

Strategic control free essay example

[Business](#)



In contrast to other fortune 500, Warren Buffet's Berkshire Hathaway resource allocation process generates innovation that is developmental, organizational, and strategic. The implication is that, a system of corporate governance supports innovation by generating three conditions—financial commitment, organizational integration, and insider control—that, respectively, provide the institutional support. Related to but not directly the cause, (1) the commitment of resources to irreversible investments with uncertain returns; (2) the integration of human and physical resources into an organizational process to develop and utilize technology; and (3) the vesting of strategic control within corporations are components that support the current fiscal result in the firm. Warren Buffet, insiders, have the incentives and abilities to allocate resources to innovative investments.

In combination, financial commitment, organizational integration, and insider control support organizational control in contrast to market control over the critical inputs to the innovation process: knowledge and money (O'Sullivan, 2001, p. 39)" Many of Buffett's (the CEO of Berkshire Hathaway) investments hinged on specific events, or on values that could be tabulated from a balance sheet. For example, Coca-Cola was different. He couldn't compute the value. But he could see it.

" (The Mail on Sunday, 1996)" Warren Buffett remains arguably the most successful long-term investor who ever lived. In Berkshire's annual report, Buffett displays the per share gain in book value as a rough proxy for gains in intrinsic value. From 1965 (almost 40!! years ago), when Buffett took over Berkshire, to 2003, per share book value has grown from \$19 to \$50, 498, a rate of 22. 2% compounded annually, and Barron's reports that the stock

price has appreciated 5, 000 fold. Moreover, the consistency of performance has been remarkable.

Over the last 39 years, Berkshire has returned less than the S; P 500 only five times.”(Kochifitz, 2004)Buffet’s strategic overriding goal is to position a company and its products where the market opportunity is highest. The more consumers who are located in a specific region of the strategic landscape, or the higher their disposable incomes, the higher this particular peak will rise. Especially in newer industries, the task of finding market opportunities is complicated by a lack of information about the willingness of consumers to spend, the exact distribution of their preferences, and other characteristics of the strategic landscape. Management really knows only its own company’s location and earnings, and those of its competitors insofar as they make this information public.

Even then, the information doesn’t fill out the entire landscape. (Nattermann, 2000, p. 22)the `value’ of a stock In examining the strategic process implemented, Buffett likened it to a bond, whose value was equal to the cash flow from future interest payments discounted back to the present. A stock’s value was figured the same way. It matched the anticipated cash flow per share, except that investors had to fill in a crucial detail. (The Mail on Sunday, 1996)Competing corporations felt that because these strategic capabilities tend to require very different technical and management skills and are often needed only for comparatively short periods, competitors are driven to access them through alliances, joint ventures and other network relationships rather than the outright ownership that was usually adopted when acquiring new product capabilities.

<https://assignbuster.com/strategic-control-free-essay-example/>

This is polar opposite of Berkshire Hathaway's approach of stock positions and out right acquisition. However, such alliances work best when those cooperating to build one product or market are assured that they will not find themselves competing on other products or in other markets (Douma et al. 2000). When you buy a business; Buffets' principles for control, " When you buy a business, you're buying something with coupons on it, too, except the only problem is, they don't print in the amount. And it's my job to print in (to figure out) the amount on the coupons.

" (The Mail on Sunday, 1996)" Study prospects and their competitors in detail. Look at raw data, not analysts' summaries. Trust your own eyes. But one needn't value a business too precisely. A basketball coach doesn't check to see if a prospect is six foot one or six foot two, he looks for seven-footers." (The Mail on Sunday, 1996) With this mindset, Buffett's plan of action is to find stock whose `value' was significantly greater than its price.

Warren Buffets' strategic process is based on the following principles: First, he totally ignores and avoids any macro-economic trends, financial forecasts or analyst predictions about the future course of stock prices. This is quite telling since investors buy Berkshire Hathaway shares based on the very intelligence he avoids. Buffet position is to focus on long-term value. As he puts it, examine and seek the size of the coupons further down the path of time. An axiom he has extolled for years is only focus on stocks that you understand within your circle of knowledge. Which is an interesting statement, as a good friend of Bill Gates, Buffet does not invest in tech firms.

Buffett's, bent based on the history of his investment choices and adhering to his strategic process and control, selects often a company with a consumer franchise, such as Coca-Cola. Once again, keeping it simple...if you not able to understand the business model, the product or how its done, there is no way you are in the position to value the stock. Finally, Buffet's ultimate mantra is to seek out management who treat the shareholders' money with " owner-like care and thoughtfulness." In relying on concepts of resource allocation that are, to a greater or lesser extent, borrowed from neoclassical economics, none of these Buffet's modus operand of strategic governance integrates as an analysis of economics of innovation..

What it does demonstrate, how, at any point in time, a system of corporate governance generates institutional conditions that support (1) the commitment of resources to irreversible investments with uncertain returns; (2) the integration of human and physical resources into an organizational process to develop and utilize technology; and (3) the vesting of strategic control within corporations in the hands of those with the incentives and abilities to allocate resources to innovative investments. (O'Sullivan, 2001, p. 42) Seemingly, there appears to be hidden mechanism within Buffet's strategic plan that also provides a framework for analyzing the relationship between corporations and innovation across different business activities. For if not a part of Buffet's world,"...perhaps in consequence, investor retribution against long-range cross-sectoral diversification was by no means universal. (Diba et al. 2000)