

Case 2
The Wallace Group, Inc.

I. CASE ABSTRACT

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

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

<u>Decision Date:</u>	No Date	Sales:	\$70,000,000
		Net Income:	\$ 1,760,000

II. CASE ISSUES AND SUBJECTS

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

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III. STEPS COVERED IN STRATEGIC DECISION-MAKING PROCESS

(See Figure 1.5 on pages 20 and 21)

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

O = Emphasized in Case

X = Covered in Case

IV. CASE OBJECTIVES

1. To acquaint the students with a CEO's management of a company that leads to conflict and power struggles among managers. To deal with an issue in corporate governance: Why hasn't the board of directors become involved in this issue?
2. To have the student act as a consultant. As such, the student should develop a list of the most important problem(s) facing The Wallace Group, and specific action plans to deal with each specific problem.
3. To discuss how to convey potentially negative information to the person who hired you, especially if that person is the principal cause of this negative information.
4. To review the corporation diversification plan from an area of expertise (electronics) into areas (plastics and chemicals) where it has no distinctive competence.

V. SUGGESTED CLASSROOM APPROACHES TO THE CASE

1. Dr. Laurence J. Stybel, the case author, suggests two possible ways of handling this case.
 - A. The first option involves students individually formulating a response to the following questions:
 - What is the most important problem facing The Wallace Group?
 - Develop a specific action plan to deal with these problems.

This option typically involves 1.5 to 2 hours for class discussion.
 - B. The second option would be to bring in a guest who would take the role of Harold Wallace. A retired president would be ideal for this

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kind of exercise. Under this format, students are divided into consulting teams and are given the following instructions:

- Attached is some information about The Wallace Group, Inc. This information includes data regarding corporate operations and operating problems as perceived by various managers of the company.
- Your consulting team should review this material. The team will then meet to analyze critical issues facing The Wallace Group and to identify solutions that The Wallace Group management could either take alone or with consulting assistance by your firm.
- On (date) your team will have an opportunity to meet with Mr. Harold Wallace to discuss your diagnosis and action plans. These plans should be as specific as possible, as they may lead to a consulting assignment for your group. In calculating costs associated with your participation in the plan you propose, assume a professional fee of \$100 per day plus out-of-pocket expenses for food, travel, hotel, graphics, etc.
- Each team will present its findings to Mr. Wallace separately. You will have thirty minutes for the presentation, plus fifteen minutes for Mr. Wallace to question the team. At the conclusion of the presentations, Mr. Wallace will determine which team, if any, would be awarded the consulting contract.

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

1. to have students learn to develop formal oral presentations,
2. to determine a proper approach in conveying potentially negatively-charged information to someone perceived as a superior, and
3. to cost-out a consulting project based on specific action plans developed by students.

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

Special note from the case author

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

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

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- B. The acquisition strategy has locked the electronics group into using the plastics group as its major supplier, thus increasing costs for one group and making them less competitive. Presumably, the Plastics Group is also locked into using the Chemicals Group and is faced with a similar situation.
- C. A complex MIS apparatus has been constructed by central office to collect data from three very different operational groups. In addition, the central office appears "staff heavy" for such a small firm. This analysis is based on an examination of the organization chart.
- D. Problems resulting from being heavily dependent on defense-related contracts have not been solved.

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

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

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

VI. DISCUSSION QUESTIONS

1. What is (are) the most important problem(s) facing The Wallace Group?
2. What recommendation(s) would you (as a consultant) make to Mr. Wallace, and in what order of priorities?
3. How do you educate a Stage I manager (entrepreneur) to become a Stage II or III professional manager? What impact does this problem have on this case?
4. How do you handle the transfer pricing problems involved in the backward integration? The acquisition of the plastic company has locked the Electronics Group into using its plastic products at a higher cost.
5. If Mr. Wallace is found to be one of the major problems, should he be addressed directly or indirectly?
6. Has the Wallace Group's diversification strategy been effective? If yes, please explain. If no, please explain.

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

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

VIII. STUDENT STRATEGIC AUDIT/STUDENT PAPER

I. INTERNAL ENVIRONMENT

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

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

II. EXTERNAL ENVIRONMENT

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

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

III. STRENGTHS

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

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

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

IV. PROBLEM ANALYSIS

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

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

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

D. Stage I management in Stage III Corporation.

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

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V. RECOMMENDATIONS AND IMPLEMENTATION COSTS

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

COST: \$3,000

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

COST: \$30 to \$50,000

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

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

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

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

IX. EFAS, IFAS, AND SFAS EXHIBITS

Were inappropriate for this case.

X. FINANCIAL ANALYSIS

Was inappropriate for this case.