SCHOOL OF INTERNATIONAL BUSINESS
AND STRATEGY

COURSE OUTLINE

CORPORATE STRATEGY

Session:	2014-2015
Term:	Fall 2014
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Introduction

Corporate Strategy is a ten lecture, six tutorial, advanced level undergraduate course that equips students to analyse and evaluate the strategy of multi-business firms. Students are typically studying for a BA in Business and Management degree, having spent a year on paid work placement, so bringing experience to their fourth and final year of study. A prerequisite is that students have successfully completed a second-year course in business (competitive) strategy at Henley Business School (or an equivalent course for visiting students), including analysis of short business cases. The Corporate Strategy course is followed by a spring term course entitled Global Strategy, which completes the sequence of three strategy courses.

Corporate strategy turns attention from companies with a single primary line of business to exploring strategies of multi-business organizations. The course focuses on the strategic choices facing multi-business organizations and introduces a set of frameworks, concepts, tools, and techniques by which to analyze such decisions. Corporate strategy is the quest for corporate advantage, or the capability of the firm to add value to its underlying businesses.

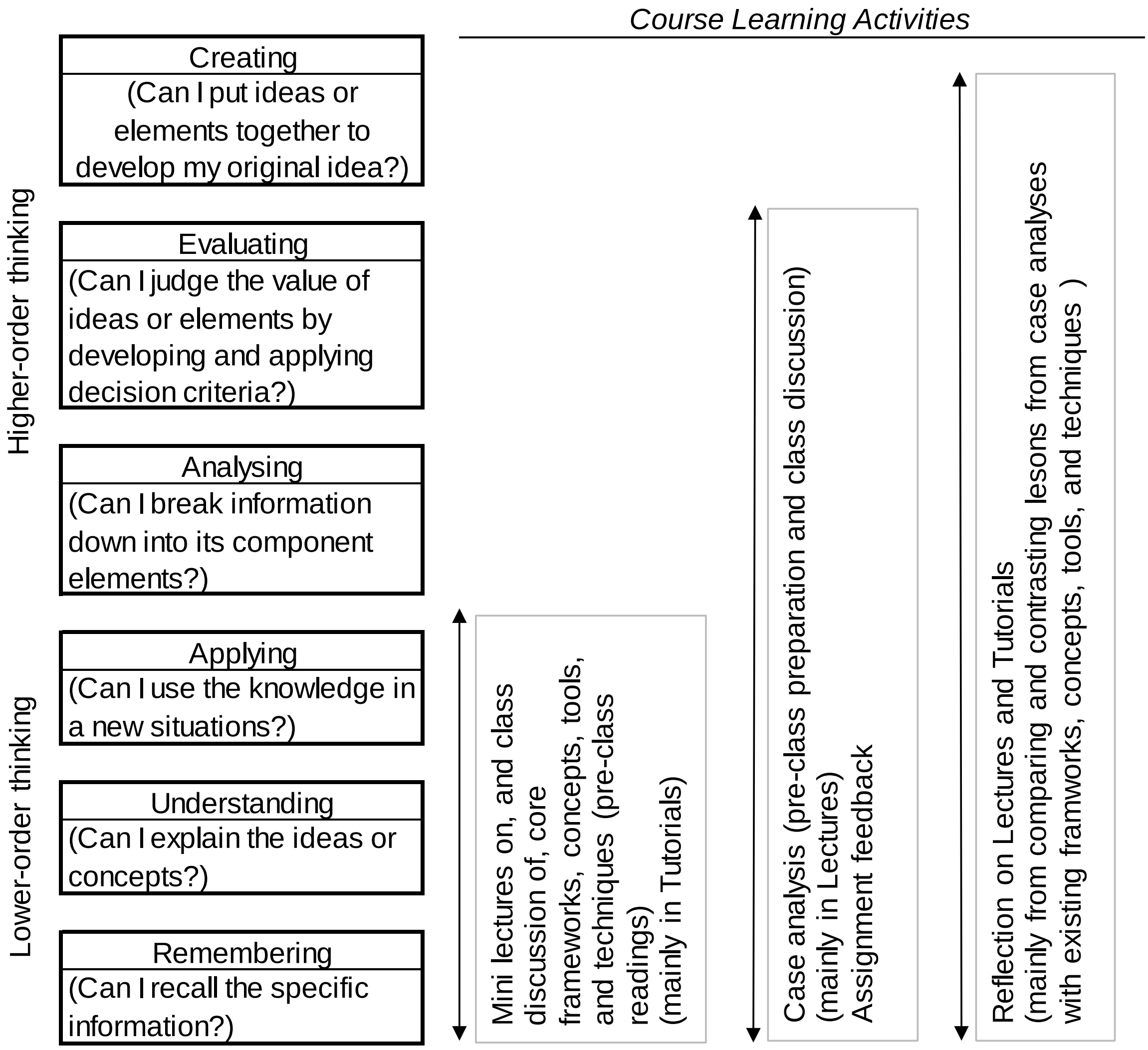
Aims, objectives, and learning outcomes

- In September 2014, German pharmaceutical firm Bayer announced its decision to float off its plastics division, accounting for 29% of its revenues but that produced an annualized return on capital (ROC) of just 6%, compared to other Bayer returns in the mid-teens and an overall ROC for the firm of over 11%.

- Having bought its troubled bottling operations in a $12 billion deal in 2011, in October 2014 Coca-Cola announced that it would sell most of its North American bottling operations back to independent bottlers by the end of 2017. Diversifying away from carbonated sodas, Coke is also paying $2.15 billion for a 16.7% stake in energy drink brand Monster.

- As global fears about the disease Ebola spread, in October 2014 Tokyo-headquartered photography and imaging company Fujifilm announced its drug Avigan as a treatment. Fujifilm's principal market of photo film having shrunk to one-twentieth of its peak by 2013, it had been refocusing its businesses and diversified into pharmaceuticals and cosmetics.

The course aims to introduce students to the challenges and tradeoffs involved in crafting the overarching strategy of a multibusiness firm to improve the firm's long-run performance. By the end of the course, students should be able to analyze and evaluate strategic decisions such as those of Bayer, Coca-Cola, and Fujifilm. To achieve this aim, the Module teaching maps into, and is aligned, with Bloom's revised Taxonomy[1] of six levels of learning outcomes with increasing cognitive ability.



While the level of analysis is different from business unit strategy, the underlying principles of strategy apply at the corporate level. Creating and capturing corporate advantage requires making different decisions from competitors, rather than mimicking them. Strategic decisions must be made in an integrated manner, rather than individually. Decisions require firms to make multiple trade-offs, including over the mode and level of organizational integration, so that that multi-business firms can add value to their underlying businesses in distinct ways. The course fills the gap arising from the implication from these principles that there can be no 'best practice of strategy for the corporate level; at best, there may be useful practices.

[1] Anderson, L. W., & Krathwohl, D. R. (eds.) (2001). *A Taxonomy for Learning, Teaching, and Assessing: A Revision of Bloom's Taxonomy of Educational Objectives.* New York: Longman; Bloom, B. S. (1979). *Taxonomy of educational objectives*. Handbook 1: *The Cognitive Domain*. New York: David McKay.

To achieve its learning outcomes, the Module makes significant use of the case method, an approach to learning that encourages students to extract useful lessons from the experiences of others (the "cases"). Students study specific events in order to discover and learn general principles that they can apply in other situations. The Lecture format is the case method of learning, with Tutorials focusing on understanding and applying frameworks, concepts, tools, and techniques from the Module textbook and readings. Students should dedicate some time each week for reflection and reflective writing on their learning journeys as they compare and contrast cases and current business stories with existing frameworks, concepts, tools and techniques as presented in the Module textbook and readings.

When students have completed this course, they should be able to:

- Identify and describe the central strategic challenges facing CEOs of multibusiness firms and the ways that companies generate and preserve corporate (or parenting) advantage
- Understand and apply the logics that guide management decisions over: which businesses, markets, or geographies to invest in, and which to avoid, harvest, or sell (the choice of businesses); what to own (the choice of firm boundaries); and how to organize (the choice of structures, processes, and incentives)
- Compare alternative schools of thought on corporate strategy and assess what they may usefully contribute to management practice
- Distinguish and analyze the ways in which corporate headquarters add value "vertically" (upstream and downstream along the value chain) by guiding, directing, imposing, persuading, or incentivizing managers in the business divisions in ways that result in better performance than would have been achieved without vertical influence
- Compare and contrast this with the ways in which corporate headquarters can add value "horizontally" (across businesses) through encouraging coordination across divisions, such as by of shared customers or clients across businesses or geographies, by cross-selling, or by sharing activities or resources across businesses
- Show how headquarters' actions can destroy or subtract value from business divisions, such as by delaying decision making, adding costs, distracting from commercial priorities, providing inefficient services, and by demotivating the divisions and their managers
- Contrast corporate strategies of related diversification from corporate strategies of unrelated diversification and critique measures of "relatedness" in scholarly work and in practice

Broader learning outcomes are that students should be able to:

- Identify and develop criteria to guide management problem solving and decision making through careful reading and re-reading of cases informed by a systematic iterative and reflexive process of case analysis
- Develop the capability to bridge financial and strategic analysis, both to diagnose the causes of variations in firm performance and to enhance capabilities to interpret performance data
- Refine skills in reporting conclusions effectively in oral and written form
- Enhance capabilities to formulate and analyse complex problems, to evaluate alternative solutions, and to make policy recommendations
- Strengthen abilities to learn by combining learning modes, including by individual study from textbooks and cases, and from classroom analyses of cases
- Enhance employability by honing capabilities in analysis and in formulating good questions
- Strengthen career progression by providing a broad understanding of the key strategic dilemmas facing a broad range of functions as they relate to strategy for different levels

Architecture of the Module

For pre-class preparation, students should have completed the **Essential Readings** prior to each class – whether Lecture or Tutorial – and be prepared to discuss assigned case questions. Lecture time is dedicated to case analysis, supplemented where necessary by mini lectures, with Tutorials spent reviewing readings and issues arising from the cases.

Case analysis has an enhanced role for class discussion, with the objective being to arrive at a collective analysis of the issues presented by the materials. Compared to a class following a lecture format, there will be less one-way delivery of material and slides by the Course Leader. Strategic analysis is not accomplished by routine application of formulae, but through reasoning under conditions of limited information and uncertainty, by individuals and groups from different backgrounds with different schemas and ways of organizing knowledge.

With a case, students should identify the key issues, problems, and decisions facing the central protagonists, articulate and evaluate alternative approaches to tackling the problems, and describe and justify the course of recommended action. Case selection criteria has included variation across contexts and students should be able to compare and contrast application of the frameworks, concepts and tools from one case, context and part of the course to another.

Essential pre-class preparation for each Lecture (case discussion) is primarily an individual-level responsibility, in which students should prepare reasoned answers to the assigned questions. Students should first skim a case to identify major issues. While rereading the case carefully, students may consider annotating and highlighting important information, omissions, and questions raised. Students should not search out additional information on companies studied from other sources in advance, including via the Internet. Students should choose among a finite set of distinct decision alternatives (decision cases), diagnose a problem and formulate possible solutions (problem cases), or analyze the underlying reasons for success or failure to arrive at management lessons (evaluation cases).

There are many ways of trying to persuade an audience, including by emotion, tricks of logic, authority, or reasoning and evidence. In an academic or management setting, persuasion should be by argument. Managers and executives need to think logically about their businesses, the people they are trying to lead, and the objectives they are trying to achieve.

An argument is a series of logically related statements. The fundamental relationship, the one that matters most, is between the statement of a conclusion and the evidence for it. If drawing a conclusion about a case question, such as, "The manager should drop prices to deter entry," for the audience to take this conclusion seriously, the statement must be accompanied by explanation of *why*? The audience needs evidence proving that such a reduction in prices will have the envisaged deterrence effect, evidence that may be derived from different sources.

Schedule of Lectures

Lecture	Topic	Case Preparation
1 Week 1	Business (Competitive) Strategy Gym	Edward Jones in 2006: Confronting Success (9-707-497; Rev. March 21, 2012)
2 Week 2	From Business Strategy to Corporate Strategy: Vertical Integration and the Boundaries of a Firm	Coca-Cola in 2011: In Search of a New Model (711504-PDF-ENG; Rev. June 09, 2011)
3 Week 3	Unrelated Diversification I: Conglomerates	Danaher Corporation (9-708-445; Rev. April 15, 2011)
4 Week 4	Unrelated Diversification II: Private Equity	Corporate Strategy at Berkshire Partners (9-710-414; Rev. February 5, 2010)
5 Week 5	Internal Governance and Strategy Execution: Balancing Competition and Coordination across Business Units	Alibaba Group (9-710-436; Rev. April 26, 2010)
	Enhancement Week	
6 Week 6	Related Diversification I: The Logics of Acquisition	Cadbury Schweppes: Capturing Confectionery (A) (9-708-453; Rev. September 18, 2012)
7 Week 7	Related Diversification II: Synergies and Post-Merger Integration	Cadbury Schweppes: Capturing Confectionery (B) (9-708-454; Rev. September 18, 2012) Cadbury Schweppes: Capturing Confectionery (C) (9-708-455; Rev. July 6, 2011) Cadbury Schweppes: Capturing Confectionery (D) (9-708-491; Rev. July 6, 2011)
8 Week 8	Corporate Strategy Test IV: The Ownership Test	The Walt Disney Company and Pixar, Inc.: To Acquire or Not to Acquire? (9-709-462; Rev. Jan 15, 2010)
9 Week 9	Corporate Strategy Test V: The Organizational Test	Procter & Gamble: Organization 2005 (A) (9-707-519; Rev. October 4, 2007) Procter & Gamble: Organization 2005 (B) (9-707-402; Rev. November 16, 2007)
10 Week 10	Corporate strategy and organization: Trading Off for the Customer	Jones Lang LaSalle: Reorganizing around the Customer (2005) (9-410-007; Rev. July 2, 2010)

Schedule of Tutorials

Tutorial	Topic	Preparation
1 Week 2	Corporate Level Strategy: Introduction and history	*CWA&G* Chs. 1, 2 **(E)** Nippa, M., et al. (2011). Corporate portfolio management: Appraising four decades of academic research. *The Academy of Management Perspectives* 25(4): 50-66. **(E)**
2 Week 3	Corporate Strategy Test I: Business logic Corporate Strategy Test II: Added value logic (The Better-off test)	CWA&G Chs. 3, 4 **(E)**
3 Week 6	Corporate Strategy Test III: Capital Markets Logic Combining Logics for Better Strategic Decision Making	CWA&G Chs. 5, 6 **(E)**
4 Week 7	Sources of Corporate Level Value Creation and Destruction	CWA&G Chs. 7, 8, 9, 10 **(E)**
5 Week 8	Corporate Organizational Structure	CWA&G Chs. 11, 12 **(E)** Tushman, M. L., & O'Reilly III, C. A. (2002) Managerial problem solving: A congruence approach. Chapter 4 excerpted from *Winning through Innovation: A Practical Guide to Leading Organizational Change and Renewal*. Boston (MA): Harvard Business School Press. (Harvard Business Press Chapters Product 2430BC-PDF-ENG) **(E)**
6 Week 10	Designing and Developing New Capabilities at Corporate Headquarters Managing Synergy	CWA&G Chs. 13, 14, 15 **(E)**

The Module begins in the first Lecture by surfacing, through analysis, the key elements of the business (competitive) strategy of **Edward Jones**, the large financial services' brokerage firm focused solely on individual investors and small business owners. The case prompts a set of questions that students should ask of any firm in identifying and evaluating its business (competitive) strategy. This case provides an introduction for students to working with more complex cases, a review of core themes from business strategy and competitive advantage, and a foundation to relate these to strategy for the corporate level.

The second Lecture examines the industry structures of the extended industry value chain in the carbonated soft drinks (CSD) industry and the strategies of **Coca-Cola** and **Pepsi**. Coke and Pepsi need to renew their strategies in response to declining demand for CSDs in the United States, with non-CSD beverages emerging as a serious substitute for CSDs. What can be done to ensure profitability and growth in the 21st century? **Coca-Cola** implements a new corporate strategy of vertical integration as a means of gaining greater control of its value chain in the US market by buying its largest bottlers in the US. Coke would now be vertically integrated, owning the whole value chain from production to bottling and distribution. Should Coke should keep the bottling business and continue to control the value chain or should it "fix" it and then re-franchise pieces of it?

Shares of firms diversified into unrelated businesses – conglomerates – have historically trade at a discount when compared to the breakup value of their individual businesses. Conglomerates dominated the US economy from 1940-1975. They include some of the best known companies in corporate history – Beatrice Corp., General Electric, ITT, Siemens, and ABB – and over the last few decades have been admired and denigrated as a corporate organizational form. The best known British conglomerate was Hanson Trust. The British-owned conglomerates Swire Group and Jardine Matheson, operating from Hong Kong, own a wide range of businesses around the world. Japan-headquartered conglomerates include keiretsu groupings such as Mitsubishi, centered around a bank and with interlocking shareholdings across companies. Many conglomerates in China are state-owned enterprises, but others such as Fosun Group are privately owned. In Korea, the chaebol conglomerates are mostly family owned and operated, with the best known including Samsung, LG, and Hyundai Kia.

Why do conglomerates exist? How do these firms create corporate advantage when businesses are unrelated? The third Lecture explores these questions through analysis of the corporate strategy of **Danaher Corporation**, perhaps the most successful conglomerate of the recent era.

The conglomerate merger wave of the late 1960s and 1970s was followed by the leveraged buyouts and subsequent asset divestitures of many of these firms during the 1980s. These transactions were mostly executed by private equity firms, whose business portfolios look, perversely at first glance, similar to – and as unrelated as – those of the conglomerates they acquired and broke up. A typical leveraged buyout (LBO) by a private equity firm might invest in industries as diverse as bakeries, footwear stores, radio stations, underground storage tanks, and polyethylene pipe manufacturing. Despite similarities in business mix, differences between the organizational processes and ownership structure of these two "models" of the conglomerate impact their ability to add value to individual businesses within their corporate portfolios.

"Ostensibly, private equity firms buy companies, fix them, and then sell them. How is it that PE firms are able to do this and why were the companies unable to *fix themselves* in the first place" (Leslie & Oyer, 2013; emphasis in original)[2]. Private equity, unlike Danaher, creates most if its value in the deal and often through restructuring the balance sheet. In the past, private equity returns were due almost entirely to leverage. Today, there is less leverage and private equity returns have declined partly because of increasing competition within the industry. Most private

[2] Leslie, P., & Oyer, P (2013). Managerial incentives and value creation: Evidence from private equity. National Bureau of Economic Research (April).

equity firms would agree that there is a competitive market for companies to acquire and they have to have some special expertise to add value since everyone can do a simple restructuring and leverage is available to everyone. Many private equity firms have been adding operational expertise, trying to replicate the success of **Danaher** in improving operations.

The case of **Berkshire Partners** in the fourth Lecture shows how a successful private equity firm reorganizes in the face of increasing difficulty of acquiring portfolio companies and internal transition from founder to second-generation leadership. How can Berkshire deal with the optimal allocation of resources and the appropriate design of employee incentives to address external market turmoil and these internal dynamics? Should the firm itself diversify?

How does internal governance affect strategy execution and performance? **Alibaba Group** provides a vivid illustration of the successful alignment both *within* internal governance choices and *between* governance and firm strategy. The case explores the rapid growth and diversification of one of China's leading technology businesses. Students follow Alibaba's transition from a startup to a conglomerate with over 15,000 employees, and analyze the evolving dynamics of internal competition and cooperation among its subsidiaries. The case discusses how Alibaba successfully developed, incubated, and managed new business ventures to become China's leader in the business-to-business (B2B), online consumer and online payment marketplaces. Should CEO Jack Ma continue to encourage competition between business units or change course and foster collaboration among them?

Which businesses should a firm expand into? This question of corporate scope is central to corporate strategy. Flawed scope decisions can have severe consequences, and the trauma experienced by many companies as a result of mistaken decisions to expand scope is often large. What leads to such mistakes? Where do managers go wrong? And, what might be a sensible logic by which to approach the question of scope expansion? Firms that expand scope successfully do so not only based on sound arguments for "relatedness," but also effect organizing to realize the benefits from such expansions, and make sensible decisions around the question of ownership (i.e., where the boundaries of the firm should be drawn in such expansions).

We examine these questions through two cases describing **Cadbury Schweppes'** (the British confectionery and beverages' company) bid for, and subsequent acquisition of, Adams (the number two chewing gum company in the world). In the sixth Lecture students examine the strategic arguments for and against the acquisition and describes the process leading up to the more than $4 billion bid placed by Cadbury Schweppes at the end of 2002. Should the Board of Cadbury Schweppes have approved this bid? In the seventh Lecture, students analyze the synergies that Cadbury Schweppes anticipated being able to realize from the acquisition are believable. This acquisition turned into a transformative deal for Cadbury Schweppes. Students learn from this case sequence about how to utilize acquisitions as part of corporate strategy.

Having analyzed the decision by Coca-Cola to forward integrate into bottling and distribution, the eighth Lecture affords discussion and evaluation of the decision by **The Walt Disney Company** to backward integrate by acquiring **Pixar Animation Studios**. From the underlying theory of transaction costs, an additional test to be passed before an acquisition should be considered is that of ownership. Vertical integration through internalizing transactions inside the firm hierarchy (i.e., when one firm acquires another at a different stage in the value chain) may only be appropriate when alternative contractual forms of arranging those transactions or coordinating decisions along the value chain are difficult, if not impossible to write. The case has sufficient contractual and financial information for students to wrestle with the important issues that come up when considering vertical integration.

If a firm expands into a new business, can it organize two (or more) businesses in a way that allows it to realize the value creation potential from their common ownership? Can the firm create appropriate incentives so that the combined businesses work together rather than pursue separate agendas? Or, might culture clashes from combining two different businesses even result in value destruction? Different settings illustrate each of these tensions: for example, is the right structure for **Cadbury-Schweppes** one of organizing by geography (to take advantage of within-country synergies) or by global product category (to exploit cross-market scale economies)? What is the right balance of autonomy and integration that **Disney** should grant **Pixar** so that it allows its creative culture to flourish, while at the same time leveraging its expertise into **Disney's** animation business? The same question was pertinent to **Alibaba Group**. Decisions over post-merger organization are often relegated to strategy "implementation," but failing to consider *ex ante* the organizational choices and changes that ought to accompany any scope expansion is one of the most common reasons why mergers fail.

Students tackle the challenges of organizational design for strategy at the corporate level in the ninth Lecture, using the relatively complex case of the American multinational consumer goods company **Procter & Gamble**. Creating and capturing full value from corporate strategy necessitates making trade-offs in organizing. Capturing revenue synergies from cross-selling is invariably more successful when there is a common sales force for multiple products. Reducing selling, general, and administration (SG&A) costs may require centralizing certain functions. Leveraging company-wide capabilities is usually easier with a functional organizational than with a divisional structure, but tradeoffs become evident when this conflicts with existing approaches to running businesses. The need to make tradeoffs in organizing imply that it may be neither feasible nor optimal for a firm to put in place all the changes in organizing required to realize the potential value from a deal. A firm may choose *not* to centralize operations or combine two sales forces even though so doing would result in cost reductions, if the resulting loss in autonomy and entrepreneurial freedom leads to more than offsetting reductions in revenue. As a result, firms choosing not to integrate activities or operations that yield certain synergies may appear to outsiders not to capture full value from decisions over corporate strategic governance and organizing. Even though non-integration is the rational choice.

In the context of globalization of the real estate services' industry and the changing demands of real estate customers in response to this market trend, the case of **Jones Lang LaSalle** in the final Lecture allows analysis of the pros and cons of various organizational structures to meet the growing demands of the firm's global accounts, customers that increasingly seek integrated global solutions rather than to purchase products. Realizing corporate advantage in multibusiness firms has several components that cannot easily be handled in a matrix organization, with increasing tensions with pressures to add client-facing, account management roles. Which of two competing proposals JLL Americas adopt? Which option optimizes the tradeoffs surfaced in attempting to achieve organizational alignment around the company's strategic objectives? This final Lecture drives home how corporate strategy and organizational structure co-evolve, as firms face environmental challenges that substantially alter the basis of competition in their industries. Consideration of what is required to be a successful multinational company and to have a good global strategy is examined in more detail in the follow-on and final course in this sequence, on global strategy (Course MM332B). The matrix below maps core course high-level themes to cases.

Course Themes and Cases

Course Themes	Company Case Study								
	Edward Jones	Coca-Cola	Danaher Corporation	Berkshire Partners	Alibaba Group	Cadbury Schweppes	Walt Disney / Pixar	Procter & Gamble	Jones Lang LaSalle
Competitive (business) strategy	Primary topic		Secondary topic	Secondary topic	Secondary topic		Secondary topic		
Corporate strategies of related diversification		Primary topic		Secondary topic	Secondary topic	Primary topic	Primary topic		Secondary topic
Conglomerates and strategies of unrelated diversification			Primary topic	Primary topic	Secondary topic				
Corporate Strategy Test I: Business logic		Primary topic	Primary topic	Secondary topic	Secondary topic	Secondary topic	Secondary topic		
Corporate Strategy Test II: Added value logic		Primary topic	Primary topic	Primary topic	Secondary topic	Primary topic	Primary topic		
Corporate Strategy Test III: Capital markets logic			Secondary topic	Secondary topic		Secondary topic			
Corporate Strategy Test IV: Ownership and firm boundaries		Primary topic					Primary topic		
Corporate Strategy Test V: Internal governance and organizing	Secondary topic		Secondary topic	Primary topic	Primary topic		Secondary topic	Primary topic	Primary topic
Developing customer focus							Secondary topic	Secondary topic	Primary topic

Primary topic   Secondary topic

Module textbook and readings

Many of the frameworks, concepts, tools and techniques for corporate strategy studied in this Module are found in the Module textbook, which is **required purchase (P)**:

> Campbell, A., Whitehead J. Alexander M., & Goold, M. (2014) *Strategy for the Corporate Level: Where to invest, what to cut back and how to grow organisations with multiple divisions*. 2nd Edition. Chichester (UK): Jossey-Bass (Wiley). ISBN: 978-1-118-81837-4 (hardback). [*CWA&G*] **(P)**

By arrangement with the publisher, students may purchase this book at a special price of £29.99 from the Reading University Students Union Bookshop, a discount of £5 from the Recommended Retail Price.

Students taking MM332A who did not take the pre-requisite course on business (competitive) strategy MM272 in academic year 2012/2014 are recommended to actively read through, and to engage intellectually with, Chapters 3, 4, 5, and 6 of the MM272 course textbook:

> Grant, R. M. (2013) *Contemporary Strategy Analysis: Text and Cases*. 8th Edition. Chichester (UK): Wiley. ISBN: 978-1-119-94189-7 (pbk) (*Grant*). **(R)**

By arrangement with the publisher, students may purchase this book at a special price of £45.99 from the Reading University Students Union Bookshop, a discount of £7 from the Recommended Retail Price. This book is available in the Library collection.

Essential Readings **(E)** and Recommended Readings **(R)** for each Lecture and Tutorial are listed in this Module Outline under the separate headings of Pre-class Preparation for Lectures and Pre-class preparation for Tutorials (see below).

Students participating in this Module will find that their learning is aided by actively reading and reflecting on articles about corporate strategic decisions in *The Financial Times* and *The Economist*. These two publications are Recommended Readings **(R)** for the duration of both Modules MM332A and MM332B.

Pre-Module Study Skills

Students taking this Module must prepare by strengthening their capabilities at case analysis and at financial ratio analysis for strategy. The following Study Skills materials are available.

Case Analysis

Case Analysis Coach (Online Tutorial; 90 minutes) (4380-HTM-ENG) **(E)**

This online tutorial presents a comprehensive, concise framework for analyzing, discussing, and writing about cases. It shows how to establish a knowledge base about a case by classifying it according to required analytical tasks. Case Analysis Coach walks students step-by-step through a structured case analysis framework (including several "passes" through the case for relevant information). Short examples in various disciplines illustrate multiple types of case situations. The tutorial concludes with an exercise in which students apply the analysis framework to an entire general management case. Students are required to interpret qualitative and quantitative data and to develop short and long-term action plans.

Kashani, K. (1992). How to analyze a case: A guide to student preparation (Mimeo) **(E)**

Financial Ratio Analysis for Strategy

Financial Statement and Ratio Analysis (9-101-029) (and case Excel software file XLS-638) **(E)**

This six page note prepares students for financial ratio analysis as a set of tools to aid strategy evaluation. It discusses financial analysis using the ratios of Compaq Computer Corp, and Dell Computer Corp, two of the leading U.S. PC manufacturers, for the years 1995 to 1997. Both firms had similar accounting policies, so that differences in their financial ratios should reflect each firm’s strategic choices and execution of its strategy.

Assessment

Module assessment has the following two components:

Three Individual Written Assignments	30% (10% per assignment)
Final Examination	70%

Students are strongly recommended to attend all Lectures and Tutorials.

For each of the three Individual Written Assignments, students should prepare a short paper (maximum six pages or three sheets of paper if using both sides of each sheet), double-spaced lines 12 pt Times New Roman font size (excluding figures and tables that may be added on additional sheets) that presents analysis of two or more of the respective case questions set out in Essential pre-class preparation. Students may submit more than three Individual Assignments in which case their best three marks will count toward Module assessment.

Further guidance:

1. **Students may not submit Individual Written Assignments for Lectures 1 or 7, but should prepare these two Lectures case for class discussion.**
2. **Students preparing an Individual Written Assignment for the case in Lecture 2 must include in their Assignment an answer to at least one of Essential pre-class preparation questions 3 or 4, as well as answer at least one other question.**
3. **Students preparing an Individual Written Assignment for the case studied in Lecture 6 should answer only the single Essential pre-class preparation question given (with guidance notes).**

In preparing cases, students should neither simply repeat case raw material nor describe strategy frameworks and concepts, but be analytically evaluative, marshalling case facts to support arguments. In evaluating alternate managerial plans, students should draw on and discuss the applicability of the Module's frameworks, concepts, tools and techniques.

Submission of Individual Written Assignments requires that they are ***both*** uploaded to Turnitin through Blackboard Learn ***and*** submitted in hard copy to the respective program assignment drop box on the First Floor deck in Henley Business School building **before the respective start time of each Lecture to which the Assignment relates (the deadline). Hard copies of written assignments must be time and date stamped using the machine facing the First Floor deck reception desk before being dropped into the box.**

Since cases that are the subject of the Individual assignments will be discussed in class, *late submissions of Individual Written Assignments will not be accepted under any circumstances. Individual Written Assignments submitted after the respective Lecture deadline will receive 0%. In the event that students submit more than three Individual Written Assignments before the respective deadlines, only the three highest marks will count toward the final Module assessment and other, lower marks, will be discarded.*

Since cases will be discussed in detail in Lectures, this will constitute primary feedback. Written feedback on graded Individual Written Assignments will be relatively limited.

Final examination

There will be a three-hour final examination. Exam questions will be an opportunity for students to draw on their knowledge base, including learnings from the cases and readings, reinforcing the importance of regular attendance at, and active preparation for, all Lectures and Tutorials.

Module pedagogy and expected work requirements

The expected work requirements from each individual Module participant are as follows:

	Autumn	Spring	Summer
Lectures	20		2
Tutorials	6		
Guided independent study	130		42
Total hours by term	156		44
Total hours for module	200		

Students aiming for a *top mark* (a 1st or 2:1) should at least cover the Module textbook and Essential Readings **(E)**, dip into the Recommended Readings **(R)**, and actively read more broadly. One ongoing indicator of progress is a student's ability to follow and constructively contribute to case discussions in Lectures and to Tutorials.

Students with questions about the Module should email the Module Convenor to arrange a time for discussion or to make an appointment.

Pre-Class Preparation for Lectures

Lecture 1: Business (Competitive) Strategy Gym

Learning objectives

1. Refine what we mean by "strategy" and the essential elements that a business (competitive) strategy should have, including a discussion of related concepts, such as mission, values, and vision
2. Understand the importance of making trade-offs in formulating strategy
3. Apply an integrated framework for business-level strategy identification
4. Introduce the process of customer segmentation and the concept of tailored value proposition
5. Apply criteria (three tests of consistency) for assessing business strategies

Readings

Strategy Reading: Competitive Advantage (Harvard Business Publishing; 8105-PDF-ENG) **(E)**
(Note: this Reading includes interactive illustrations)

Hax, Arnoldo C. (2010). *The Delta Model: Reinventing Your Business Strategy*. NY: Springer. Chapter 3. **(R)**

Porter, M. E. (1996). What is strategy? *Harvard Business Review* **74**(6): 61–78 (November–December). **(R)**

Case: Edward Jones in 2006: Confronting Success (9-707-497; Rev. March 21, 2012)

Pre-class preparation

1. What are the elements of Edward Jones' strategy that enabled it to grow from its roots in small-town America to become the fourth largest broker in the US?
2. Has Edward Jones' strategy been consistent?
3. What do we learn from this case about strategy in financial services?

Lecture 2: From Business Strategy to Corporate Strategy: Vertical Integration and the Boundaries of a Firm

Learning objectives

1. Understand the relationship between different stages of the value chain in an industry, especially incentives for vertical integration.
2. Analyze strategic options for managing across the value chain and the implications for different models of manufacturing and distribution.
3. Evaluate when a firm needs to own all its businesses in order to capture the value created from linkages across them and where a firm's boundaries should be drawn.

Readings

Osegowitsch, T. and A. Madhok. (2003). Vertical integration is dead, or is it? *Business Horizons* **46**(2): 25-34. **(E)**

Argyres, N. S. and T. R. Zenger (2012). "Capabilities, Transaction Costs, and Firm Boundaries." *Organization Science* **23**(6): 1643-1657. **(E)**

Jacobides, M. G. and L. M. Hitt (2005). "Losing sight of the forest for the trees? Productive capabilities and gains from trade as drivers of vertical scope." *Strategic Management Journal* **26**(13): 1209-1227. **(E)**

Madhok, A. (2002). "Reassessing the Fundamentals and Beyond: Ronald Coase, the Transaction Cost and Resource-based Theories of the Firm and the Institutional Structure of Production." *Strategic Management Journal* **23**(6): 535-550. **(R)**

Argyres, N. (1996). "Evidence on the role of firm capabilities in vertical integration decisions." *Strategic Management Journal* **17**(2): 129-150. **(R)**

Case: Coca-Cola in 2011: In Search of a New Model (9-711-504; Rev. August 14, 2012)

Essential pre-class preparation

1. What are the sources of Coca-Cola's competitive advantage?
2. Evaluate the biggest challenges to Coke's competitive advantages today.
3. What were the pros and cons of buying Coca-Cola Enterprises (CCE)? Does it address Coke's challenges? Improve its prospects of reaching its 2020 vision?
4. Evaluate the following different strategic options for Coke and conclude with a business policy recommendation for what it should do with CCE going forward.
5. Which theoretical perspective best explains Coca-Cola's downstream vertical integration decision?

Lecture 3: Unrelated Diversification I: Conglomerates

Learning objectives

1. Analyze how to create value as a conglomerate by studying a firm that is sufficiently representative of the corporate strategy of a conglomerate.
2. Understand how the application of the DBS creates value and what exactly is involved in the business units applying the tools from the system.
3. Prescribe the limits to the Danaher corporate strategy. How far can the DBS travel? What other businesses could Danaher acquire and still add value to?
4. Explain why firms themselves cannot employ something similar to the DBS and whey they need to be acquired before they implement what appear to be simple continuous improvement processes.
5. Recognize that corporate advantage may be an outcome of strategy execution as much as strategy formulation.

Case: Danaher Corporation (9-708-445; Rev. April 15, 2011)

Essential pre-class preparation

1. What is it that is unique and valuable that accounts for the success of Danaher?

2. Portfolio issues:

   i. What kind of businesses has the DBS approach worked well in?
   ii. Is there a limit to the range of businesses in which Danaher can create value?

3. What are the biggest internal concerns and external challenges facing Danaher in 2010? What can Larry Culp do to prepare the organization for these challenges?

4. Can firms themselves and/or private equity replicate the success of Danaher? What prevents any company putting in place a similar set of processes to drive operational performance?

Lecture 4: Unrelated Diversification II: Private Equity

Learning objectives

1. To illustrate how the private equity industry addresses some of the challenges faced by conglomerates, including by imposing discipline on management through the use of tools such as higher-powered incentives, and by improved monitoring through separate boards, no cross-subsidization, private ownership and forced divestitures.
2. Demonstrate how good strategy requires making a consistent set of choices to achieve alignment among the building blocks of corporate strategy – portfolio (product markets), ownership (capital markets), organization (labor markets), and resources.
3. Examine how changes in environment and ownership structure may require changes in firm scope and organization.

Readings

Kaplan, S. N., & Strömberg, P. (2009) "Leveraged buyouts and private equity", *Journal of Economic Perspectives*, 23 (1), (Winter): 121-146. Note: This article highlights how the private equity industry operates and evolves over time. The section entitled "Is Private Equity a Superior Organizational Form" (pp. 130-136) **(E)** to be especially relevant to the Berkshire case; the rest of the article is **(R)**.

Leslie, P., & Oyer, P. (2013) "Managerial incentives and value creation: Evidence from private equity." NBER Working Paper Series. **(R)**

"Monsters, Inc. (Private equity), *The Economist*, January 28 2012, p. 10. **(R)**

"Bain or blessing?" (Private equity under scrutiny), *The Economist*, January 28 2012, p. 73. **(R)**

"TPG: The Operators," *Bloomberg Businessweek*, February 17 2011. **(R)**

Case: Corporate Strategy at Berkshire Partners (9-710-414; Rev. February 5, 2010)

Essential pre-class preparation

1. What is Berkshire Partners' corporate strategy? Is their organizational design aligned with their current strategy? Do they have a corporate advantage relative to other private equity firms?
2. As the firm transitions from its founding MDs to future-generation leaders, they are making changes in their scope of business, governance and organization. Why are they doing this? And are they the right changes?
3. If you were one of the MDs (or the investment staff), what would you be worried about? What do you think should be done?
4. Do you think the diversification into the new asset class (Stockbridge) is a good idea? Why or why not?

Lecture 5: Internal Governance and Strategy Execution: Balancing Competition and Coordination across Business Units

Learning objectives

1. Understand the importance of achieving balance between opposing objectives: in this case, the CEO attempts to achieve balance between competition (and managerial initiative within business units) and coordination (across business units).
2. Appreciate the various complementary organizational choices that companies can use to achieve an optimal balance. In this case, the executives are rewarded (through autonomy/decision rights) to achieve "best" in class; but, at the same time, compensation systems (incentive design) are geared to achieving coordination across business units.
3. Recognize the value of a CEO's time in designing organizational structures – to evaluate the costs and benefits of having new businesses report directly to the CEO.
4. Explore issues of centralizing and decentralizing authority in the design of organizational structure and reporting relationships.

Readings:

Colback, L., & Armstrong, R. (2014) Lex in depth: Alibaba. *The Financial Times* [Online] 10 September. p. 11. Available from: http://www.ft.com/cms/s/3/88e06be8-3775-11e4-bd0a-00144feabdc0.html#slide0 [Accessed 10 September 2014] **(E)** [Note: This article has five diagrams that you should review.]

Campbell, A., Kunisch S., & Müller-Stewens, G. (2011). To centralize or not to centralize. *McKinsey Quarterly* (June): 1-6. **(R)**

Neilson, G. L., & Wulf, J. (2012). How many direct reports? *Harvard Business Review* 90(4) (April): 112-119. **(R)**

The Boston Consulting Group. (2008). *Lean and Active: A New Perspective on the Role of the Center*. The Boston Consulting Group (March 2008). **(R)**

Two recent video documentaries/interviews that add to your understanding are:

Bloomberg West Special: The Alibaba Story (09/11)
http://www.bloomberg.com/video/bloomberg-west-special-the-alibaba-story-09-11-DlS6aOl8QdmGC_shZXpTCg.html
In this 20-minute 49 second video, Bloomberg West takes a look at Alibaba's rise from a small Internet upstart in China to one of the most valuable tech companies in the world. Emily Chang interviews former Yahoo COO Dan Rosensweig and Porter Erisman, director of the film "Crocodile in the Yangtze." 12 September 2014. (Source: Bloomberg) **(R)**

Founder of Alibaba Jack Ma Interview by Charlie Rose **(R)**
https://www.youtube.com/watch?v=rUwmakdaye4
This 19-minute 45-second video was uploaded on 2 June 2011.

Case: Alibaba Group (9-710-436; Rev. April 26, 2010)

Essential pre-class preparation

1. How does Alibaba Group create corporate advantage? (Why are the businesses under one roof?) Is this corporate advantage sustainable?

2. Is the current degree of competition among the business units appropriate? Do you think that Jack Ma should encourage more cooperation? If so, how?

3. As Alibaba develops new businesses, how should the firm incorporate them into its organizational structure? What are the benefits and costs of having new businesses report directly to Jack Ma?

4. What should Jack Ma and his C-Suite be concerned about? Should Jack Ma centralize more functions at the corporate level? If so, which ones? Should Jack Ma create a Chief Operating Officer position?

5. Where should the new business initiatives (mobile platforms and financing small businesses) reside organizationally? At corporate or within individual business units?

Lecture 6: Related Diversification

Learning Objectives

1. Examine questions of corporate scope, central to corporate strategy, and illustrate the importance to good corporate strategy not only from having sound arguments for "relatedeness," but from making organizational changes to realize the benefits from expansions and to make sensible choices over incentives and ownership.
2. Analyze a major acquisition in detail, including the overall corporate strategy, the bid process, and the post-merger integration.
3. Evaluate the argument behind value creation through acquisition in more detail than is usually possible.

Case: Cadbury Schweppes: Capturing Confectionery (A) (9-708-453; Rev. September 18, 2012)

Essential pre-class preparation

1. As a member of the Board of Cadbury Schweppes would you approve a bid of more than $4 billion for Adams? Why? Why not?

Lecture 7: Executing Corporate Strategy: Post-Merger Integration

Learning Objectives

1. Analyze the plausibility and value of synergies in a systematic way to reach a powerful conclusion.
2. Study how a large acquisition is actually integrated into another organization by following the acquisition for a number of years.

Case: Cadbury Schweppes: Capturing Confectionery (B) (9-708-454; Rev. September 18, 2012)

Essential pre-class preparation

1. After reading the (B) case, do the synergy plans make it more or less likely that you will support the bid? Which do you believe? Which are you skeptical of?

Cases for in-class distribution (not for pre-class preparation or written assignment):

Cadbury Schweppes: Capturing Confectionery (C) (9-708-455; Rev. July 6, 2011)
Cadbury Schweppes: Capturing Confectionery (D) (9-708-491; Rev. July 6, 2011)

Lecture 8: Corporate Strategy Test IV: The Ownership Test

Learning Objectives:

1. Examine in detail the vertical integration decision in the context of a business that is inherently interesting (the case has sufficient contractual and financial information to wrestle with all the important issues that come up when considering vertical integration).
2. Judge whether integration is better achieved through market contracts or through acquisition in the form of incorporation under a management hierarchy.
3. Compare and contrast the costs and benefits of ownership taking into account that hierarchy and authority have problems and costs of their own, so that the optimal solution is not always to have vertical integration through ownership. Owning the partner in the value chain does not automatically eliminate the problems that occurred in trying to negotiate market contracts.

Reading

Argyres, N. S. and T. R. Zenger (2012). "Capabilities, Transaction Costs, and Firm Boundaries." *Organization Science* **23**(6): 1643-1657. **(E)** [Note: this was a reading in Lecture 2 but is added again because of the explicit discussion and analysis of the decision by Disney to acquire Pixar; see pp. 1649-1651]

Case: The Walt Disney Company and Pixar, Inc.: To Acquire or Not to Acquire? (9-709-462; Rev. Jan 15, 2010)

Essential pre-class preparation

1. As a Board member of Disney, would you approve a bid of more than $7 billion for Pixar? As a Board member of Pixar would you accept a bid of more than $7 billion from Disney?

   [Note: Avoid getting into the financial and valuation discussion since it is not possible to be specific about the synergies that are available in this deal. Just because Disney bought Pixar does not mean that it must have been the correct thing to do at the time. To examine whether Disney should buy Pixar, and whether Pixar should merge with Disney, try to generate lists of arguments for and against, from each perspective. As with the Essential pre-class preparation for Lecture 6, try to group issues into "buckets," such as competitive position, execution, financial, strategic, strategic risks, etc. Potential arguments can be developed for and against the deal. Consider the alternatives available for each party.]

2. What is the conclusion from analysis of each side's alternative to the acquisition?

3. Assuming that Pixar and Disney are more valuable in an exclusive relationship, can that value be realized through a new contract? Or is common ownership required (i.e., must Disney acquire Pixar)?

4. If Disney does acquire Pixar, how should Bob Iger and his team organize and manage the combined entity? What challenges do you foresee, and how would you meet them?

Lecture 9: Corporate Strategy Test V: The Organizational Test

Learning Objectives

1. Examine the basic concepts of organizational design for corporate and global strategies, including organizing by function, product, or geography, and show the tradeoffs inherent in alternative designs.
2. Investigate how firms stack different organizational designs on top of each other (e.g., product geography function), but that these designs still privilege one dimension and require that firms choose their organizational structure to fit their strategy.
3. Show how firms seek to overcome these tradeoffs by introducing many different dimensions of design and linking them through dotted lines, leading to the emergence of matrices or cubes.
4. Reflect upon how organizations at the cutting edge of organizational design overcome having to constantly make one kind of tradeoff and trying to correct for it with dotted lines.

Reading: [*CWA&G*] Chapters 11, 12 **(P/E)**

Case: Procter & Gamble: Organization 2005 (A) (9-707-519; Rev. October 4, 2007)

Case for in-class distribution (not for pre-class preparation or written assignment):

Procter & Gamble: Organization 2005 (B) (9-707-402; Rev. November 16, 2007)

Essential pre-class preparation

1. Why did the US organizational structure shift from product grouping in the 1950s to a matrix in the 1980s? Why did the European organizational structure shift from geographic grouping in the 1950s to category management in the 1980s? Why were the two structures integrated into a global cube in the 1990s?

2. What are the key distinguishing features of Organization 2005? Why did P&G adopt this structure?

3. Should Lafley make a strong commitment to keeping Organization 2005 or should he plan to dismantle the structure? What is the logic and the evidence for either scrapping or retaining Organization 2005?

Lecture 10: Corporate Strategy and Organizing: Trading off for the Customer

Learning Objectives

1. Illustrate how firms may radically restructure their organization around axes that are critical for their strategic goals.
2. Compare and contrast two alternative proposals on the table for meeting the stated goals.

3. Explore the conditions under which it makes sense to build bridges across an organization's existing units, and understand when it is better to replace the units with new functional groups that better reflect the operating orientation of the organization.
4. Assess the pros and cons of aligning an organization around different silos, and understand the delicate balance a firm must establish between differentiating among various functional areas to operate efficiently and integrating across them to ensure that all the areas are communicating effectively.
5. Discuss broader questions around strategy implementation, globalization of business, as well as more specific concerns embracing customer centricity and solutions.

Readings

Tushman, Michael L., & O'Reilly III, Charles. 2002. "Managerial problem solving: A congruence approach." In *Winning through innovation: A practical guide to leading organizational change and renewal.* HBS Publishing. (Harvard Business Press Chapters Product 2430BC-PDF-ENG) **(E)**

Bartlett, C. A., & Ghoshal, S. (1987). Managing across borders: New organizational responses." *Sloan Management Review* 43 (Fall): 43-53. **(E)**

Gulati, R. (2007). "Silo Busting: How to Execute on the Promise of Customer Focus." *Harvard Business Review* 85(5) (May): 98-108. **(R)**

Case: Jones Lang LaSalle: Reorganizing around the Customer (2005) (9-410-007; Rev. July 2, 2010)

Essential pre-class preparation

1. *Option articulation*: Which of the two restructuring proposals should JLL choose? What is the rationale that guided your decision and what would be the arguments against it?

   [Note: Your perspective on whether or not the coordination requirements of the existing structure have exceeded the firm's ability to bridge the different product-based silos should guide your answers. Define the assumptions on which a choice is made, including consideration of the relative importance and expected growth rates of local and global markets and the of local market expertise to global accounts.]

2. *Prioritizing capabilities*: Evaluate which of the three capabilities of Bartlett & Ghoshal's (1987) framework (global efficiency, local responsiveness, and innovative capacity) is most important to JLL? Evaluate which of the two proposals better supports the development of each of these capabilities?

3. *Action planning*: Create a plan of action for the implementation of your chosen proposal that addresses Roberts' concerns. What steps would you put in place to implement it?

   [Note: It will help to use the congruence model of Tushman & O'Reilly III (2002) to flesh out implementation issues. For example, consider the timing and speed of implementation, the role that task forces or cross-functional transition teams might, the leadership role of Roberts and other key executives, the process of shifting power and decision making, cultural change, recruitment, and training and skill building.]