

Corporate strategy

Business



MGMT611: Strategy Natalya Vinokurova Corporate Strategy Session 15 1

Corporate Scope Corporate center Division A in industry a Division B in industry b Division C in industry c Division D in industry d – The average U. S. Fortune 500 company operates in four different industries – Diversification is even more prominent in other parts of the world • Grupos, chaebol, business houses, keiretsu, and so on – Poor corporate strategy is common “ Excite, one of the leading Internet services companies, yesterday [received a] takeover offer from Zapata, a Texas-based group with holdings in marine protein and food packaging companies.

Citing the “ excellent fit with Zapata’s new strategic direction,” Avram Glazer, Zapata’s chief executive officer, said the proposed transaction “ makes sense for Excite’s shareholders because of the capital resources that Zapata can bring to Excite. ” Financial Times, May 22, 1998 2 What diversified corporation did this become? 3 Decomposition of Variance in Profitability: Evidence from the United States Year 2% Industry 18% Corporate parent 4% Transient 46% • In the U. S. corporate strategy is typically the icing on the cake, not the cake itself – Business units must be competitive on their own merits – ...in attractive industries • But the icing can make the decisive difference between a good cake and a bad one Business segment 30% Note: Ignores covariance terms; based on 58, 132 observations of 12, 296 business segments in 628 industries in the United States Source: Anita M. McGahan and Michael E. Porter, “ How Much Does Industry Matter Really? ” Strategic Management Journal, 1997 4

Decomposition of Variance in Profitability: Evidence from 14 Emerging Economies • In much of the rest of the world, corporate strategy is more

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prominent • Membership in a diversified entity has a larger effect on profitability • The effect on profitability is more likely to be positive Source: Tarun Khanna and Jan W.

Rivkin, “ Estimating the Performance Effects of Business Groups in Emerging Markets,” Strategic Management Journal, 2000 Countries: Argentina, Brazil, Chile, India, Indonesia, Israel, Mexico, Peru, the Philippines, South Africa, South Korea, Taiwan, Thailand, and Turkey Litmus Test of Corporate Strategy

- Is the combination of all businesses of the firm worth more than the sum of how much each business is worth individually? – The answer could be less, e. g. J. C. Penney telemarketing division was worth 3X the market value of the entire firm
- When deciding whether or not to acquire another business, you need to decide BOTH – whether you have a competitive advantage running that business – AND how it will contribute to the fit among the other 6 businesses you are running

Acrobat Document 7 The WaltDisneyCompany: Stock Price vs. S&P 500, 1984-1994 8 The Walt Disney Company: Stock Price vs. S&P 500, 1995-2005 9 Two big problems 1. Growth at all costs: • This is an example of what happens when a solid corporate strategy meets an aggressive growth goal 2. Mismatch between strategy and organizational structure: • You can have a corporation with businesses that are closely connected like the classic Disney businesses and then run the businesses together in a tightly integrated way.

That can work.

• You can have a corporation with the broader scope of later Disney and run them in a loosely coupled way. That can work. • But if you have a corporation with the broader scope of later Disney and run them like the classic Disney, with heavy-handed management from the top, searching for synergy that doesn't really exist...then you get into trouble. – In 2005, ABC President Robert Iger replaces Eisner

10 The Walt Disney Company: Stock Price vs. S 500, 2005-2012

11 The Walt Disney Company: Take-aways

Core lessons of corporate-level strategy

- Competition occurs at the level of the business unit
- Corporate strategy is a success or failure to the extent that it enhances business unit competitive advantage

– Is the relative gap between WTP and cost larger than it would be otherwise?

- Two tests: – Better-off: Does the presence of the corporation in a given market improve the total competitive advantage of business units over and above what they could achieve on their own? (What's the added value of the corporation? – Ownership: Does ownership of the business unit produce a greater competitive advantage than an alternative arrangement would produce? • A corporation is more likely to pass the tests when it has some shared resource that (a) creates competitive advantage for the business units and (b) is difficult to trade efficiently via the market – E.

g. , access to animated characters – Making business units “ better off” sounds easy, but it typically requires sophisticated structures, systems, and processes, plus cultural supports

12 Corporate strategy entails trade-offs

Either focus on... or focus on... Guidance on the Projects Overall Grading

- The project must cover all three components of the class – Human and Social Capital – Strategy – Multinational Management

Components of Grade (NOT <https://assignbuster.com/corporate-strategy-essay-samples/>)

equally weighted) • Use of frameworks (most important issue) • Quality of research • Innovativeness/Insight of analysis • Integration of different components of class • Quality of communication 14 • ? of grade will be based on presentation; ? on final project write up • We will also use a peer assessment to adjust the grade for effort put in by each team member

A Word on Plagiarism • Any text (more than 2 consecutive words) taken from another source must be – In inverted commas – Clearly identified with the source • It is NOT sufficient to simply note that you used a source. You must identify which text came from it. • Failure to identify the source of your work is a serious breach of academic ethics and will be treated accordingly • If in doubt, ask Professor or TAs for guidance • (It is generally not a good idea to reproduce whole sentences or paragraphs from other sources without a very good reason anyway) 5 Next Class: Firm Scope and Strategy • – – – – Case: Monitor's Opportunities in India (A), 9708-482 What are the benefits and costs to Monitor of moving each of its back-office functions to India? In light of those benefits and costs, what would you recommend to Mark Fuller, Monitor's CEO, about the location of each function? Should Monitor tap into the Indian pool of talent somehow, perhaps by conducting business research there? If so: Should it conduct research only for Monitor case teams or sell its research services directly to external clients? 16