

Week 1: Introduction and Strategic Goals

What is strategy?

- Giving direction and sense to assets
- Grant 2002: A unifying scheme that gives coherence and direction to the actions and decisions of an individual or organization. Essential link between the firm and its business environment.
- Strategy is about making credible promises
- Corporate Strategy: Which businesses? Business Strategy: How to compete?
- Intended strategy vs realized strategy, emergent strategy (Mintzberg)
- Roles: Decision Support, Coordination and Communication, Target (Vision)

Strategic Goals

- Complexity: Multiple audiences (Investors, Managers, Employees, etc.), multiple purposes (persuade, direct, motivate, advise, etc.)
- Vision: What can the organization achieve? Where?
- Mission: What is the organization's purpose? Why?
- Dilemmas: Stretch (targets too high), balance (long term vs short term), focus (stakeholders vs shareholders)
- Shareholders not stakeholders: Necessary for survival, managers will be replaced, community of interests, simplicity
- Add value through production or commerce
- Accounting profit vs economic profit (EVA). DCF/NPV, options, balanced scorecard

Week 2: Industry Structure Analysis

Identifying attractive industries

Is this a good industry to be in? Why is it a good industry and will this change? How can we manage this change?

Porter's Five Forces

- Buyers/Suppliers: Concentration, sophistication, switching costs, integration potential
 - New Entrants: Scale economies, product differentiation (brands, loyalty), cost advantages (learning/experience curve, patents), legal barriers/governments, capital requirements, access to distribution channels, retaliation
 - Substitutes: Price/performance, switching costs
 - Internal Rivalry: Concentration, product differentiation, life cycle, exit barriers, fixed costs
- Recommendations:

- Focus on industries where the Five Forces are favorable
- Change the forces by consolidation, investing in entry barriers, innovation/differentiation

Key measures: concentration ratios, mes, entry costs, star plot

Strategy and the Internet (Porter 2001): Enhancing or destroying profit?

Difficulties: market definition (defined by substitutability on demand and supply side), different evaluations of key factors, zero-sum arm wrestling, position not management, static, dynamic competition (Schumpeter). Competitive advantage.

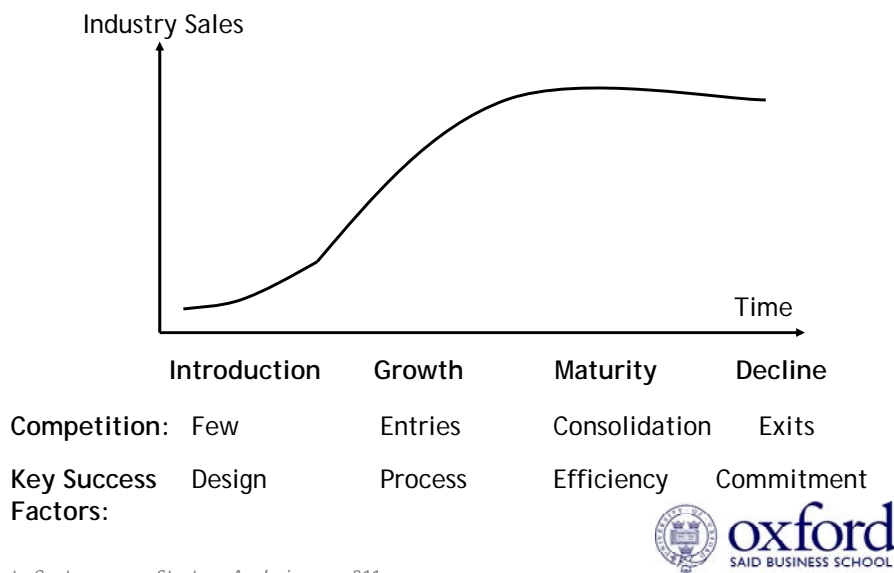
Fine structures: Strategic Groups, Profit Pools, Complementors

- Strategic groups / niches: Key factors, map players, most profitable niches and ‘white spaces’
- Profit pools: Stages in value chain, highest value stages (vertical structure of profitability)
- Complementors (Brandenburger & Nalebuff): Create value for customers but also demand a share. Partnerships, negotiate share of added value.
- Game Theory: Decisions made by one player are dependent on the actual and anticipated decisions of other players. -> Cooperation. Prisoner’s Dilemma, deterrence, commitment, signaling
- Competitor Analysis: competitor intelligence; strategy, objectives, assumptions, resources & capabilities. -> Future? Reactions?
- Segmentation Analysis: Key Segmentation Variables, Segmentation Matrix, Segment Attractiveness, Segment’s Key Success Factors.

Week 4: Analyzing Changing Environments

Industry Life Cycles

The Idealised Industry Life Cycle



Grant, *Contemporary Strategy Analysis*, page 311



<u>Idealized Life Cycle</u>	<u>Competition</u>	<u>Key Success Factors:</u>
Introduction	C few	K product innovation
Growth	C entries	K process innovation, manufacturing capability
Maturity	C consolidation	K cost efficiency
Decline	C exits	K commitment, reduce capacity

Industry life-cycle is the supply side equivalent of the Pr life cycle. It is defined primarily by changes in industry’s growth rate over time

- Drivers (Grant): Demand growth, creation and diffusion of knowledge
- Product Innovation: change in basic configuration of product or service elements
- Dominant Design: the basic accepted configuration of product or service elements
- Process Innovation: change in production or delivery process of product or service
- Characteristics: becoming shorter, basic necessities -> never decline, rejuvenation, different stages in different countries. Concentration increases unless entry barriers low. Production

activity shift increasingly to low cost labor countries. Competition increases / shift to price competition

Strategies and Entry Over the Cycle

- Entry post-dominant design -> survival chances low. Related experience -> survival chances higher for early entrant (competence enhancing or competence destroying change. Grant: selection and adaptation, disruptive technologies)
- Strategic Responses to Change (2x2): Innovation vs Commitment. Grant: create rather than anticipate the future (Hamel and Prahalad 1994). Competition is between business concepts rather than products, strategic resources provide the foundations of competitive advantage (Hamel, 2000).

Scenario Analysis

- McKinsey Typology of Uncertainty (Courtney, 1997): Clear-enough future, alternative futures, range of futures, true ambiguity
- Scenario: Narrative description of a consistent set of factors which define in a probabilistic sense alternative sets of future business conditions (Huss, 1988)
- Help where: discontinuous change important, qualitative factors important, need long-term perspective, high uncertainty, significant data gaps.
- Outputs: strategy checks, managerial learning
- Scenario process: Define scope, identify key drivers, produce initial mini-scenarios, identify underlying themes, reduce to 2 to 4 scenarios, identify key strategic repercussions
- BCG's Strategic Environment Matrix (2x2): Size of advantage (small/big) vs. Sources of advantage (few/many). -> Volume (big, few), stalemate (small, few), fragmented (small, many), specialization (big, many)
- J. Williams: local monopoly markets, traditional industrial markets, Schumpeterian markets.

Week 4: Analyzing Competitive Advantage

Resource-Based View

- Superior performance stems from within the firm. Key question: What are you best at? Resources and capabilities are the primary determinants of a firm's strategy.
- Core Competence: Resources (tangible/intangible): equipment, patents, reputation, people, brands -> Capabilities / Competences: put resources to profitable use (organizational capability, routine, hierarchy) -> Core Competence: central dynamo of strategic advantage
- Leverage resources into capabilities (Hamel and Prahalad, 1994): Concentrate, accumulate, complement, conserve, recover
- Focus: Distance from core vs. Profitability. Bell shaped curve, are there activities others can do better even if $P > CoC$?
- Identify Core Competences: map products & services -> underlying technologies, skills -> common technologies, skills -> extendable? (new markets) -> value? (contribution to customer value)
- What makes a resource valuable (Montgomery & Collis, 1995)? Imitable (transferable/replicable), durable (reputation), appropriability (who gets profits, assets walk

out), substitutable, superior (price premium, scarce, relevant); Whittington: valued by customers, core

- Determine competitive advantage: Compare customer satisfaction profiles
- Grant: (i) identify key resources and capabilities (demand and supply side), (ii) appraise resources and capabilities (importance, relative strengths), (iii) Develop strategy implications (exploit key strengths, manage weaknesses, reduce superfluous strengths)

Generic Competitive Strategies

- Two ways: cost leadership, differentiation. Porter: The two can't be mixed, 'stuck in the middle'. But: Japanese 'total quality management'

Value Chain

- Porter, 1985: Inbound logistics, operations, outbound logistics, marketing and sales, service + margin=price. Support activities: Infrastructure, HRM, R&D, Procurement
- Activities necessary for the delivery of a businesses product or service
- Analyze: Which stages contribute to advantage through cost or differentiation?
- Key uses: comparative analysis of strengths and weaknesses, key sources of cost and value, partnership opportunities, reconfigure chains, synergies, investment/effort foci.

Dynamic Competitive Strategies

- cf. d'Aveni, Hypercompetition
- Grant, Develop Capabilities: replicate capabilities, develop new capabilities (dynamic capabilities: integrate, build and reconfigure competences to address rapidly changing environments). Responsiveness to change.
- Approaches: HR, Acquisitions, Strategic Alliances (but: Competition for competence, Hamel 1991), Incubation, Product Sequencing
- Grant: Sustain advantage: identification -> obscure, incentives -> deterrence, preemption, diagnosis -> causal ambiguity (complex, multidimensional), resource acquisition (transferability, transaction costs)
- Grant: First-mover advantage if: scarce resources, profits -> extend resource base, reputation, standards, experience

Business Designs

- A mutually reinforcing configuration of business choices on key value adding dimensions, underpinned by fundamental assumptions about business drivers (i.e. what business? what do customers want? what drives profits?).
- Competition is about competing business designs. -> business concept innovation (McKinsey: 'New Game' strategies, reconfigure value chain)

Week 5: Diversification

The Logic of Diversification

- Drivers (50s to 70s): Quest for growth, professional managers can run diversified corporations
- 80s and 90s: Sharp reversal in US. Profitability. Conglomerate discount apparent due to economic downturn. Turbulence and transaction costs. Efficient capital markets. Resources and capabilities emphasized.
- Motives for diversification:

- Growth: based on management salaries and prestige
- Risk Reduction: spread risk, but investors hold diversified portfolios
- Profitability: Porter's Three Tests (see below)
- Competitive advantage from diversification:
 - Market Power: Predatory pricing (cross-subsidization), reciprocal buying (loyalty), mutual forbearance (multiplicity of contacts blunts the edge of competition)
 - Economies of Scope: Common resources, eliminate duplication (admin & support), transfer (e.g. brand), organizational capabilities
 - Internalizing Transactions: Transaction costs of market contracts higher than cost of managing economies of scope
 - Internal Market: Different business units compete for investment funds. Transfer employees and capital.
 - Information Advantages: Head office has better information -> better allocation of resources than capital and labor markets
- Strategic level relatedness rather than operational commonalities.

The Multidivisional Form

- 1920s: Diversification -> Multidivisional structure (Form followed function, e.g. DuPont, GM, Standard Oil, Sears) -> (i) Decentralized operations, (ii) separation of strategy from operations in business units. Trading efficiency for span of operations.
- Pros and cons of the M-Form vs. functional structure:

<i>Structure</i>	<i>Advantages</i>	<i>Disadvantages</i>
Functional:	For focused businesses For specialization of skills For control (bureaucratic)	Inflexible Narrow Bureaucratic
Divisional:	For diversified businesses For changing portfolios For accountability	Low synergy Top-down Short-termist

- Grant:
 - Functional: scale economies, effective control, tightly coupled, limited scope for decentralization.
 - Multidivisional: Decentralized decision making, operating decisions made at divisional level. Product/geography based (hybrids).
 - Matrix: Coordination across functions, products, geographical areas. Often one dimension dominant to preserve partial "unity of command".

Structure Follows Strategy

- Chandler: Structure Follows Strategy

Institutional Context of Conglomerates

- Conglomerate: Firm whose growth comes through the acquisition of other firms whose products are largely unrelated
- Lego Mentality: business units easily swapped, judged on abstract measures (ROE)
- Institutional context in US, Japan, India (cf. Khanna & Palepu, 1997)

Synergies in Diversification

- Porter's Three Essential Tests: (i) Attractiveness: Is industry attractive? (ii) Cost-of-entry: Will you make profits? (iii) Better-off: Will either firm gain?

- Case: GE

Week 6: Global Business Strategy

International Competition

- The Five Myths of Global Strategy: Distance and national borders no longer matter, developing countries are the best new markets, manufacture where labor is cheapest, globalization will last forever, governments no longer matter
- Patterns of Internationalization: Sheltered industries, trading industries (exports & imports), multidomestic industries (direct investment), global industries (both trade and direct investment)
- Internationalization increases rivalry, lowers entry barriers, and increases bargaining power of buyers.
- Competitive advantage influenced by national environment and firm's resources and capabilities. Comparative advantage: Make use of (natural and intangible) resources available in a country

Porter's Diamond Framework

- Factor Conditions: 'home-grown' and highly specialized resources
- Related and Supporting Industries: Clusters of industries. Related industries are critical resources.
- Demand Conditions: Primary driver of innovation and quality improvement
- Strategy, Structure, and Rivalry: strategy of industry, oligopolistic structure?, nature of rivalry

Overseas Market Entry & Alliances

- Modes of Market Entry:
 - Transactions: export with/without overhead, license technology, franchise
 - Direct Investment: JV (marketing and distribution or fully integrated), wholly owned (marketing and sales or fully integrated), alliance.
- Direct Investment: Structure? Porter (1986) 2x2 Location of assets (A) vs. Coordination (C).
 - Multi-domestic (multinational): A dispersed, C low. Decentralized and responsive. E.g. European, advertising
 - Simple Export: A concentrated, C low. Knowledge transfer. E.g. IBM
 - Simple Global: A concentrated, C high. Centralized efficiency. E.g. Japanese, Coca Cola
 - Complex Global (transnational): A dispersed, C high. Balancing the three. E.g. Toyota

High cost upstream (value chain) -> global (e.g. auto, chips)

High cost downstream -> multidomestic (e.g. advertising, retailing)

Managing the Global/Local Dilemma

- Balancing product knowledge against local service. 2x2: Need for national differentiation vs. need for global coordination.

Alternative Organizational Solutions

- Matrix: e.g. ABB, Oxford University. High need to socialize. Firmly established, little movement possible

- Evolving multidivisional firm: investor, managerial, network multidivisional

Week 7: Managing the Multibusiness Company

Porter's Four Keys to Corporate Strategy

- Portfolio Management: Holding company, autonomous units, internal capital market
- Restructuring: Acquire poorly managed businesses, reduce costs, restructure
- Transferring Skills among Strategic Business Units (SBU): Organizational capabilities
- Sharing Activities: Exploit economies of scope in common resources and activities

Four Functions of the Center

- Selecting: portfolio management, vertical and horizontal integration, make or buy decisions, global markets
- Resourcing: Capital requirements, M&A, cooperation/JVs
- Controlling: Corporate culture, organizational structure, systems
- Promoting: Advertising, PR, corporate identity

Portfolio Management

- Diversification, divestment, Acquisitions, Resource Allocation
- BCG Growth-Share Matrix: 2x2 relative market share (S) vs. market growth (G)
 - Dog: low S, low G, divest
 - Cow: high S, low G, milk
 - Question Mark: low S, high G, uncertain
 - Star: high S, high G, invest
 'Milk the cows, reach for the stars and let the dogs run'
- GE / McKinsey Matrix: 2x2 competitive advantage vs. industry attractiveness. Harvest, hold, build. Uses multiple factors for each dimension.
- Weaknesses: Gross oversimplification, measurement choices, assumption of independence

Styles of Corporate Parenting

- Goold & Cambell: Three styles:
 - Strategic planning: industrial groups -> core competencies. Strong leadership, flexible
 - Strategic control: holding companies. Divisional autonomy, tight
 - Financial control: conglomerates. Business autonomy, financial objectives, tight.

Identifying Synergies

- Economies of scope: Potential to employ assets (managerial, brand, marketing) in other markets. Identify common elements.
- Three potential sources of synergy:
 - Tangible resources: share value chain activities. Market and product synergies.
 - Intangible resources: management and experience, transfer of skills, know-how -> often difficult
 - Competitors: 'Multi-Point Competitors'