
<tbody>
<tr>
<td>a Decide which ideas, models and theories seem useful.</td>
<td></td>
</tr>
<tr>
<td>b Apply these conceptual tools to the situation.</td>
<td></td>
</tr>
<tr>
<td>c As new information is revealed, cycle back to sub-steps (a) and (b).</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 5: Making the Diagnosis</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a Identify predicaments (goal inconsistencies).</td>
<td></td>
</tr>
<tr>
<td>b Identify problems (discrepancies between goals and performance).</td>
<td></td>
</tr>
<tr>
<td>c Prioritise predicaments/problems regarding timing, importance, etc.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 6: Doing the Action Planning</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a Specify and prioritise the criteria used to choose action alternatives.</td>
<td></td>
</tr>
<tr>
<td>b Discover or invent feasible action alternatives.</td>
<td></td>
</tr>
<tr>
<td>c Examine the probable consequences of action alternatives.</td>
<td></td>
</tr>
<tr>
<td>d Select a course of action.</td>
<td></td>
</tr>
<tr>
<td>e Design an implementation plan/schedule.</td>
<td></td>
</tr>
<tr>
<td>f Create a plan for assessing the action to be implemented.</td>
<td></td>
</tr>
</tbody>
</table>


GAINING FAMILIARITY

The first step of an effective case analysis process calls for you to become familiar with the facts featured in the case and the focal firm’s situation. Initially, you should become familiar with the focal firm’s general situation (for example, who, what, how, where and when). Thorough
familiarisation demands appreciation of the nuances, as well as the major issues, in the case.

Gaining familiarity with a situation requires you to study several situational levels, including interactions between and among individuals within groups, business units, the corporate office, the local community and the society at large. Recognising relationships within and among levels facilitates a more thorough understanding of the specific case situation.

It is also important that you evaluate information on a continuum of certainty. Information that is verifiable by several sources and judged along similar dimensions can be classified as a fact. Information representing someone’s perceptual judgement of a particular situation is referred to as an inference. Information gleaned from a situation that is not verifiable is classified as speculation. Finally, information that is independent of verifiable sources and arises through individual or group discussion is an assumption. Obviously, case analysts and organisational decision makers prefer having access to facts over inferences, speculations and assumptions.

Personal feelings, judgements and opinions evolve when you are analysing a case. It is important to be aware of your own feelings about the case and to evaluate the accuracy of perceived ‘facts’ to ensure that the objectivity of your work is maximised.

RECOGNISING SYMPTOMS
Recognition of symptoms is the second step of an effective case analysis process. A symptom is an indication that something is not as you or someone else thinks it should be. You may be tempted to correct the symptoms instead of searching for true problems. True problems are the conditions or situations requiring solution before the performance of an organisation, business unit or individual can improve. Identifying and listing symptoms early in the case analysis process tends to reduce the temptation to label symptoms as problems. The focus of your analysis should be on the actual causes of a problem, rather than on its symptoms. Thus, it is important to remember that symptoms are indicators of problems; subsequent work facilitates discovery of critical causes of problems that your case recommendations must address.

IDENTIFYING GOALS
The third step of effective case analysis calls for you to identify the goals of the major organisations, business units and/or individuals in a case. As appropriate, you should also identify each firm’s strategic intent and strategic mission. Typically, these direction-setting statements (goals, strategic intents and strategic missions) are derived from comments made by central characters in the organisation, business unit or top management team as described in the case and/or from public documents (for example, an annual report).

Completing this step successfully can sometimes be difficult. Nonetheless, the outcomes you attain from this step are essential to an effective case analysis because identifying goals, intent and mission helps you to clarify the main problems featured in a case and to evaluate alternative solutions to those problems. Direction-setting statements are not always stated publicly or prepared in written format. When this occurs, you must infer goals from other available factual data and information.

CONDUCTING THE ANALYSIS
The fourth step of effective case analysis is concerned with acquiring a systematic understanding of a situation. Occasionally, cases are analysed in a less-than-thorough manner. Such analyses may be a product of a busy schedule or of the difficulty and complexity of the issues described in a particular case. Sometimes you will face pressures on your limited amounts of time and may believe that you can understand the situation described in a case without systematic analysis of all the facts. However, experience shows that familiarity with a case’s facts is a necessary, but insufficient, step in the development of effective solutions – solutions that can enhance a firm’s strategic competitiveness. In fact, a less-than-thorough analysis typically results in an emphasis on symptoms, rather than on problems and their causes. To analyse a case effectively, you should be sceptical of quick or easy approaches and answers.

A systematic analysis helps you to understand a situation and determine what can work and probably what will not work. Key linkages and underlying causal networks based on the history of the firm become apparent. In this way, you can separate causal networks from symptoms.

Also, because the quality of a case analysis depends on applying appropriate tools, it is important that you use the ideas, models and theories that seem to be useful for evaluating and solving individual and unique situations. As you consider facts and symptoms, a useful theory may become apparent. Of course, having familiarity with conceptual models may be important in the effective
analysis of a situation. Successful students and successful
organisational strategists add to their intellectual tool kits
on a continual basis.

MAKING THE DIAGNOSIS
The fifth step of effective case analysis – diagnosis – is
the process of identifying and clarifying the roots of the
problems by comparing goals with facts. In this step, it
is useful to search for predicaments. Predicaments are
situations in which goals do not fit with known facts. When
you evaluate the actual performance of an organisation,
business unit or individual, you may identify over- or
under-achievement (relative to established goals). Of
course, single-problem situations are rare. Accordingly,
you should recognise that the case situations you study
probably will be complex in nature.

Effective diagnosis requires you to determine the
problems affecting longer-term performance and those
requiring immediate handling. Understanding these
issues will aid your efforts to prioritise problems and
predicaments, given available resources and existing
constraints.

DOING THE ACTION
PLANNING
The final step of an effective case analysis process is
called action planning. Action planning is the process of
identifying appropriate alternative actions. In the action
planning step, you select the criteria you will use to
evaluate the identified alternatives. You may derive these
criteria from the analyses; typically, they are related to
key strategic situations facing the focal organisation.
Furthermore, it is important that you prioritise these
criteria to ensure a rational and effective evaluation of
alternative courses of action.

Typically, managers ‘satisfice’ when selecting
courses of action; that is, they find acceptable courses of
action that meet most of the chosen evaluation criteria.
A rule of thumb that has proved valuable to strategic
decision makers is to select an alternative that leaves
other plausible alternatives available if the one selected
fails.

Once you have selected the best alternative, you
must specify an implementation plan. Developing an
implementation plan serves as a reality check on the
feasibility of your alternatives. Thus, it is important that
you give thoughtful consideration to all issues associated
with the implementation of the selected alternatives.

WHAT TO EXPECT FROM
IN-CLASS CASE DISCUSSIONS
Classroom discussions of cases differ significantly from
lectures. The case method calls for instructors to guide
the discussion, encourage student participation and
solicit alternative views. When alternative views are not
forthcoming, instructors typically adopt one view so that
students can be challenged to respond to it thoughtfully.
Often students’ work is evaluated in terms of both
the quantity and the quality of their contributions to
in-class case discussions. Students benefit by having
their views judged against those of their peers and by
responding to challenges by other class members and/or
the instructor.

During case discussions, instructors listen,
question and probe to extend the analysis of case
issues. In the course of these actions, peers or the
instructor may challenge an individual’s views and
the validity of alternative perspectives that have been
expressed. These challenges are offered in a constructive
manner; their intent is to help students develop their
analytical and communication skills. Instructors should
encourage students to be innovative and original in the
development and presentation of their ideas. Over the
course of an individual discussion, students can develop
a more complex view of the case, benefitting from the
diverse inputs of their peers and instructor. Among
other benefits, experience with multiple-case discussions
should help students to increase their knowledge of the
advantages and disadvantages of group decision-making
processes.

Student peers as well as the instructor value
comments that contribute to the discussion. To offer
relevant contributions, you are encouraged to use
independent thought and, through discussions with your
peers outside of class, to refine your thinking. We also
encourage you to avoid using ‘I think’, ‘I believe’ and
‘I feel’ to discuss your inputs to a case analysis process.
Instead, consider using a less emotion-laden phrase, such
as ‘My analysis shows’. This highlights the logical nature
of the approach you have taken to complete the six steps
of an effective case analysis process.

When preparing for an in-class case discussion,
you should plan to use the case data to explain your
assessment of the situation. Assume that your peers
and instructor know the case facts. In addition, it is
good practice to prepare notes before class discussions
and use them as you explain your view. Effective notes
signal to classmates and the instructor that you are prepared to engage in a thorough discussion of a case. Moreover, thorough notes eliminate the need for you to memorise the facts and figures needed to discuss a case successfully.

The case analysis process just described can help you prepare to effectively discuss a case during class meetings. Adherence to this process results in consideration of the issues required to identify a focal firm’s problems and to propose strategic actions through which the firm can increase the probability that it will achieve strategic competitiveness.

In some instances, your instructor may ask you to prepare either an oral or a written analysis of a particular case. Typically, such an assignment demands even more thorough study and analysis of the case contents. At your instructor’s discretion, oral and written analyses may be completed by individuals or by groups of two or more people. The information and insights gained through completing the six steps shown in Exhibit 2 are often of value in the development of an oral or written analysis. However, when preparing an oral or written presentation, you must consider the overall framework in which your information and inputs will be presented. Such a framework is the focus of the next section.

### PREPARING AN ORAL/Written Case Strategic Plan

Experience shows that two types of thinking are necessary in order to develop an effective oral or written presentation (see Exhibit 3). The upper part of the model in Exhibit 3 outlines the analysis stage of case preparation.

**EXHIBIT 3** Types of thinking in case preparation: Analysis and synthesis

- **Analysis**
  - External environment
  - General environment
  - Industry environment
  - Competitor environment
  - Internal environment
  - Statements of strengths, weaknesses, opportunities, and threats
  - Alternatives
  - Evaluations of alternatives
  - Implementation

- **Synthesis**

In the analysis stage, you should first analyse the general external environmental issues affecting the firm. Next, your environmental analysis should focus on the particular industry (or industries, in the case of a diversified company) in which a firm operates. Finally, you should examine the competitive environment of
the focal firm. Through study of the three levels of the external environment, you will be able to identify a firm’s opportunities and threats. Following the external environmental analysis is the analysis of the firm’s internal environment, which results in the identification of the firm’s strengths and weaknesses.

As noted in Exhibit 3, you must then change the focus from analysis to synthesis. Specifically, you must synthesise information gained from your analysis of the firm’s internal and external environments. Synthesising information allows you to generate alternatives that can resolve the significant problems or challenges facing the focal firm. Once you identify a best alternative, from an evaluation based on predetermined criteria and goals, you must explore implementation actions.

Exhibits 4 and 5 outline the sections that should be included in either an oral or a written strategic plan presentation – introduction (strategic intent and mission), situation analysis, statements of strengths/weaknesses and opportunities/threats, strategy formulation and implementation plan. These sections, which can be completed only through use of the two types of thinking featured in Exhibit 3, are described in the following discussion. Familiarity with the contents of your textbook’s 13 chapters is helpful because the general outline for an oral or a written strategic plan shown in Exhibit 5 is based on an understanding of the strategic management process detailed in those chapters.

**EXTERNAL ENVIRONMENT ANALYSIS**

As shown in Exhibit 5, a general starting place for completing a situation analysis is the external

**EXHIBIT 4 Strategic planning process**

<table>
<thead>
<tr>
<th>External environment</th>
<th>Internal environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Opportunities (possibilities)</td>
<td>• Strengths</td>
</tr>
<tr>
<td>• Threats (constraints)</td>
<td>• Weaknesses</td>
</tr>
</tbody>
</table>

Strategic intent

Strategic mission

Key result areas
- Required efforts
- Cost linkages

Strategies
- 1 to 5 years
- Cost linkages

Objectives
- 1 year or less
- Cost linkages
environment. The external environment is composed of outside conditions that affect a firm’s performance. Your analysis of the environment should consider the effects of the general environment on the focal firm. Following that evaluation, you should analyse the industry and competitor environmental trends.

These trends or conditions in the external environment shape the firm’s strategic intent and mission. The external environment analysis essentially indicates what a firm might choose to do. Often called an environmental scan, an analysis of the external environment allows a firm to identify key conditions that are beyond its direct control. The purpose of studying the external environment is to identify a firm’s opportunities and threats. Opportunities are conditions in the external environment that appear to have the potential to contribute to a firm’s success. In essence, opportunities represent possibilities. Threats are conditions in the external environment that appear to have the potential to prevent a firm’s success. In essence, threats represent potential constraints.

When studying the external environment, the focus is on trying to predict the future (in terms of local, regional, and international trends and issues) and to predict the expected effects on a firm’s operations. The external environment features conditions in the broader society and in the industry (area of competition) that influence the firm’s possibilities and constraints. Areas to be considered (to identify opportunities and threats) when studying the general environment are listed in Exhibit 6. Many of these issues are explained more fully in Chapter 2.

Once you analyse the general environmental trends, you should study their effect on the focal industry. Often the same environmental trend may have a significantly different impact on separate industries, or it may affect firms within the same industry differently. For instance, with deregulation of the airline industry in the United States, older, established airlines had a significant decrease in profitability, while many smaller airlines, such as Southwest Airlines, with lower cost structures and greater flexibility, were able to aggressively enter new markets.

Porter’s five forces model is a useful tool for analysing the specific industry (see Chapter 2). Careful study of how the five competitive forces (that is, supplier power, buyer power, potential entrants, substitute products and rivalry among competitors) affect a firm’s strategy is important. These forces may create threats or opportunities relative to the specific business-level strategies (that is, differentiation, cost leadership, focus) being implemented. Often a strategic group’s analysis reveals how different environmental trends are affecting industry competitors. Strategic group analysis is useful for understanding the industry’s competitive structures and firm constraints and possibilities within those structures.
Firms also need to analyse each of their primary competitors. This analysis should identify their competitors’ current strategies, strategic intent, strategic mission, capabilities, core competencies and competitive response profile. This information is useful to the focal firm in formulating an appropriate strategic intent and mission.

**INTERNAL ENVIRONMENT ANALYSIS**

The *internal environment* is composed of strengths and weaknesses internal to a firm that influence its strategic competitiveness. The purpose of completing an analysis of a firm’s internal environment is to identify its strengths and weaknesses. The strengths and weaknesses in a firm’s internal environment shape the strategic intent and strategic mission. The internal environment essentially indicates what a firm *can do*. Capabilities or skills that allow a firm to do something that others cannot do or that allow a firm to do something better than others do it are called strengths. *Strengths* can be categorised as something that a firm does especially well. Strengths help a firm to take advantage of external opportunities or overcome external threats. Capabilities

### EXHIBIT 6 Sample general environmental categories

<table>
<thead>
<tr>
<th>Environment</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>Information technology continues to become cheaper and have more practical applications</td>
</tr>
<tr>
<td></td>
<td>Database technology allows organisation of complex data and distribution of information</td>
</tr>
<tr>
<td></td>
<td>Telecommunications technology and networks increasingly provide fast transmission of all sources of data, including voice, written communications and video information</td>
</tr>
<tr>
<td>Demographic trends</td>
<td>Computerised design and manufacturing technologies continue to facilitate quality and flexibility</td>
</tr>
<tr>
<td></td>
<td>Regional changes in population due to migration</td>
</tr>
<tr>
<td></td>
<td>Changing ethnic composition of the population</td>
</tr>
<tr>
<td></td>
<td>Ageing of the population</td>
</tr>
<tr>
<td></td>
<td>Ageing of the baby boomer generation</td>
</tr>
<tr>
<td>Economic trends</td>
<td>Interest rates</td>
</tr>
<tr>
<td></td>
<td>Inflation rates</td>
</tr>
<tr>
<td></td>
<td>Savings rates</td>
</tr>
<tr>
<td></td>
<td>Trade deficits</td>
</tr>
<tr>
<td></td>
<td>Budget deficits</td>
</tr>
<tr>
<td></td>
<td>Exchange rates</td>
</tr>
<tr>
<td>Political/legal environment</td>
<td>Antitrust enforcement</td>
</tr>
<tr>
<td></td>
<td>Tax policy changes</td>
</tr>
<tr>
<td></td>
<td>Environmental protection laws</td>
</tr>
<tr>
<td></td>
<td>Extent of regulation/deregulation</td>
</tr>
<tr>
<td></td>
<td>Developing countries privatising state monopolies</td>
</tr>
<tr>
<td></td>
<td>State-owned industries</td>
</tr>
<tr>
<td>Socio-cultural environment</td>
<td>Increasing proportion of women in the workforce</td>
</tr>
<tr>
<td></td>
<td>Awareness of health and fitness issues</td>
</tr>
<tr>
<td></td>
<td>Concern for the environment</td>
</tr>
<tr>
<td></td>
<td>Concern for customers</td>
</tr>
<tr>
<td>Global environment</td>
<td>Currency exchange rates</td>
</tr>
<tr>
<td></td>
<td>Free trade agreements</td>
</tr>
<tr>
<td></td>
<td>Trade deficits</td>
</tr>
<tr>
<td></td>
<td>New or developing markets</td>
</tr>
</tbody>
</table>
or skill deficiencies that prevent a firm from completing an important activity as well as others do it are called weaknesses. Weaknesses have the potential to prevent a firm from taking advantage of external opportunities or succeeding in efforts to overcome external threats. Thus, weaknesses can be thought of as something the firm needs to improve.

Analysis of the primary and support activities of the value chain provides opportunities to understand how external environmental trends affect the specific activities of a firm. Such analysis helps to highlight strengths and weaknesses. (See Chapter 3 for an explanation of the value chain.) For the purposes of preparing an oral or written presentation, it is important to note that strengths are internal resources and capabilities that have the potential to be core competencies. Weaknesses, on the other hand, have the potential to place a firm at a competitive disadvantage in relation to its rivals.

When evaluating the internal characteristics of the firm, your analysis of the functional activities emphasised is critical. For example, if the strategy of the firm is primarily technology-driven, it is important to evaluate the firm’s R&D activities. If the strategy is market-driven, marketing functional activities are of paramount importance. If a firm has financial difficulties, critical financial ratios would require careful evaluation. In fact, because of the importance of financial health, most cases require financial analysis. The appendix lists and operationally defines several common financial ratios. Included are exhibits describing profitability, liquidity, leverage, activity and shareholders’ return ratios. Other firm characteristics that should be examined to study the internal environment effectively include leadership, organisational culture, structure and control systems.

IDENTIFICATION OF STRATEGIC INTENT AND MISSION

Strategic intent is associated with a mind-set that managers seek to imbue within the company. Essentially, a mind-set captures how we view the world and our intended role in it. Strategic intent reflects or identifies a firm’s ideal state. Strategic intent flows from a firm’s opportunities, threats, strengths and weaknesses. However, the main influence on strategic intent is a firm’s strengths. Strategic intent should reflect a firm’s intended character and a commitment to ‘stretch’ available resources and strengths in order to reach strategies and objectives. Examples of strategic intent include:

- the relentless pursuit of perfection (Lexus).
- to be the top performer in everything that we do (Phillips Petroleum).
- we are dedicated to being the world’s best at bringing people together (AT&T).

The strategic mission flows from a firm’s strategic intent; it is a statement used to describe a firm’s unique intent and the scope of its operations in product and market terms. In its most basic form, the strategic mission indicates to stakeholders what a firm seeks to accomplish. An effective strategic mission reflects a firm’s individuality and reveals its leadership’s predisposition(s). The useful strategic mission shows how a firm differs from others and defines boundaries within which the firm intends to operate. For example:

- Cochlear’s mission is to have ‘clinical teams and recipients embrace Cochlear as their partner in hearing for life’.
- Coca-Cola Amatil’s mission is to have market leadership in every territory.

HINTS FOR PRESENTING AN EFFECTIVE STRATEGIC PLAN

There may be a temptation to spend most of your oral or written case analysis on the results from the analysis. It is important, however, that the analysis of a case should not be over-emphasised relative to the synthesis of results gained from your analytical efforts – what does the analysis mean for the organisation (see Exhibit 3)?

STRATEGY FORMULATION: CHOOSING KEY RESULT AREAS

Once you have identified strengths and weaknesses, determined the firm’s core competencies (if any), and formulated a strategic intent and mission, you have a picture of what the firm is and what challenges and threats it faces.

You can now determine alternative key result areas (KRAs). Each of these is a category of activities that helps to accomplish the strategic intent of the firm. For example, KRAs for Cochlear may include to remain a leader in hearing implant technology and to build links with hearing clinicians in South-East Asia. Each
alternative should be feasible (that is, it should match the firm’s strengths, capabilities and, especially, core competencies), and feasibility should be demonstrated. In addition, you should show how each alternative takes advantage of the environmental opportunity or avoids/buffers against environmental threats. Developing carefully thought-out alternatives requires synthesis of your analyses and creates greater credibility in oral and written case presentations.

Once you develop a strong set of alternative KRAs, you must evaluate the set to choose the best ones. Your choice should be defensible and provide benefits over the other alternatives. Thus, it is important that both the alternative development and evaluation of alternatives be thorough. The choice of the best alternative should be explained and defended. For the two Cochlear KRAs presented earlier, the strategies are clear and in both cases they take advantage of competencies within the company and opportunities in the external environment.

**KEY RESULT AREA IMPLEMENTATION**

After selecting the most appropriate KRAs (that is, those with the highest probability of enhancing a firm’s strategic competitiveness), you must consider effective implementation. Effective synthesis is important to ensure that you have considered and evaluated all critical implementation issues. Issues you might consider include the structural changes necessary to implement the new strategies and objectives associated with each KRA. In addition, leadership changes and new controls or incentives may be necessary to implement these strategic actions. The implementation actions you recommend should be explicit and thoroughly explained. Occasionally, careful evaluation of implementation actions may show the strategy to be less favourable than you originally thought. (You may find that the capabilities required to implement the strategy are absent and unobtainable.) A strategy is only as good as the firm’s ability to implement it effectively. Therefore, expending the effort to determine effective implementation is important.

**PROCESS ISSUES**

You should ensure that your presentation (either oral or written) has logical consistency throughout. For example, if your presentation identifies one purpose, but your analysis focuses on issues that differ from the stated purpose, the logical inconsistency will be apparent. Likewise, your alternatives should flow from the configuration of strengths, weaknesses, opportunities and threats you identified through the internal and external analyses.

Thoroughness and clarity also are critical to an effective presentation. Thoroughness is represented by the comprehensiveness of the analysis and alternative generation. Furthermore, clarity in the results of the analyses, selection of the best alternative KRAs and strategies, and design of implementation actions are important. For example, your statement of the strengths and weaknesses should flow clearly and logically from the internal analyses presented, and these should be reflected in KRAs and strategies.

Presentations (oral or written) that show logical consistency, thoroughness and clarity of purpose, effective analyses, and feasible recommendations are more effective and will receive more positive evaluations. Being able to withstand tough questions from peers after your presentation will build credibility for your strategic plan presentation. Furthermore, developing the skills necessary to make such presentations will enhance your future job performance and career success.

**NOTES**


## APPENDIX: FINANCIAL ANALYSIS IN CASE STUDIES

### APPENDIX 1 PROFITABILITY RATIOS

<table>
<thead>
<tr>
<th>RATIO</th>
<th>FORMULA</th>
<th>WHAT IT SHOWS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Return on total assets</td>
<td>Profits after taxes / Total assets</td>
<td>The net return on total investment of the firm</td>
</tr>
<tr>
<td></td>
<td>or Profits after taxes + interest / Total assets</td>
<td>or The return on both creditors’ and shareholders’ investments</td>
</tr>
<tr>
<td>2 Return on shareholders’ equity (or return on net worth)</td>
<td>(or return on net worth)</td>
<td>How effectively the company is utilising shareholders’ funds</td>
</tr>
<tr>
<td>3 Return on ordinary equity</td>
<td>Profit after taxes – preference share dividends / Total shareholders’ equity – par value of preference shares</td>
<td>The net return to ordinary shareholders</td>
</tr>
<tr>
<td>4 Operating profit margin (or return on sales)</td>
<td>Profits before taxes and before interest / Sales</td>
<td>The firm’s profitability from regular operations</td>
</tr>
<tr>
<td>5 Net profit margin (or net return on sales)</td>
<td>Profits after taxes / Sales</td>
<td>The firm’s net profit as a percentage of total sales</td>
</tr>
</tbody>
</table>

### APPENDIX 2 LIQUIDITY RATIOS

<table>
<thead>
<tr>
<th>RATIO</th>
<th>FORMULA</th>
<th>WHAT IT SHOWS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Current ratio</td>
<td>Current assets / Current liabilities</td>
<td>The firm’s ability to meet its current financial liabilities</td>
</tr>
<tr>
<td>2 Quick ratio (or acid-test ratio)</td>
<td>Current assets – inventory / Current liabilities</td>
<td>The firm’s ability to pay off short-term obligations without relying on sales of inventory</td>
</tr>
<tr>
<td>3 Inventory to net working capital</td>
<td>Inventory / Current assets – current liabilities</td>
<td>The extent to which the firm’s working capital is tied up in inventory</td>
</tr>
</tbody>
</table>
### APPENDIX 3 LEVERAGE RATIOS

<table>
<thead>
<tr>
<th>RATIO</th>
<th>FORMULA</th>
<th>WHAT IT SHOWS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Debt-to-assets</td>
<td>[ \frac{\text{Total debt}}{\text{Total assets}} ]</td>
<td>Total borrowed funds as a percentage of total assets</td>
</tr>
<tr>
<td>2 Debt-to-equity</td>
<td>[ \frac{\text{Total debt}}{\text{Total shareholders’ equity}} ]</td>
<td>Borrowed funds versus the funds provided by shareholders</td>
</tr>
<tr>
<td>3 Long-term debt-to-equity</td>
<td>[ \frac{\text{Long-term debt}}{\text{Total shareholders’ equity}} ]</td>
<td>Leverage used by the firm</td>
</tr>
<tr>
<td>4 Times-interest-earned</td>
<td>[ \frac{\text{Profits before interest and taxes}}{\text{Total interest charges}} ]</td>
<td>The firm’s ability to meet all interest payments</td>
</tr>
<tr>
<td>or coverage ratio</td>
<td>5 Fixed charge coverage</td>
<td>[ \frac{\text{Profits before interest and taxes} + \text{lease obligations}}{\text{Total interest charges} + \text{lease obligations}} ]</td>
</tr>
</tbody>
</table>

### APPENDIX 4 ACTIVITY RATIOS

<table>
<thead>
<tr>
<th>RATIO</th>
<th>FORMULA</th>
<th>WHAT IT SHOWS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Inventory turnover</td>
<td>[ \frac{\text{Sales}}{\text{Inventory of finished goods}} ]</td>
<td>The effectiveness of the firm in employing inventory</td>
</tr>
<tr>
<td>2 Fixed assets turnover</td>
<td>[ \frac{\text{Sales}}{\text{Fixed assets}} ]</td>
<td>The effectiveness of the firm in utilising plant and equipment</td>
</tr>
<tr>
<td>3 Total assets turnover</td>
<td>[ \frac{\text{Sales}}{\text{Total assets}} ]</td>
<td>The effectiveness of the firm in utilising total assets</td>
</tr>
<tr>
<td>4 Accounts receivable turnover</td>
<td>[ \frac{\text{Annual credit sales}}{\text{Accounts receivable}} ]</td>
<td>How many times the total receivables have been collected during the accounting period</td>
</tr>
<tr>
<td>5 Average collection period</td>
<td>[ \frac{\text{Accounts receivable}}{\text{Average daily sales}} ]</td>
<td>The average length of time the firm waits to collect payments after sales</td>
</tr>
</tbody>
</table>
### Appendix 5 Shareholders’ Return Ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>What it shows</th>
</tr>
</thead>
</table>
| 1 Dividend yield on ordinary shares | \[
\frac{\text{Annual dividends per share}}{\text{Current market price per share}}
\] | A measure of return to ordinary shareholders in the form of dividends                                |
| 2 Price–earnings ratio        | \[
\frac{\text{Current market price per share}}{\text{After-tax earnings per share}}
\] | An indication of market perception of the firm. Usually, the faster-growing or less risky firms tend to have higher PE ratios than the slower-growing or more risky firms |
| 3 Dividend payout ratio       | \[
\frac{\text{Annual dividends per share}}{\text{After-tax earnings per share}}
\] | An indication of dividends paid out as a percentage of profits                                    |
| 4 Cash flow per share         | \[
\frac{\text{After-tax profits + depreciation}}{\text{Number of ordinary shares outstanding}}
\] | A measure of total cash per share available for use by the firm                                  |