Contemporary Strategy Analysis

Concepts, Techniques, Applications

Fourth Edition

Instructors' Manual

by
Robert M. Grant

ISBN 0-631-23140-4

Contents

	Page
OBJECTIVES OF THE GUIDE	5
KEY FEATURES OF THE BOOK	6
DESIGNING YOUR STRATEGIC MANAGEMENT COURSE	13
TOPICS, OUTLINES, AND RECOMMENDED CASES	16
PART I: INTRODUCTION	16
The Concept of Strategy (Chapter 1)	16
PART II: TOOLS OF STRATEGIC MANAGEMENT	21
Goals, Values, and Performance (Chapter 2)	21
The Analysis of Industry and Competition (Chapters 3 and 4)	23
Analyzing Resources and Capabilities (Chapter 5)	27
Organization Structure and Management Systems (Chapter 6)	31
PART III: THE ANALYSIS OF COMPETITIVE ADVANTAGE	34
The Nature and Sources of Competitive Advantage, Cost and Differentiation Advantage (Chapters 7, 8, and 9)	34

PART IV: BUSINESS STRATEGIES IN DIFFERENT INDUSTRY CONTEXTS 37

Industry Evolution (Chapter 10) 37

Technology-Based Industries and the Management of Innovation (Chapter 11) 37

Competitive Advantage in Mature Industries (Chapter 12) 40

PART V: CORPORATE STRATEGY 43

Vertical Integration and the Scope of the Firm (Chapter 13) 43

Global Strategies and the Multinational Corporation (Chapter 14) 44

Diversification Strategy and Managing the Multibusiness Corporation (Chapters 15 and 16) 47

Current Trends in Strategic Management (Chapter 17) 50

APPENDIX: SAMPLE COURSE OUTLINES 54

OBJECTIVES OF THE GUIDE

The purpose of this *Instructors' Guide* is to assist teachers in the use of *Contemporary Strategy Analysis* in the classroom. The guide will:

- Inform you of the principal features of the book
- Assist you in designing your own course in strategic management
- Help you to select cases to use with the text
- Provide you with slides that reproduce figures from the book and summarize key points from the chapters.[1]

1 The slides are in Microsoft PowerPoint.

KEY FEATURES OF THE BOOK

Contemporary Strategy Analysis was written to introduce students to the fundamental concepts and principles of strategy, to reflect current academic thinking and management practice, and to give students the tools they need to formulate and implement strategies that will enhance the performance of the organizations they join.

My Goals in Writing the Book

The first edition of *Contemporary Strategy Analysis* was published in 1991. It grew out of a training course in strategy analysis that I developed for a London-based consulting company and my redesign of the core MBA strategic management course at the University of British Columbia. It was never my intention to write a textbook on strategy; the task was forced on me by my inability to find a strategic management text that met my needs. I wanted a book that combined the intellectual challenge and dynamism that have characterized this rapidly developing field with information on the essentially practical task of managing the development of a business enterprise and ensuring its successful performance. While a course in strategic management must be founded on basic concepts and rigorous theories of what determines profit, ultimately strategic management is concerned with making decisions: What businesses should we be in? Producing which products? Serving which customers? In which geographic areas? And above all: How are we to compete in order to establish and sustain a competitive advantage over rivals? Thus, while *Contemporary Strategy Analysis* is rich in concepts and theoretical frameworks, its purpose is not to teach theory for its own sake. Its purpose is, rather, to allow insight into the determinants of superior performance and to use that insight to permit better strategic decisions.

My intention has never been to provide "the complete instructor's package" for strategic management courses. The book was envisioned as a text only, capable of being used with a wide variety of supporting materials. My concept of a good strategic management course is one designed to take account of the interests and characteristics of the students and the goals and expertise of the instructor. The problem of the "one size fits all" strategy coursebook, combining text and cases and supported by variety of teaching materials, is that it does not lend itself to easy customization to meet different instructor preferences and teaching situations. Over the four editions, *Contemporary Strategy Analysis* has been supplemented by various supporting materials, including a casebook. However, my basic intention remains intact: the book seeks to combine *excellence* in delivering the concepts, theories, and techniques of strategic management with *versatility* in terms of its ability to be used as a core text in many types of strategic management course with a variety of different teaching materials.

This versatility is apparent among current users of the book. *Contemporary Strategy Analysis* has been adopted as a required text by over 200 business schools across five continents. The most striking feature of these courses is their diversity. While the majority are core courses in strategy at MBA level, the book is also used successfully at undergraduate level and on executive programs. *Contemporary Strategy Analysis* is also required reading on management courses accompanying degrees in engineering and finance, and is used on the inhouse training courses of several management consulting firms. The text typically is used together with company case studies; it is also employed with very different course formats, e.g., strategy courses built around simulations or talks by visiting executives. Common to these different courses, and a major source of joy to me, has been the enthusiastic response of students to the book.

Cases and Supporting Materials

What I shall try to do in this *Instructors' Guide* is to draw on this diversity of experience to offer suggestions for course design and teaching. A key goal is to offer guidance on cases that have been found to work well with the book—as I have tried to emphasize, the only value of concepts, frameworks, and techniques is their application to diagnose problems and prescribe solutions. What better medium for practical application within a classroom context than case study discussion?

A casebook is available for use with *Contemporary Strategy Analysis* (the third edition of which will appear very soon).[2] Most of these cases have been written specifically to complement the ideas and frameworks expounded in the text. At the same time, *Contemporary Strategy Analysis* is used successfully with a broad range of cases from many other sources, most commonly from the Harvard Business School, but also cases from Darden (University of Virginia), Stanford, Insead, London Business School, IMD, IESSE, Western Ontario, and the North American Case Writers' Association.

2 Robert M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edn, Blackwell Publishers, 2002.

Content and Style

The content and style of *Contemporary Strategy Analysis* have been driven by my desire to create a textbook that is analytically incisive, practical, and thoroughly up to date. The past decade has seen an upsurge of new ideas, concepts, theories, and techniques in the area of strategic management. The intellectual dynamism of the field is reflected in the rapid expansion of research efforts, by both business schools and consulting firms. It was once dependent on the concepts and theories developed in the contributing disciplines of economics, social and cognitive psychology, organizational theory, and systems science, but recent years have seen greater leveling of the balance of trade. Increasingly, it is strategic management scholars who are providing the thought leadership that is reinvigorating firm-level research in industrial economics, the theory of the firm, organizational theory, industrial psychology, and technology management. As well as articulating the core strategy concepts and analytical frameworks, I have tried to capture and integrate into the book the most promising, exciting, and applicable of these more recent ideas and research themes.

How the Book Is Organized

The structure and content of the book are guided by two central ideas. The first is that strategy is a quest for superior performance, and that superior performance is essentially about profitability (or, to be more precise, maximizing shareholder value). Of course, firms pursue other goals as well, but for the purposes of formulating and implementing strategy, I assume the paramount goal to be profitability. While it is possible to introduce other goals into strategic decisions, the consequence of adopting broader and richer motivational assumptions is that our tools of strategy analysis give little guidance as to how these goals can be achieved. Virtually all analytical techniques are oriented to identifying and accessing the sources of profit available to a firm. If the organization's goal is to maximize the political influence of its CEO, or the welfare of its employees, or global biodiversity, there is not much that the concepts and techniques of strategy analysis can offer to further this objective.

The second central idea is that there are two main inputs into strategic decisions: analysis of the firm's business environment of the firm, and analysis of its internal environment. The central aspect of the business environment is the firm's industry environment, which is defined by its business relationships (with competitors, suppliers, and customers). The internal environment of the firm comprises three major elements:

- the *goals and values* of the firm (the primary goal, as I have noted, being profitability)
- the *resources and capabilities* that the firm owns or controls and that it will deploy within its industry environment
- the *organizational structure and management systems* that the firm will use to implement its strategy.

FIGURE 1 The basic framework: strategy as a link between the firm and its environment

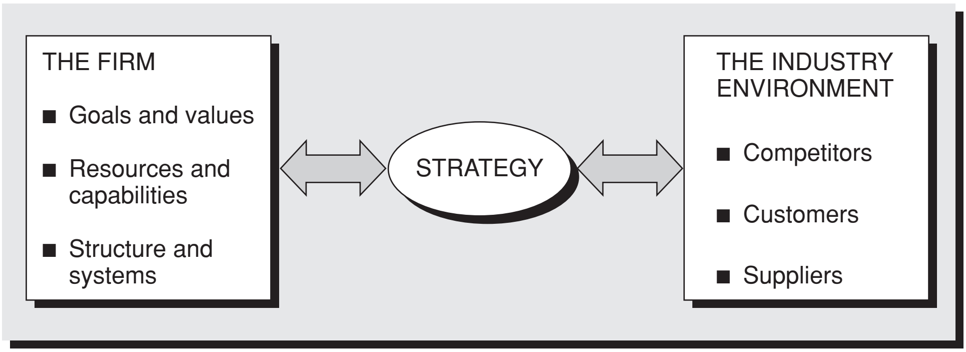


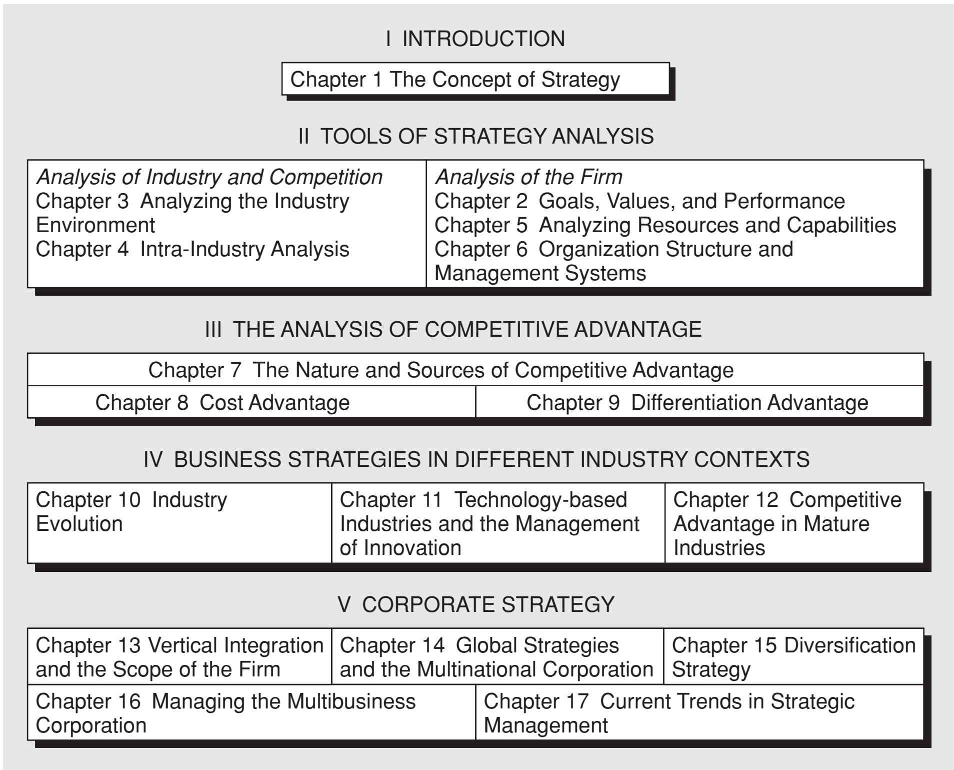
Figure 1 shows these relationships. The idea of strategy forming an interface between the firm and its environment forms the organizing framework for the *Competitive Strategy Analysis*. Thus, after introducing the concept of strategy (Part I and Chapter 1), Part II of the book, "Tools of Strategy," is build around the four main elements of this framework:

- Chapter 2 looks at "Goals, Values, and Performance"
- Chapter 3 is concerned with "Analyzing the Industry Environment," which is developed further in Chapter 4
- Chapter 5 deals with "Analyzing Resources and Capabilities"
- Chapter 6 introduces key concepts and issues of strategy implementation under the title "Organization Structure and Management Systems."

Once the primary tools of strategy analysis have been acquired, the student is encouraged to develop and apply these in relation to different aspects of competitive advantage, in different business contexts, and in relation to both business and corporate strategy. Thus:

- Part III develops "The Analysis of Competitive Advantage" by integrating industry analysis and resource analysis. After establishing the key principles of competitive advantage (Chapter 7), Chapters 8 and 9 explore cost and differentiation advantage.
- Part IV applies this analysis of competitive advantage to formulating and implementing business strategies in different industry contexts. Chapter 10 examines the evolution of industries over time. Chapters 11 and 12 look at competitive advantage in technology-based and mature industries respectively.

FIGURE 2 The framework for the book



- Part V deals with corporate strategy in relation to vertical scope (Chapter 13), international scope (Chapter 14), and product scope (Chapter 15). Chapter 16 addresses the task of managing the multibusiness corporation. Chapter 17 looks at the themes and ideas likely to influence strategic management at the outset of a new millennium.

The framework for the book is shown in Figure 2.

Analyzing Competitive Advantage: Beyond SWOT

In relation to both business strategy and corporate strategy, the creation and sustaining of competitive advantage form a dominant theme. Central to the analysis of competitive advantage is the idea that the core of strategy formulation is the deployment of the firm's resources and capabilities within its industry environment. Hence, the most important elements of strategic decision making are the analysis of the industry environment and the analysis of resources and capabilities. While this emphasis is common to most approaches to strategy formulation, a key feature of

Contemporary Strategy Analysis is that it dispenses with the SWOT framework that is central to many strategy texts. SWOT (Strengths, Weaknesses, Opportunities, Threats) adopts a fourfold classification of factors influencing strategic choice: the strengths and weaknesses of the firm, and the opportunities and threats in the external environment. My approach is to use a simpler, twofold classification of the factors influencing the choice of strategy. As Figure 1 shows, the two sets of influences are the firm and the industry environment, where within the firm the critical influences (given the assumption that the goal of the firm is to make money) are its resources and capabilities.

The advantage of looking at the industry environment, rather than more specifically at opportunities and threats, is that the important issue is to *understand* the competitive forces and success factors that determine the sources of profitability in the external environment. A key problem of identifying opportunities and threats is that it is seldom clear what is an opportunity and what is a threat. Is third-generation wireless telephony (3G) an opportunity or a threat to Nokia, the world's largest supplier of handsets and other wireless telecom hardware? Clearly, it is both. The introduction of 3G services offers huge growth potential for wireless hardware with multimedia capability. At the same time, incompatible 3G standards and Asian leadership in internet-enabled wireless telephony create the risk that Asian (and US) equipment manufacturers will undermine Nokia's market position. The key strategic issue for Nokia is not some arbitrary classification of 3G technology as a threat or an opportunity, but a deep understanding of the implications of 3G technology.

It is similar with the firm's resources and capabilities. If we view Nokia's location in Finland as a resource, it is clear that this is both a strength and a weakness. It puts Nokia in close contact with the world's most heavily penetrated wireless telephony market and access to Scandinavian design capabilities. At the same time, it is far from the world's most advanced centers for microelectronics and software development (US, Japan) and from several of the world's leading-edge markets for mobile internet communication (Japan, Korea). The key issue is not arbitrarily to classify resources and capabilities as strengths or weaknesses, but to *understand* their implications for a firm's competitive position.

What Is New in the Fourth Edition?

The structure of the fourth edition of *Contemporary Strategy Analysis* is almost identical to its predecessor: there are no new chapters and no major reorganizations of the sequence of topics. The key changes are extensions of the book to include emerging ideas in strategy analysis and major changes in the business environment. I have given more emphasis to two main areas:

- The implications of digital technologies and the internet. I have chosen not to regard "strategic management in the New Economy" as a separate topic. My approach has been to argue that the fundamentals of industry analysis, resource analysis, and the principles of competitive advantage are as relevant to the New as to the Old Economy. Where I have added additional material is the discussion of the strategic management of technology, especially in relation to standards and standards wars (Chapter 11).

- Increased emphasis on strategy implementation. Chapter 5 on resources and capabilities features greater emphasis on the development of organizational capability and adds an appendix on knowledge management. Chapter 6 on organizational structure and management systems has been extended. However, one distinctive feature of the text remains: I offer an integrated treatment of the formulation and implementation of strategy.

Other changes to the new edition include:

- More discussion of the role of complementary products in competitive analysis and an extension of the Porter Five Forces analysis to include complements (Chapter 3).
- A revised treatment of game theory (Chapter 4).
- Extension of Chapter 10 on industry evolution to include the contributions of evolutionary economics and organizational ecology.
- Complete rewriting of Chapter 17 to include discussion of dynamic capabilities, complexity theory, and emerging ideas in organizational design and leadership.

DESIGNING YOUR STRATEGIC MANAGEMENT COURSE

Capstone or Foundation?

Virtually every business degree program, both MBA and undergraduate, has a required course in strategic management, although sometimes it is called business policy, business strategy, or management policy. Traditionally, strategic management has been viewed as a *capstone* course. It role was to integrate the knowledge gained in students' prior courses in basic disciplines (economics, statistics, organization theory) and functional areas (marketing, accounting, finance, production, HRM). During the 1990s, the role of the required strategic management course changed, however. Increasingly, it became the *foundation* for further courses in business and management. The idea was that strategic management is not so much an integrator of functionally oriented courses in businesses as a basis for these courses.

The choice between the role of strategic management as a capstone or a foundation is reflected in the course's positioning within the program; a capstone is positioned at the end, a foundation close to the beginning. The positioning of your course along this spectrum is not critical to your use of this book, since it is intended to provide a self-contained introduction to strategy.

Is the Book Suitable for Undergraduates as well?

The book has been developed within the context of my own MBA teaching at Georgetown, University of British Columbia, UCLA, UC Irvine, Insead, Cal Poly, Bocconi, and City University. Written primarily with an MBA audience in mind, is the book also suitable for undergraduate courses in strategic management? My answer is an emphatic *yes*. One of the problems of undergraduate courses in strategic management in many universities is the propensity to "dumb down" the content in the misguided belief that they are "not quite up to it yet." Clearly, there are important issues to be taken into account in teaching strategic management to 21-year-olds with very little business experience. Nevertheless, this is no excuse for approaching these students with any less rigor or intellectual challenge than is used toward MBA students.

My experience of teaching final-year undergraduates at Georgetown, Bocconi University, and City University is they like the book, they are well able to handle the concepts and analysis within the book, and they do a good job of applying them to case study analysis. Because undergraduate business students typically have significant exposure to economics, and accounting and finance, they tend to be receptive to a text that is emphasizes analysis and underlying concepts.

What Is the Balance between Case Discussion and Exposition/Lecture?

One of my objectives in writing *Contemporary Strategy Analysis* was to liberate me from having to spend substantial portions of class time expounding concepts and theories, thereby releasing more time for interactive class discussion—case analysis in particular. Equally, time needs to be spent on generalizing points from case discussions, clearing up misconceptions, and continually reinforcing key learnings. The result, in my experience, is a ratio of about 2:1 of case discussion to exposition/lecture, with the balance varying according the experience level of the students: more exposition for undergraduates, almost all discussion for executive MBAs.

When starting a new topic (e.g., industry analysis, resource analysis, diversification, etc.), my usual practice with MBAs is to start off with the case discussion, then to follow up the case discussion with exploration of the key concepts and issues raised. Thus, with a course that meets twice a week (for 75 or 90 minutes), I use the first class of the week to discuss the case, and the second class to draw out more general themes, expound concepts, principles, techniques and theories, and apply these to other company and industry situations. With undergraduate students, I may begin a topic by starting with the concepts and analytical frameworks, and then move on to the case in the second class, but in general I find the result to be a less invigorating case discussion.

What Is the Balance between Strategy Formulation and Strategy Implementation?

I am unhappy with the conventional separation of strategy formulation and implementation. Issues of implementation are critical in formulating sound strategies, and the development and articulation of strategy generally occur in tandem with the process of implementation. Hence, a feature of *Contemporary Strategy Analysis* is its integration of strategy formulation and implementation. The fourth edition introduces "Organization Structure and Management Systems," the primary themes of strategy implementation, among the basic tools of strategy analysis (Part II). Then, when I go on explore competitive advantage, business strategies in different industry contexts, and corporate strategy (Parts III, IV, and V), each chapter addresses both strategy formulation and strategy implementation.

At the same time, the book's emphasis on the fundamental determinants of competitive advantage tends to place the primary emphasis on issues of strategy formulation. In my classes I try to compensate for this bias by devoting special attention to issues of organizational structure, management systems, and leadership style in the case discussions. Here I encourage students to introduce ideas and concepts that they have encountered in their courses in organization behavior, human resource management, operations management, and entrepreneurship.

How Are the Topics Ordered?

The book orders the various topics in a sequence that, to me, makes good sense. The rationale is to move from the basic tools of analysis (including the concepts and techniques of shareholder value analysis, industry analysis, and resource analysis) to more complex applications of these tools, including, for example, the management of technology, global strategy, and diversification strategy. At the same time, there is considerable scope for rearranging the order of topics. For example, some instructors begin their courses with the analysis of competitive advantage. My sample course outlines indicate my own sequencing of material.

TOPICS, OUTLINES, AND RECOMMENDED CASES

PART I: INTRODUCTION

The Concept of Strategy (Chapter 1)

Class Topics

In introducing strategic management I have two main goals for the first class:

- For students to appreciate what strategy is, both in a business context and more generally.
- To introduce the basic framework for strategy analysis—in terms of *external* analysis (the analysis of industry and competition) and *internal* analysis (primarily the analysis of resources and capabilities, but also of goals and values, and structure and systems).

The principal themes that I stress in introducing the course in strategy management are:

- The contribution of strategy to the success of organizations (and individuals).
- The role of strategy in providing direction and integration for the activities and decisions of the firm.
- Strategy as the linkage between organizational goals and values, organizational resources, and the external environment.
- The distinction between business strategy and corporate strategy.

- Strategy as rational choice versus strategy as process, and the complementarity of the two.

Class Outline

Even with the first class, I find it useful to kick off with a case discussion. Given that getting students to prepare a case before the first class is fraught with difficulty, I select a case example that most people have some familiarity with. I find that Madonna works well in this respect (see Chapter 1, Exhibit 1.1 for a brief description; my case on Madonna—see below—provides a fuller account of the singer's career).

I start by asking: "Why has Madonna been so successful over such a long period?" This typically raises issues concerning accommodating emerging market trends, being controversial, image renewal and repackaging. Inevitably, the issue of sex and use of sexual imagery looms large. If discussion focuses too much on Madonna's ability to respond to and lead market trends, it is good to shift from the external environment to her own resources and capabilities. The question "Is Madonna talented?" can draw discussion of her capacity as a singer, songwriter, dancer, and actress, and leads to comments concerning her abilities in self-promotion, communication, leadership, and image design.

Having identified a host of factors that help explain Madonna's success, I ask whether she has a strategy. It would appear that she has no career plan in any formal or written sense; however, in understanding her sustained success over the period 1984–2001, common patterns and theme are discernable.

Madonna has been multimarket, multimedia, and multinational; her career has involved periodic image renewal; it has involved strategic alliances with key individuals and organizations (Sean Penn, Warren Beatty, Time Warner); it has positioned Madonna "at the edge of chaos," courting controversy while demonstrating astute risk management that has stopped her from going too far (unlike Michael Jackson or Sinead O'Connor, for example).

I summarize by using the points raised to:

- Explain the nature of strategy in a turbulent direction—it is about direction, not detailed planning. Madonna (like AOL and Cisco Systems) displays clear direction combined with the flexibility to adapt to and exploit unexpected change.
- Propose the key elements of a successful strategy (see Chapter 1, Figure 1.1) with primary emphasis on analyzing the external environment and analyzing resources and capabilities.

I go on to apply these issues to the case of strategy making in a business context. Figure 1.2 shows how the basic framework for strategy analysis comprises the same elements as were derived from the Madonna discussion (in Figure 1.1). The emphasis here is on analysis of the external environment (the industry) and analysis of internal resources and capabilities.

This approach to strategy—as a direction, as a sense of identity, and as a basis for successful performance (appropriating the sources of profit available to the firm)—is very different from earlier notions of strategy as planning. Hence, I find it useful to review the evolution of strategic management thought and practice since the practice of "long-range planning" emerged in the late 1950s (see Table 1.2).

This raises issues concerning the role and nature of strategic making practices within companies. The debate between the "design school" and the "process school" provides an interesting way into this.

I conclude by bringing the discussion back to strategic issues facing the students in the class. Whether they are MBAs or undergraduates, they face critical strategic decisions with regard to future careers. I invite them to consider (a) whether they have strategies, (b) whether these strategies are implicit or explicit, and (c) how they might apply the ideas and framework outlined in the class (and in Chapter 1 of the book) to developing a career strategy.

Cases

There are many cases that can be used to launch a strategy course successfully. The critical factor is not so much the precise content of the case as the role of the instructor in drawing out the main issues concerning the nature of business strategy and providing a preview of the themes and issues with which the course which will be dealing. Particularly suitable cases are those that deal broadly with issues of business success; those that consider the roles of goals/values, organizational resources, and the industry environment; and those that can be used to embody both analytical aspects of strategy and the human and process issues (especially the role of the leader/general manager).

There is some advantage in using cases that are relatively simple (there will be plenty of opportunity for bewildering students with the complexity of strategic decisions as the course unfolds) and short (if you are beginning the first class with a case, many students will have little time for preparation).

Among the cases that can be used to introduce strategic management and provide a basis for developing strategy analysis, I suggest the following:

Madonna (in R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002).

This case describes the career of superstar Madonna Ciccone, and raises issues concerning the basis of sustained success in the fast-changing, highly competitive music business, the nature of strategy, and its role in attaining competitive advantage.

Coral Divers Resort (K.E. Neupert and J.N. Fry, in R.M. Grant and K.E. Neupert, *Cases for Contemporary Strategy Analysis*, 2nd edition, Blackwell, 1999).

The case features a small diving resort in the Bahamas dealing with declining financial performance and being forced to address the question of what its strategy should be and whether it needs to change its competitive position. The case is useful for generating strategy options and addressing the external and internal factors relevant to selecting between these options. A 10-minute video is available (from University of Western Ontario Business School) to support the case.

Webvan: Groceries on the Internet (Harvard Business School Case No. 9-500-052).

Petstore.com (Harvard Business School Case No. 9-801-044).

Etrade Securities Inc. (Stanford University Case No. M268, distributed by Harvard Business School).

Entrepreneurial startups offer interesting cases for introducing strategy analysis. Not only are the companies involved simpler than large, mature corporations, but strategy can be linked with the vision and aspirations of a single founder. E-commerce startups are especially interesting, given the rate of change of the business environment and the strong competition both from other startups and from established bricks-and-mortar companies. All three of these cases offer interesting opportunities for students to identify the strategies of the companies involved, to assess these strategies in relation to the market environment and the resources and capabilities of the company, and to offer recommendations.

Phil Knight: CEO at Nike (Harvard Business School Case No. 9-390-038)

Although an old case, Nike has the merit of being a highly visible and well-known company. The case takes a broad-based view of its strategy and competitive position from the perspective of its CEO. (See also the accompanying video, *Nike: Questions/Answers with Phil Knight*, HBS Video 9-887-534.)

Head Ski Company (Harvard Business School Case No. 9-313-120)

This case is a true "golden oldie." It deals with the origins, entrepreneurial phase, and subsequent development of a sports equipment and clothing supplier, focusing on the role of the founder in formulating and implementing the company's development strategy.

Honda (A) and (B) (Harvard Business School Case Nos. 9-384-049 and 9-384-050)

Richard Pascale's account of Honda's development is one of the most insightful strategy cases ever written. It deals with the company's entry into the US motorcycle market at the beginning the 1960s. The strength of the case lies in the two stories it tells of same events. The A case reviews Honda's success in motorcycles through the eyes of the Boston Consulting Group, a tale of careful analysis and rational decision making. The B case tells the story of Honda's US entry in the words of the managers involved. They tell a tale of guesswork, errors, and luck. Although the case is somewhat complex as an introduction, it provides a uniquely insightful contrast between rational and process views of strategy.

PART II: TOOLS OF STRATEGIC MANAGEMENT

Goals, Values, and Performance (Chapter 2)

Class Topics

Given that strategy is about achieving success and, in the business world, that success is about creating value for owners, I put a heavy emphasis on evaluating the financial performance of companies and linking strategy formulation to the principles of shareholder value maximization. My goals here are:

- To emphasize the importance of performance diagnosis. Before moving into the formulation of strategy for a company or business, it is important to understand the present situation. How well or badly is the company performing and what are the sources of its superior or inferior performance?
- To review the students' grasp of basic financial knowledge, including the calculation of basic ratios (margins, ROE, return on capital employed), cost of capital, economic versus accounting profit (including EVA), and DCF approaches to company valuation.
- To build a bridge between financial analysis (the principles of valuation, especially DCF analysis) and strategic analysis.

The key topics I cover are:

- Reading balance sheets to diagnose the sources of high or low performance.
- Disaggregating ROCE into sales margins and capital productivity ratios.
- Linking financial data with operating data and qualitative information in order to assess the current strategy of the company.
- The problems of accounting data: accounting profit versus economic profit.
- Valuation: DCF and real options approaches.
- Why financial and shareholder value models are not enough: the role of qualitative strategic analysis in a world of uncertainty.
- Setting performance targets: the increasing role of performance management in strategic planning. The problem of profit and returns to shareholders as strategic targets. The use and usefulness of balanced scorecards.

Class Outline

My starting point is to examine a company that is performing poorly (this can be a case study, or it can be extracts from an annual report). The class discussion focuses on the following questions:

- Evaluate the company's performance.
- Identify the sources of deteriorating/unsatisfactory performance.
- What aspects of the company's strategy have contributed to the current problems and what changes in strategy might alleviate some of the problems?

Progress is often slow as students struggle to recall basic financial statement analysis and fundamental accounting ratios. There is a continual desire for them to leap to recommendations. I emphasize the need for prescription to be based on careful diagnosis; the same for strategy as for medicine. I argue for a "scientific approach"—from an initial reading of the case and evaluation of performance, we can formulate hypotheses as to what the sources of the problems are. The task is then to use the data available to see which of these hypotheses is consistent with the facts.

I tend not to go into much detail on the accounting and operating ratios and other data that should be used to diagnose performance problems. However, I do emphasize that students should revisit finance and accounting texts (for all business graduates, reading financial statements and using basic finance and accounting ratios to assess performance are fundamental parts of their "toolbox").

Where I do place emphasis is on the strategic goals of the firm. If the firm operates in the interests of owners, this implies maximizing its value. This corresponds to maximizing the net present value of future cash flows. Some explanation is required of how this links to the information produced by accounting data, which only inform us about the past.

I draw the distinction between using accounting data to appraise the success of past strategies, and the use of performance targets to establish requirements for strategies currently being adopted. I introduce the balanced scorecard as one means of reconciling long-term value maximization with the need to monitor performance over the short and medium term.

Cases

Among the companies I have used as vehicles for linking financial and strategic analysis are the following cases:

Laura Ashley Holdings plc (R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

Laura Ashley's traditionally English country styles were in the vanguard of the British fashion revival of the late 1960s and 1970s. However, following the death of its founder, the company lost its sense of identity and went into decline. By 2000, Laura Ashley was owned by a Malaysian conglomerate and well into a restructuring plan that so far has yielded few performance benefits. The case requires that the students diagnose the sources of Laura Ashley's problems and assess the present strategy. The key issue is whether strategic and operational improvement can revive the company, or whether the Laura Ashley look and the resources and capabilities that supported it are incapable of establishing a viable position in the retail market.

Walt Disney Company at the beginning of the Eisner–Wells era

The early 1980s were a difficult time for Disney. Economic recession, heavy investment in Epcot and other new projects, and lack of management direction combined to depress Disney's profitability and made it vulnerable to corporate predators. The situation requires that students appraise Disney's performance and diagnose the sources of declining profitability. To what extent is this the result of depressed demand and high interest rates coinciding with a period of aggressive expansion, and to what extent are there deep-rooted management problems? There are several cases dealing with this period. These include:

- *Walt Disney Productions, November 1983* (Bill Burns, in J.M. Higgins and J.W. Vincze, *Strategic Management: Text and Cases*, 4th edition, Dryden Press, 1989).
- *Walt Disney Company (A)* (David J. Collis and Cynthia A. Montgomery, *Corporate Strategy: Resources and the Scope of the Firm*, McGraw-Hill, 1997).

The Scott Paper Company (Harvard Business School Case No. 9-296-048)

This case provides an excellent opportunity for students to link financial and strategic analysis. The program of restructuring and cost cutting at Scott Paper established "Chainsaw Al" Dunlap as the leading exponent of aggressive downsizing as a means of creating shareholder value. It also provides a basis for discussion the relative merits of shareholder versus stakeholder views of the firm.

Hudepohl Brewing Company (Harvard Business School Case No. 9-381-092)

Although old, this case is an excellent vehicle for requiring students to take an analytical approach to diagnosing the profitability problems of a struggling Cincinnati brewer facing intensifying competition as the national brewing companies move into its local market.

The Analysis of Industry and Competition (Chapters 3 and 4)

Class Topics

Understanding competition, its determinants, and its implications for profitability is a fundamental component of students' learning in strategic management. My preference is to introduce them to the tools of industry and competitive analysis early in the course.

My key goal for the sessions on industry and competitive analysis is that students come away with a clear and deep understanding of how industry structure influences competition and what this means for industry profitability.

Despite its limitations, I continue to make the Porter Five Forces of Competition framework the centerpiece of industry analysis. It is an excellent starting point for recognizing the key features of an industry's structure and understanding how this structure may influence competition and profitability.

However, as with all analytical frameworks, the value of the Five Forces model is in its use. Hence, it is critical for students to obtain plenty of practice in applying this model to different industry situations so that they gain expertise in recognizing the key features of an industry's structure, and then drawing implications of what the structure means for competition and profitability.

My preference is thus to emphasize the application of basic Porter-type analysis rather than to spend a great deal of time on more sophisticated analysis, e.g., game theory. Despite the theoretical rigor of game theory and attempts by several writers to make it operational for practicing managers, it is not terribly useful for gaining an overall picture of competition within a market and predicting the evolution of competitive behavior and profitability.

Class Outline

I begin with a case. I particularly like cases that deal with problem industries—airlines, automobiles, metal containers—where students can quickly develop an understanding of why some industries are difficult places to make money.

I follow the case discussion with some exposition of the Porter model, stressing industry rivalry and the different structural factors—number of firms, product differentiation, excess capacity, exit barriers, and ratio of fixed to variable costs.

My emphasis, however, is on further applications. I take the evidence of inter-industry profit differences in Chapter 3, Tables 3.1 and 3.2, and ask students to select a high or low profit industry and explain the structural features of that industry that generate either high or low profitability. For example, why is it that that pharmaceuticals and tobacco products earn such high levels of profitability and iron and steel, mining, and airlines such low levels?

The primary purpose of industry analysis is not so much to explain past profitability as to predict future profitably. Hence, it is interesting to take a sector that is in the midst of rapid change (wireless telecommunications, automobiles, personal digital assistants, travel agents) and ask how structural changes are likely to affect profitability.

Inevitably, most industry analysis is at too high a level of aggregation to explore the realities of competition at a more micro level. For example, the *Washington Post* is within the US newspaper industry, yet its competitors are primarily the *Washington Times*, *New York Times*, and *USA Today*—few other of America's more than 5,000 newspapers compete with it. To get to grips with competition within more tightly defined markets, it is useful to segment industries into more distinct markets. Such segmentation can be performed on almost any industry. I typically use the world automobile industry (see Chapter 4, Exhibit 4.3) and ask students why, during the 1990s, the SUV and minivan segments were so much more profitable than the small car segment.

I normally finish by making the link into the analysis of competitive advantage by discussing key success factors (KSFs). This may involve revisiting the introductory case—in the airline industry, the auto industry, or the metal container industry—to ask which companies were the most profitable? What does this tell us about KSFs? To identify KSFs. I suggest looking closely at customers and their choice criteria, and then at competition and how companies survive it (see Chapter 3, Figure 3.8). It is also to look at how KSFs change over time. For example, in the world auto industry, what factors will determine which companies will be most successful over the next five years?

Cases

Recommended cases include:

The U.S. Airline Industry in 2001 (R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

The US airline industry is a wonderful setting for industry analysis. Since deregulation the industry's fortunes have been a rollercoaster. During the first half of the 1990s the industry's profit performance was disastrous, with only Southwest Airlines showing consistent profitability. The case allows students to identify and analyze the structural features of the industry that produced the huge losses of the early and mid-1990s. It also shows how the companies' strategies caused the structure of the industry to change: establishing dominant positions at individual hubs, disciplining small, low-cost airlines with predatory pricing, and building customer loyalty through frequent-flyer programs. These actions provide some clues to the profit rebound of the late 1990s. Looking ahead, the key questions are whether consolidation and other measures to alleviate ruinous competition will be sufficient to ensure profitability over the long term, or whether some fundamental features of industry structure will continue to keep the industry profit pool shallow.

DaimlerChrysler and the World Automobile Industry (R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

Internationalization and maturity in the world auto industry have been associated with increasing competition and declining profitability. The case allows students to apply the Five Forces framework to examine the sources of increasing price competition and declining profitability and to look ahead at the prospects for the industry in the future. The case provides an opportunity to look at the evolution of industry structure and apply scenario analysis to views of the industry's future.

Crown Cork & Seal Co., Inc. (Harvard Business School Case No. 9-388-096)

Although dated, this case provides a splendid introduction to the analysis of the industry and competition. It is a particularly useful vehicle for applying Porter's Five Forces of Competition framework. The metal container industry is low growth with limited product differentiation; it faces strong supplier and customer bargaining pressure, and increasing competition from other types of packaging. This case is also valuable for:

(a) Analyzing industry segmentation: although the industry as a whole is unattractive, competitive conditions and demand prospects vary greatly between segments.

(b) Analyzing competitor behavior: an important issue for Crown Cork and Seal is that its major competitors are all diversifying. Does this signal less commitment to the metal container industry, and what are the implications for Crown Cork and Seal's competitive strategy?

Crown Cork & Seal in 1989 (Harvard Business School Case No. 9-793-035)

This case is essentially an updated version of its predecessor. It provides an excellent basis for industry analysis, even if it does lack some of the richness and charm of the earlier case since it doesn't examine Crown Cork & Seal's turnaround under CEO John Connelly.

Looking beyond the Porter Five Forces framework calls for a competitive analysis that is more dynamic and recognizes the key role of specific competitors and their interactions. In this area there is considerable scope for using game theory concepts to provide insight into fundamental issues of positioning and initiative–response interactions. Several cases provide rich accounts of competitive dynamics between fiercely competitive duos:

Polaroid-Kodak and subsequent cases *(B1)–(B10)* (Harvard Business School Cases No. 9-376-266 and 9-378-173 to 9-378-182)

A blow-by-blow account of the competitive battle between Kodak and Polaroid in the instant photography market. Despite its age, this case is a fascinating study in competitive interaction and an excellent basis for competitor analysis; a good case for role playing in the classroom.

Coca-Cola vs. Pepsi-Cola and the Soft Drink Industry (Harvard Business School Case No. 9-391-179) and ***The Cola Wars Continue*** (Harvard Business School Case No. 9-794-055)

Again, a classic situation for exploring the competitive interactions between two industry-dominating players in the fiercely competitive yet highly profitable market for cola drinks. An excellent case for the analysis of industry structure and industry attractiveness, the impact of structural changes on competition, and competitor analysis.

Cat Fight in the Pet Food Industry (A) (Harvard Business School Case No. 9-391-189. Reprinted in D. Collis and C. Montgomery, *Corporate Strategy*, Irwin, 1997)

The case documents the outbreak of aggressive competition between the main US petfood producers in the late 1980s. A key feature of the case is the extension of competitive rivalry across markets as competitors take competitive action in one market in order to help preserve their positions in others.

Analyzing Resources and Capabilities (Chapter 5)

Class Topics

Resources and organizational capabilities (or competencies) are important both as a foundation for strategy formulation and as the primary source of a firm's profits. The resource-based approach to strategy has been one of the most important theoretical streams of the 1990s and a major influence on strategic thinking and strategic planning in companies. A distinguishing feature of *Contemporary Strategy Analysis*—right from the first edition—has been the emphasis it has given to resources and capabilities as the foundation for competitive advantage.

My emphasis is on the following areas:

- The concept of resource-based and capability-based strategies.
- The distinction between resources and capabilities. The key categories of resource. The nature of organizational capability.
- How to appraise a company's resources and capabilities.
- Drawing implications for strategy formulation from the above appraisal.
- Developing capabilities—the difficulty firms face in developing new capabilities; the means by which capabilities are created and developed.

Depending on the time available for the course, I try to add a separate class on knowledge management and the knowledge-based view of the firm. This addresses:

- The particular characteristics of knowledge as a resource.
- The role of knowledge as the basis of organizational capability.
- Knowledge management processes within the firm—notably the distinction between *exploration* and *exploitation* activities and the implications of the distinction between tacit and explicit knowledge.

Class Outline

After the initial case discussion (Wal-Mart, Walt Disney Company, and Marks & Spencer cases all work well for this), I use a combination of lessons from the case and examples from other companies to develop a number of key points about the importance of resources and capabilities for strategy.

I proceed as follows:

1 I develop the concept of a *resource-based strategy*, where strategy is defined not so much in terms of markets or customer needs but in terms of the firm's resource and capability base. (Hamel and Prahalad's notion of the core competence of the corporation is useful here.) For examples I draw on Canon, Honda, 3M, Sharp, and Virgin Group, among others.

2 I emphasize the distinction between resources and capabilities—companies may acquire the resources, but this doesn't guarantee capabilities. Sports teams are useful in this regard: Inter Milan and Chelsea soccer teams have talented and expensive players, but they have not converted these into outstanding team-based capabilities. The lesson is that we don't know much about how capabilities work, what their structure is, or how they are created.

3 In terms of applying resource and capability analysis, a critical requirement is that students should have some idea of how to appraise the resources and capabilities of an organization. I have two approaches to this: either to start with key success factors in the sector and then ask what resources and capabilities are needed to meet these success factors; or to begin with the firm's value chain and identify the capabilities at each major activity and the resources that each capability requires. Whichever approach is used, the goal is to build a list of resources and capabilities that can then be appraised in terms of their importance and *relative strength*. The resources and capabilities can be shown on a single chart (see Chapter 5, Figure 5.9). This analysis requires an example, preferably an organization that is familiar to everyone. At Georgetown I typically use our own business school

4 The purpose of this analysis is to generate strategy implications. Here students readily identify the potential for building on weaknesses in resources and capabilities. Perceptive students will inquire into the possibility of outsourcing activities where the firm's capabilities are weak. But the key area of strategy is the exploitation of strengths. In which market segments and in relation to which customers are a firm's resource and capabilities strengths likely to be most effective? What are the implications for how the firm should compete?

5 I finish with the question of whether and how firms can develop new capabilities. This is an interesting question that takes us into difficult issues regarding inertia, the inflexibility of routines, and dynamic capabilities.

The class session on a knowledge management fits in well after discussion of resources and capabilities and can offer considerable insight into the issue of how companies develop capabilities. The danger is that the scope of knowledge is so wide-ranging and the concepts so intangible that the session loses focus. Hence, it is very useful to ground the discussion and the analysis in a case study. (I find the HBS cases concerning knowledge management within management consulting firms especially suitable.)

Cases

To the extent that almost all cases present issues of competitive advantage, almost all cases require some identification and appraisal of the resources and capabilities of the firm in relation to those of competitors. However, in several cases, the characteristics of the companies and their strategic situations place especially heavy emphasis on resources and capabilities.

On the identification and appraisal of resources and capabilities:

Wal-Mart (R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

Wal-Mart is the world's biggest and, arguably, most successful retailer. The case explores the basis of Wal-Mart's competitive advantage, with emphasis on its different value activities from purchasing through distribution and instore operations to customer services, and looks also at Wal-Mart's IT and its upper management processes. The case asks students to explore the nature and basis of Wal-Mart's superior resources and capabilities and to consider whether Wal-Mart's competitive advantage is (a) sustainable and (b) transferable to overseas markets.

Alternative cases for discussing the basis of Wal-Mart's competitive advantage are:

- *Wal-Mart's Discount Store Operation* (Harvard Business School Case No. 9-387-018)
- *Wal-Mart Stores, Inc.* (Harvard Business School Case No. 9-794-024).

Marks and Spencer Ltd. (A) (Harvard Business School Case No. 9-375-358. Reprinted in D. Collis and C. Montgomery, *Corporate Strategy*, Irwin, 1997)

The competitive advantages that are the most sustainable and most difficult to imitate are those founded on capabilities that are woven into a company's culture and management systems. Marks and Spencer is particularly interesting in this regard. Historically its competitive advantages have lain in its reputation, the loyalty of its employees, and the high quality to price ratio of its products. These advantages have rested on its human resource policies, decision-making systems, supplier relationships, and marketing policies, all of which reflect a set of long-established, deeply ingrained set of values and principles.

Walt Disney Company

Disney is a wonderful company for analyzing resources and capabilities. It is particularly rich in durable, intangible, firm-specific assets, and its remarkable turnaround under Michael Eisner and Frank Wells was the result of an effective resource-based strategy, in particular the more successful and profitable deployment of its film library, land assets, imagining skills, reputation, and characters. There are several cases dealing with Disney, of which I recommend *The Walt Disney Company (A): Corporate Strategy* and *The Walt Disney Company: Sustaining Growth* (D. Collis and C. Montgomery, *Corporate Strategy*, Irwin, 1997).

Kao Corporation (INSEAD Case, S. Ghoshal and C. Butler. Reprinted in R. De Wit and R. Meyer, *Strategy: Process, Content, Context*, West, 1994)

If organizational capabilities involve the integration of different resources and human skills, organizational structure and management systems play a vital role in the creation of capabilities. This case explores how Kao's unique corporate culture, management values, structure, information systems, and commitment to learning result in remarkable new product development capability and market responsiveness. But can these capabilities be extended overseas?

On the challenge of developing new capabilities:

Eastman-Kodak: Meeting the Digital Challenge (R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

Resource-based strategies involve two main issues: exploiting existing resources and capabilities to maximize the firm's profit stream, and building resources and capabilities for the future. This case deals primarily with the second issue. Eastman-Kodak faces a dilemma: technology is changing within its core photographic market, from chemical imaging to digital imaging. Kodak's capabilities in chemical imaging are less and less relevant to its future success in the imaging market. The company has already made a critical strategic decision—it will be an imaging company rather than a chemical/pharmaceutical company. During the 1990s it divested Eastman Chemical, Sterling, and several healthcare companies. and invested heavily in building its digital imaging capabilities. However, the strategy is not working well: the company is making limited progress with its new digital and analog products and is also losing ground in the traditional photographic market.

On knowledge management and its link with capability development:

Cultivating Capabilities to Innovate: Booz.Allen Hamilton (Harvard Business School Case No. 9-698-027)

This case examines a major strategic shift at Booz-Allen Hamilton and the firm's need to develop its capabilities in terms of a more systematized approach to management consulting that assimilates and reuses more effectively the knowledge gained in individual consulting assignments. The case describes the system of knowledge management developed by Booz-Allen Hamilton and some of the problems encountered in making the system work.

McKinsey & Co.: Managing Knowledge and Learning (Harvard Business School Case No. 9-396-357)

The case describes the way in which McKinsey has developed structures, systems, processes, and practices to help it develop, transfer, and supply knowledge among its 3,800 consultants in 69 offices worldwide. It offers specific examples of how the knowledge management system is used in specific consulting assignments and considers whether the firm's process are adequate to maintain its vital knowledge development process.

Organization Structure and Management Systems (Chapter 6)

Class Topics

The chapter covers the fundamentals of organizational design, beginning with the basic considerations of specialization and integration, and builds up to describing and analyzing management systems such as strategic planning and financial control systems.

Whether I devote a session (or two) to issues of organizational design depends on whether or not the principles of organizational structure and design are being taught in a parallel organizational behavior/organizational transformation course. If they are, I leave discussion of organizational structures and management systems to case studies that focus on resources and capabilities, internationalization, diversification, etc., but that introduce implementation issues (e.g., *EMI and the CT Scanner*—see below—introduces interesting issues of organization design).

The key areas of learning that I try to cover are the following:

- The fundamental problem of organizing—how to reconcile *specialization with coordination* and *cooperation.*
- The development of the corporation over time—this covers some of the key innovations in organization design and introduces students to some ideas concerning *transaction costs.*
- The role of hierarchy both as a control mechanism and as a coordination mechanism—this takes us into the principles of modularity and loose coupling.
- The basis for structure—functions, products, and geographic areas, matrix organizations.
- Contingency issues—what types of structures are suited to what types of environment?
- The design of systems for coordination and control—information systems, HR management systems, financial planning, strategic planning, and culture ("clan control").

Class Outline

Gaining appreciation of why companies are organized the way they are and the opportunities for improving organizational design requires the exploration of real-world examples. Hence, I typically begin either with a case (see below) or simply by exploring some examples. For instance, asking students how their business school is organized usually elicits descriptions of *product-based organization* (e.g., organized by programs: bachelor's program, MBA program, executive programs), *functional organization* (e.g., organized by discipline/function into departments of marketing, finance, operations, and business ethics), and *matrix organization* (organized by products and functions). The advantages and disadvantage of each basis of organization can be discussed.

In terms of illuminating the environmental and strategic influences that determine the choice of organizational structure, it is useful to look at companies' structural changes. For example:

- The classic example of the product-division structure was GM with its separate Chevrolet, Cadillac, Oldsmobile, Buick, Truck, and Parts divisions. Since the early 1980s these product divisions were increasingly collapsed so that by the late 1990s GM possessed a single North American car division. At the same time functionally defined groupings became increasingly important.
- Traditionally, construction and management consulting industries were organized around geographic offices and project teams. As the need for specialist knowledge has increased and companies have been under growing pressure to share learning and generate new knowledge, so the basic organization of project teams and local offices has been overlain by industry practices, competency-based practices (e.g., strategy, marketing, change management, IT), and communities-of-practice.

Cases

Reorganizing the Royal Dutch/Shell Group (R.M. *Grant*, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

The Royal Dutch/Shell Group is one of the world's largest and most complex organizations. During the early 1960s under the guidance of McKinsey & Company it adopted a matrix structure. The 200 or so operating companies were coordinated through regional, sectoral, and functional units. By the early 1990s the group was becoming increasingly unwieldy. The challenge for a new task force combining senior Shell executives with McKinsey consultants was to design a new structure that would improve coordination between the operating companies, permit more effective financial and strategic control, and reduce costs—especially at the two corporate headquarters in London and The Hague.

Corning Glass Works: International (A), (B1), (B2), (C1), (C2), (D) (HBS Cases 9-381-160 to 9-381-164, and 9-381-112)

This is a classic case on the problems of organizing the multinational, multiproduct corporation. It looks at the design of a matrix structure and the problems encountered in its implementation. There are several videos to support this case.

PART III: THE ANALYSIS OF COMPETITIVE ADVANTAGE

The Nature and Sources of Competitive Advantage, Cost and Differentiation Advantage (Chapters 7, 8, and 9)

Class Topics

My primary goal in exploring competitive advantage is to bring together the two sides of our analytical framework—the industry environment and the firm—to consider how positions of competitive advantage are created and destroyed, and to analyze opportunities for cost advantage and differentiation advantage. Despite Porter's emphasis on cost and differentiation as distinct "generic strategies" and his warnings against being "stuck in the middle," for most companies, whichever their primary focus, issues of both cost efficiency and product differentiation are relevant. Hence, my cases in this section I use as vehicles for analyzing both cost and differentiation. For example, while Harley-Davidson's competitive advantage is based almost entirely on its unique differentiation, its annual output of 200,000 bikes compared to Honda's 4 million creates important cost issues for Harley.

Following the structure of the three chapters (7, 8, and 9), I cover three main topics:

- The material in Chapter 7 explores the dynamics of competitive advantage. It builds on the analysis of resources and capabilities to show how competitive advantage emerges and how the processes of imitation result in its erosion through competition. A key learning here is the ways in which the opportunities for establishing and sustaining competitive advantage depend on the competitive characteristics of the firm's market, which in turn depend on the characteristics of the resources and capabilities required to compete in that market.
- The analysis of cost advantage (Chapter 8) is concerned with the factors that determine differences in unit costs between competing firms and uses the value chain as the basis for a finer-grained analysis of costs. The emphasis of this analysis is on providing a basis on which to recommend actions to improve a company's cost competitiveness.
- The analysis of differentiation advantage (Chapter 9) is concerned with identifying opportunities for matching the demand-side desire for differentiation with the supply-side potential for the firm to create uniqueness in its offerings. A key feature of this matching process is exploring linkages between the value chain of the firm and that of its customers.

Class Outline

I begin with a case analysis; I find the Harley-Davidson case suitable for examining differentiation strategy while also providing a basis for examining cost advantage (and disadvantage).

The case discussion brings out a number of issues regarding the nature and sources of differentiation advantage, and the determinants of relative cost. I use the output of this case discussion to establish an agenda, which I then approach more systematically.

In relation to cost analysis, I emphasize two issues:

- The different sources of cost advantage ("cost drivers"), with particular emphasis on scale economies, process technology, and input costs.
- The different cost conditions affecting different stages of the value chain, for example, in soft drinks the primary source of scale economies is in advertising, in automobiles it is new product development.

In relation to differentiation analysis, I focus on the demand side (what product features are customers willing to pay for?) and the supply side (in which of its activities can the firm create uniqueness?). The key part of the analysis is using linked company and customer value chains to bring together the demand and supply sides of the analysis (see Chapter 9, Exhibit 9.3).

Cases

Harley-Davidson Inc. in 2001 (R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

Harley-Davidson (H-D) is an interesting company to which to apply the analysis of cost and differentiation advantage. It has been extremely successful in establishing a differentiation advantage that rests on a single strategic resource: the Harley image. However, in exploiting and developing this image, H-D has carefully developed a differentiation strategy that is based on quality improvement, new model development, promotional activities, upgrading of dealerships, and a widening range of customer service activities, from consumer financing to owners' club rallies. This strategy has been effective despite H-D's limited resources and capabilities relative to competitors such as Honda, Yamaha, and BMW. H-D's cost position is also important: How can a company with production of about 200,000 a year avoid a widening cost gap with volume manufacturers such as Honda with production volume of nearly 4 million bikes a year? The case can be used to apply value chain analysis both to cost and differentiation analysis. Although there are many Harley-Davidson cases available, this one is distinguished by its focus on the analysis of competitive advantage.

Wal-Mart

The Wal-Mart cases (see the Grant case and the two Harvard Business School cases listed under Chapter 5, "Analyzing Resources and Capabilities") can also be used to support a deeper probing into the sources of competitive advantage, in particular Wal-Mart's ability to establish an unassailable cost advantage together with remarkable flexibility and responsiveness. For this purpose the Ghemawat case, *Wal-Mart Stores Discount Operations*, is probably the best because it offers a good deal of rich cost data. In relation to the dynamics of competitive advantage, the case raises interesting issues with regard to the initial establishing of competitive advantage and the sustainability of competitive advantage. Wal-Mart's prices, merchandise selection, and business practices are well known. Why is it that competitors have been unable to copy the sources of its success?

Starbucks Corporation (M. Schilling and S. Kotha, available at http://us.badm.washington.edu/kotha/personal/pdf%20files/starbuck.pdf. Reprinted in R.M. Grant and K.E. Neupert, *Cases for Contemporary Strategy Analysis*, 2nd edition, Blackwell, 1999)

The case explores the explosive success of this Seattle-based, now international chain of coffee houses. It allows an interesting discussion of the nature of Starbuck's differentiation (the company offers a complex package of product and service differentiation) and of the capabilities and organizational systems that underlie this differentiation strategy and make it effective in an exceptionally competitive environment where imitation appears easy.

Fox Broadcasting Company (Harvard Business School Case No. 9-387-096)

Network broadcasting is a fascinating industry in terms of the analysis of industry attractiveness and the nature and determinants of competitive advantage. The proposed launch of the Fox network raises interesting issues in incumbent advantages, differentiation analysis, the imitability of competitive advantage, and the formulation of an entry strategy that best reconciles the potential strengths of a newcomer with industry success factors.

Du Pont's Titanium Dioxide Business (A) through (E) (Harvard Business School Case Nos. 9-390-112 and 9-390-114 through 9-390-117)

The cases provide a chronological sequence tracing the development of competition and strategy over time. This is a particularly rich case for cost analysis (including experience curves and economies of scale), and for analyzing opportunities for market preemption.

Owens-Corning Fiberglass Corp.: Commercial Roofing Division (A) and (B) (Harvard Business School Case Nos. 9-383-040 and 9-383-041)

A detailed and demanding case in cost analysis, this involves the calculation of the installed cost of different roofing systems and shows how the cost advantage of different technologies varies by market segment.

PART IV: BUSINESS STRATEGIES IN DIFFERENT INDUSTRY CONTEXTS

Industry Evolution (Chapter 10)

Topics, Outline, and Cases

For most of the strategy courses I teach, I do not include industry evolution as a separate topic. I prefer to introduce issues concerning the evolution of industry structure, competition and key success factors over time, either when I am looking at industry analysis or when looking at technology and the management of innovation. I use the industry life cycle as the principal organizing framework. The objectives here are to understand the forces driving industry change and to provide a basis for predicting the future evolution of industries.

In relation to industry analysis and the prediction of industry futures, *DaimlerChrysler and the World Automobile Industry* (see under Chapters 3 and 4, "Industry and Competitive Analysis" above for details) offers potential not just for looking at industry change over the past 50 years, but also for developing scenarios for the future. In relation to innovation and the management of technology, a key issue is the speed of industry change during its early years and the need for companies to develop their capabilities and adjust their strategies. For this purpose, *EMI and the CT Scanner* (see below) is excellent for exploring the changes in an industry's competitive and technological environment during the first five years of its existence.

Technology-Based Industries and the Management of Innovation (Chapter 11)

Class Topics

In looking at competitive advantage in different types of industry environment, I concentrate primarily on businesses where innovation and managing technology are the keys to competitive advantage. These include both emerging industries and industries that continue to be technology based, such as electronics, chemicals, aerospace, and pharmaceuticals.

The principal topics I cover are:

- The linkage between innovation and competitive advantage and the determinants of the profitability of innovation.
- Alternative strategies to exploit an innovation.
- First-mover advantage.

- Competition in markets where standards are important.
- The organizational conditions conducive to innovation and creativity.

Class Outline

I typically begin this topic with a case that explores issues in managing innovation. *EMI and the CT Scanner* case is a perennial favorite of mine (see below).

I use this case to develop several key themes, notably:

- Strategy alternatives for exploiting an innovation (licensing vs. alliances and joint ventures vs. internal development within a wholly owned subsidiary).
- The nature and extent of first-mover advantage.
- The role of complementary assets.
- The rapid evolution of industry structure and key success factors as an industry moves from its "introduction" to its "growth" stage of development.
- The role of exit strategy. When is the value of new business maximized and what are the options for realizing this value?

I also like to add a case dealing with an industry where rapid technological change is a perennial feature of the competitive environment. For this purpose, I find that the video games industry works exceptionally well—partly because most students identify readily with the product (many are also highly knowledgeable), and partly because it is a excellent market for studying network externalities and hardware–software complementarities.

The key issues I explore here are:

- Managing hardware–software complementarities. In most hardware–software systems, the primary profit source is the software. But who appropriates this profit? In the case of personal computers it has been the software suppliers (notably Microsoft), in video games it has been the hardware suppliers. Nintendo's strategy during the 1980s and early 1990s is a fascinating study in profit appropriation. Since that time, the successful entry of Sega and then Sony into this market has required careful coordination of hardware and software.
- Standards and network externalities. Video games consoles appears to be a "winner-takes-all" market—although there have been three major players in recent years, only the market leader has made profits. The tendency for convergence around a single platform can be analyzed using the concept of network externalities. The discussion of how network externalities lead to the emergence of standards, and how companies compete for those standards, is a fascinating area of strategy. To develop this analysis I draw on past standards

battles—Sony and Matsushita in VCRs, IBM and Apple in PCs—and current standards battles—Palm vs. Microsoft vs. Symbian in PDA operating systems, and standards for digital wireless transmission—to develop this analysis.

Cases

Cases that explore competitive advantage and strategy formulation and implementation in technology-based industries also tend to deal with aspects of industry evolution, since a key feature of these industries is the speed with which industry structure changes and the basis for competitive advantage shifts. Recommended cases include:

EMI and the CT Scanner (A) and (B) (Harvard Business School Case Nos. 9-383-194 and 9-383-195. Reprinted in R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

One of the all-time greats among strategy cases, this deals with a broad range of strategic issues concerning the exploitation of an exceptionally promising innovation—the X-ray scanner—by a British music and electronics company. Critical issues at the end of the A case include (a) the appropriability of the returns to innovation in situations where patent protection is weak; and (b) the choice of entry mode: Should EMI exploit its innovation by means of licensing, joint venture, or a wholly owned new venture? At the end of the B case, the market has matured considerably, new competitors have appeared, and EMI must do two things: assess its competitive situation—particularly with regard to its comparative weaknesses in *complementary resources*—and develop an organizational structure and management systems to deal with the internal conflicts and inefficiencies it suffers.

The Video Games Industry in 2001 (R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

The case traces the development of the video games industry through its major eras of market dominance: from Atari, to Nintendo, to Sega, and finally to the rise of Sony as the market leader. It explores the strategies of the different players, providing a basis for the discussion of key success factors in the industry. The case raises the issue of network externalities and the tendency of the market to converge toward a standard. It looks at current changes in the industry, notably the impact of the internet, and the convergence of games consoles, personal computers, and other audio-video hardware; and the imminent entry of Microsoft with its Xbox.

Power Play (A): Nintendo in 8-bit Video Games (Harvard Business School Case No. 9-795-102)

Power Play (B): Sega in 16-bit Video Games (Harvard Business School Case No. 9-795-103)

Power Play (C): 3DO in 32-bit Video Games (Harvard Business School Case No. 9-795-104)

This series of cases by Adam Brandenburg examines the strategies of three key players in the video games industry and explores the basis of value creation and value capture in this business. The first case in the series (Nintendo) provides a particularly vivid example of the use of technology and management of relations with customers and complementors (especially games developers) to appropriate value with exceptional effectiveness.

Browser Wars—1994–98 (Harvard Business School Case No. 9-798-094)

The battle between Netscape and Microsoft for dominance in the market for internet browsers is a classic example of cut-throat rivalry in a winner-takes-all market. The case introduces issues of first-mover advantage, network externalities and standards, and tie-in sales.

Honeywell (R.M. Grant and K.E. Neupert, *Cases for Contemporary Strategy Analysis*, 2nd edition, Blackwell, 1999)

After struggling as a manufacturer of mainframe computers, Honeywell emerged in the 1990s as a successful, global supplier of control and monitoring equipment to industrial and residential markets. The company's wide geographic spread and variety of products and customers raise complex issues concerning how it manages technology.

Competitive Advantage in Mature Industries (Chapter 12)

Class Topics

Mature industries are conventionally thought of in terms of stable structures and low rates of technological change. We can certainly identify key life cycle forces as market saturation and slowing of innovation.

Beyond these simple generalities, the key feature of mature environments is their diversity, with commodity-type businesses (metal containers, energy, iron and steel, tires, airlines) having very different characteristics from differentiation businesses (management consulting, musical instruments, specialty retailing).

The topic provides an opportunity to challenge the whole concept of maturity through emphasizing the potential for innovation. Innovation may be the result of technology that has industry-wide implications (e.g., the impact of the internet on many retailing sectors, or the impact of microelectronics on the camera industry). Innovation may also take the form of strategic innovations by individual firms—Home Depot in hardware retailing, Gap in casual clothes retailing, Edward Jones in stockbroking, Nike in shoes, Capital One in credit cards).

Class Outline

If the key concepts of industry evolution have been covered in previous classes, the conceptual content of this topic is limited, hence the teaching of the topic can be focused around a specific case. My preferred approach is to focus on the potential for entrepreneurship and strategic innovation in a mature industry. For this purpose the *Capital One Financial Corporation* case is particularly suitable. It allows discussion of the industry features of maturity, notably the problems of increasing competition and shrinking margins that accompany commoditization and market saturation, together with the process by which a small bank revolutionizes its competitive position through adopting an innovative new business model.

Cases

Capital One Financial Corporation (Harvard Business School Case No. 9-700-124)

The case traces the evolution of the credit operations of a small, Rochester-based bank, Signet, into the international credit card issuer, Capital One, under the guidance of two young consultants, who perceive the opportunity for using information technology to allow Signet to break away from the credit card business's "industry recipe" and adopt a radically new information-based strategy. The case explores the potential for information technology to create strategic innovation in a mature service business. It raises interesting issues of why banks were so reluctant to adopt the approach advocated by the consultants, whether Capital One's competitive advantage is sustainable, and what the opportunities are for extending the information-based business model to other countries and other markets.

Steinway & Sons (R.M. Grant and K.E. Neupert, *Cases for Contemporary Strategy Analysis,* 2nd edition, Blackwell, 1999)

Steinway is a long-established, craft-based producer of quality pianos. The case considers the roots of Steinway's sustained competitive advantage in the piano industry. The company is faced with increasing competition from Japanese piano producers that are introducing both product and process innovation into the piano industry. Steinway must consider preserving its reputation, its traditional production methods, and the possibilities for new product introduction.

Crown Cork & Seal Co. Inc. (Harvard Business School Case No. 9-388-096)

In addition to its use in the analysis of industry and competition, Crown Cork & Seal is also an excellent case for exploring the creation and sustaining of competitive advantage in a mature industry. Crown Cork & Seal's superior profitability and growth may be attributed to its judicious segment selection, its resolute pursuit of cost efficiency, and its ability to provide its customers with superior service, and its internationalization strategy through which it pursues the product life cycle in packaging products across different countries. (See also *Crown Cork & Seal in 1989* (Harvard Business School Case No. 9-793-035), which considers the strategic issues facing new CEO William Avery in 1989 in the light of continues change in the packaging industry.)

The Richardson Sheffield Story: Revolution in the Cutlery Industry (C. Baden Fuller and M. Pitt (eds), *Innovating Strategic Management: A Casebook*, Routledge, 1995)

The British cutlery industry was devastated by low-cost imports during the 1970s and early 1980s, yet through product and process innovation Richardson emerged as a world leader in the kitchen knife segment. This is a fascinating case for the study of strategic innovation in a mature, declining industry.

PART V: CORPORATE STRATEGY

Vertical Integration and the Scope of the Firm (Chapter 13)

Class Topics

My main goals for this session are for students:

- To appreciate the central issue of corporate strategy—the determination of the scope of the firm.
- To be capable of making vertical integration decisions. In relation to a specific activity, should the firm make or buy? In relation to the vertical scope of the firm as a whole, how broad a span of the industry value chain should the firm encompass?

The primary theoretical concept I address in this section is *transaction costs*—the relative efficiency of firms and markets in organizing economic activity.

Class Outline

I typically begin with an example. This can be a case illustrating vertical activities, together with a general review of the scope of the firm and the relative roles of firms and markets in organizing production and the historical evolution of the modern corporation. This leads to a discussion of transaction costs and the more specific analysis of their role in make or buy decisions.

Among the cases useful for analyzing vertical integration decisions, see:

Birds Eye and the U.K. Frozen Foods Industry (A) and (B) (Harvard Business School Case Nos. 9-792-074 and 9-792-074)

Birds Eye's competitive advantage was built on market dominance through its construction of a vertically integrated chain. The case raises important issues concerning the rationale for vertical integration over spot transactions or long-term contracts, and then analyzes how industry evolution destroys the advantages of vertical integration. The case examines in some detail the evolution of industry structure, competition, and the competitive position of the industry leader over the industry's life cycle.

Merck-Medco: Vertical Integration in the Pharmaceutical Industry (Harvard Business School Case No. 9-598-091)

The case examines Merck's acquisition of Medco, a channel intermediary (called "pharmacy benefit manager") against the background of general moves in the industry toward forward integration. While many of its competitors seem to be faring poorly, Merck appears to have managed the Medco integration superbly. The teaching purpose is to understand how channel strategies evolve with changes in the industry environment.

Visicorp (R. Rumelt. Reprinted in D. Collis and C. Montgomery, *Corporate Strategy*, Irwin, 1997)

The case examines one of the most successful software companies in the early years of the microcomputer industry, which achieves prominence through the creation of the first PC-based spreadsheet program, VisiCalc. Central to the case is the relationship between software development and software marketing and distribution. Originally the company is founded as a software publishing company, buying in products from independent developers. However, problems in managing these relationships result in the move toward an integrated development–distribution company.

Global Strategies and the Multinational Corporation (Chapter 14)

Case Topics

The emphasis I give this topic (and the time I devote to it) depends to a great extent on whether students are taking a required course in international business and the content of such a course.

The topics I believe should be covered include the following:

- The impact of internationalization on the geographic boundaries of industries and on the intensity of competition.
- The impact of national factors on a firm's competitive advantage.
- Decisions over location and foreign market entry.
- Global strategies.
- The strategy and organization of the multinational corporation.

Class Outline

Introducing the international dimension raises a wide range of strategic management issues, and no single case will include them all. Hence, the choice of the case for this topic is critical to the emphasis. I typically kick off with a case that deals with a company that has been successful in its home market extending into a foreign market. For this purpose I have found Euro Disney and Marks and Spencer to be effective.

The key issues that these cases bring up, which can then be generalized and explored in greater depth, are:

- Under what circumstances can a company extend its competitive advantage from its home market to an overseas market? Issues concerning the transferability and replicability of the firm's competitive advantage are critical here.
- What mode of foreign market entry should a firm adopt? Again, issues of resources and capabilities and the need for local market knowledge, distribution, and political and business connections become critical here.
- What type of international strategy should a company adopt? A global strategy taking a unified approach to the world market, or a strategy that adapts to the specifics of each national market?
- How does a company adjust to differences in national culture?

I close with some trends in international business, include the reconciliation of global integration with national differentiation (the "transnational") and the extreme international fragmentation of value chains that is seen in many companies and industries.

Cases

Euro Disney (R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

The case explores the decision to create a Disney theme park in Europe, and examines the subsequent progress of the venture. In considering the initial entry decision the case raises issues about the attractiveness of the European theme park market, Disney's potential to establish a competitive advantage, and the complex mode of entry that Disney devised (a joint venture, licensing contract, and management contract). The subsequent difficulties of Euro Disney underline the complex cultural issues that are especially important for international service companies.

Marks and Spencer Ltd. (A) (Harvard Business School Case No. 9-375-358. Reprinted in D. Collis and C. Montgomery, *Corporate Strategy*, Irwin, 1997)

A key issue that the case raises is why a company that has been so successful in its home market had so much difficulty with its overseas business operations (its M&S stores in continental Europe, and its acquisitions in Canada and the US). The analysis of this issue can then be used to determine what Marks and Spencer's international strategy should be.

DuPont Teflon: China Brand Strategy (R.M. Grant and K.E. Neupert, *Cases for Contemporary Strategy Analysis*, 2nd edition, Blackwell, 1999)

The case considers DuPont's strategy for its Teflon business in China. After six years of licensing, Teflon has made only limited inroads into the Chinese market. DuPont is reviewing its Teflon strategy in China and considering opportunities for joint venturing or even forward integrating.

Nestle in Chocolate in 1990 (Harvard Business School Case No. 9-391-277)

The chocolate industry provides an interesting setting for the study of global strategy. The principal players—Cadbury-Schweppes, Nestlé, Hershey, and Mars—are multinationals, but the industry combines both global and local features.

The U.S. Major Home Appliance Industry in 1993: From Domestic to Global and Maytag Corporation, 1993: Strategic Reassessment (J. David Hunger, *Case Research Journal*, 1993. Reprinted in T.L. Wheelen and J.D. Hunger, *Strategic Management and Business Policy*, 5th edition, Addison Wesley, 1995)

The home appliance industry ("white goods") provides a fascinating context for examining global strategy. This pair of cases examines the trend toward globalization in the world major appliance industry, and the problems facing Maytag, which risks becoming a marginal player in an industry increasingly dominated by a few global players, and whose own international expansion has been far from successful. (Since this case is published in *Case Research Journal* it is available for educational use without royalty charges.)

Procter & Gamble Europe: Visir Launch (Harvard Business School Case No. 9-384-139)

Yet another splendid case by Chris Bartlett, which raises some fascinating issues of global marketing versus national differentiation, and the appropriate organizational structure and management systems for a multinational company. The case is an excellent vehicle for exploring issues of global integration vs. national differentiation and applying the Bartlett/Ghoshal concepts and frameworks.

Body Shop International (Harvard Business School Case No. 9-392-032)

This is another outstandingly successful British retailer facing issues of adapting to the US retail environment. Body Shop is a fascinating company from several aspects. Its commitment to environmental responsibility and third-world development not only raises interesting issues with regard to the role of ethics in strategy, but also provides the basis for a unique strategy of differentiation through the creation of community between the company, its products, its employees, and its customers. But can the Body Shop system and image, which has proven so successful in Britain, be transplanted to America?

ABB's Global Relays Business: Building and Managing a Global Matrix (Harvard Business School Case No. 9-394-016)

ABB's innovative, decentralized, network form of organization has resulted in the company attracting more attention from management scholars than has any other multinational corporation during the 1990s. This case offers deep insight into the structure and process that reconcile entrepreneurial decentralization with global integration within one of ABB's businesses.

Diversification Strategy and Managing the Multibusiness Corporation (Chapters 15 and 16)

Class Topics

Diversification lies at the heart of corporate strategy and gives rise to some of the most contentious strategy decisions. Over the past 30 years, it has been responsible for the destruction of more shareholder value than any other corporate activity. Its study is therefore important!

The critical strategic issues raised by diversification are the corporate resources and capabilities of the firm, the ability to exploit those resources and capabilities in order to establish competitive advantage in another industry, and factors limiting the range of industries over which a firm can transfer its competitive advantage. Analyzing the potential for diversification to create value requires a clear understanding of the following concepts:

- *Economies of scope* in resources and capabilities.
- *Transaction costs* in deploying resources and capabilities across different product markets.
- *Costs of entry* into a different product market.
- Different types of *relatedness* between different businesses.

It also requires understanding of situations where diversification does not create value, for example, where diversification is directed toward reducing risk; or where economies of scale can be exploited efficiently through market transactions. The obverse of diversification is the divestment of noncore businesses. I regard diversification and divestment decisions as symmetric.

I feel that is also important to look beyond individual diversification decisions, and to examine ongoing issues of how companies manage a diversified portfolio of businesses, The management of diversified firms raises complex issues of "implementation," especially in relation to the allocation of decision marking between different levels of the firm, the role of the corporate headquarters, the design of management systems, and the management of relatedness between businesses ("synergies").

Class Outline

To get quickly to the core issues of diversification decisions, I begin with a case that can be used to analyze specific diversification decisions and explore a company's systems for the effective corporate management of multiple businesses. For this purpose, my Virgin Group case works well, despite the fact that it is dealing with a network of companies rather than diversification by a single corporation.

Discussion of Virgin directs attention to the resources and capabilities that it possesses (the brand, Branson himself, the group's capabilities in launching new business ventures, etc.). This raises the issue of *domain*: Over what types and what range of businesses can Virgin add value? This then has implications for the type of organizational structure and management systems that Virgin needs to possess in order best to realize that value.

This discussion provides a foundation for exploring a number of issues in greater depth, in particular:

- The conditions under which diversification creates value. Diversification directed toward growth and risk spreading is more likely to destroy rather than create wealth. This takes us to Porter's "essential tests." Here, my key point is that "cost of entry" tends to offset "industry attractiveness," hence the key test is the "better off" test. This focuses the discussion on the analysis of competitive advantage.
- The conditions under which diversification can create competitive advantage are where economies of scope exist in resources and capabilities, and where these economies of scope cannot be efficiently exploited by market transactions, e.g., licensing brands and technologies (due to transaction costs).
- Different types of resources and capabilities give rise to very different patterns of diversification: technical capabilities are likely to support narrow-spectrum diversification (Microsoft diversifying from operating systems to applications software during the early 1980s), general management capabilities support much wider diversification (GE's spread from jet engines and plastics to financial services and TV broadcasting).

In examining the management of diversified companies, I tend to devote little or no time to the portfolio models of yesteryear (this methodology is almost entirely obsolete) and put the primary emphasis on the approaches and processes through which corporate headquarters can create value in the operating businesses (I draw heavily on the work of Andrew Campbell and Michael Goold here). Time permitting, General Electric under Jack Welch provides a wonderful background for a detailed examination of how corporate management systems can create value in a diversified corporation. My own case (*General Electric: End of the Welch Era*), or one of the Harvard Business School cases is excellent for this purpose.

Cases

Richard Branson and Virgin Group (R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

This case is an update of the 1998 version published in the second edition of the casebook. At the beginning of 2001, Branson's Virgin group of companies is continuing to diversify into new fields, notably wireless telecommunication services, e-commerce, and automobile distribution. At the same time, a number of major businesses are facing cash flow difficulties, and several are clear money losers. These include Virgin Cola, Virgin Rail, the financial services ventures, and V2 Music. The task for students is to offer a strategic appraisal of this loose-knit corporate empire; to determine which logic, if any, links together the motley collection of business ventures; to consider whether any of the businesses should be divested; to establish clear criteria to guide future new diversification; and to recommend changes in the financial and management structure of the Virgin companies.

Vivendi: Revitalizing a French Conglomerate (Harvard Business School Case No. 799019)

During the 1990s, Vivendi transformed itself from Companie Générale des Eaux, a French supplier of water, garbage, and sewage services, into a multinational supplier of a wide range of network services including water, electricity, telecommunications, and entertainment. The case requires students to explore the rationale for Vivendi's seemingly unrelated diversification against the background of the French business context, which raises issues of corporate governance, financial structure, and a legal environment that imposes severe restrictions on staff reductions.

Imasco Ltd.: The Roy Rogers Acquisition (K.E. Neupert and J.N. Fry, *Cases for Contemporary Strategy Analysis*, 1st edition, Blackwell, 1996; and R.M. Grant and K.E. Neupert, *Cases for Contemporary Strategy Analysis*, 2nd edition, Blackwell, 1999)

Imasco is a diversified corporation with interests in financial services, tobacco, retailing, and fast food (including Hardee's and Burger Chef). The proposed acquisition of Roy Rogers, a medium-sized East Coast chain of burger restaurants, raises fundamental issues of diversification strategy: Is fast food a good industry to be in? What is the value of the company to be acquired "as is"? What is the potential for Imasco to add value to the acquired company through the imposition of its corporate management systems, a lower cost of capital, and potential linkages with its other fast food businesses?

Seagram and MCA (R.M. Grant and K.E. Neupert, *Cases for Contemporary Strategy Analysis*, 2nd edition, Blackwell, 1999)

This case deals with the possible acquisition of MCA, the entertainment company, by the Seagram Company Ltd. The case raises issues of the relationship between diversification and shareholder value.

General Electric: End of the Welch Era (R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

Under Welch's leadership from 1981–2001, GE achieved remarkable growth and shareholder return as the world's biggest and most successful conglomerate. The case describes Welch's initiatives in terms of reconfiguring GE's portfolio of businesses, changing organizational structure and management systems, and transforming the culture of the corporation. The case considers how, in a era of downsizing, divestment, and refocusing when most large diversified companies have broken up, GE has succeeded in becoming the world's most valuable company while maintaining a uniquely broad business scope. The case asks students to consider whether Welch created a new model of corporate management through which other companies can reconcile the benefits of massive scale and scope with flexibility and entrepreneurial drive. The case asks students to consider the management challenges facing GE's new CEO after Welch's retirement and following the collapse of GE's attempted acquisition of Honeywell.

Jack Welch: General Electric's Revolutionary (Harvard Business School Case No. 9-394-065)

This case by Joe Bower and Jay Dial describes the work of Jack Welch as CEO of General Electric from 1981 to 1992, focusing particularly on his transformation of the company's portfolio through . acquisitions and divestments.

GE's Two-Decade Transformation: Jack Welch's Leadership (Harvard Business School Case No. 9-300-508)

This Chris Bartlett case describes GE's heritage and Welch's transformation of the company's business portfolio during the 1980s. It chronicles Welch's revitalization initiatives through the late 1980s and 1990s. It focuses on six of his major change programs: The "Software" Initiatives, Globalization, Redefining Leadership, Stretch Objectives, Service Business Development, and Six Sigma Quality. GE now faces Welch's impending retirement and addresses the issue of succession and the need to sustain the change and growth that characterized the Welch era.

Current Trends in Strategic Management (Chapter 17)

Class Topics

I devote the final session of the course to consider emerging trends in strategic management. There is scope here for focusing on a number of different issues. Some of the topics I have directed attention to are:

- Innovations in organizational structure and management systems, including new approaches to the management of coordination and cooperation, and the role of alliances and collaboration in general in firm strategy. I also look at changing ideas concerning the role of top management. Increasingly, the role of business leaders is shifting from that of decision maker to that of visionary and architect of values, norms, and aspirations.
- Recent developments in the business environment, including the issue of whether there is a "New Economy" and, if so, what it means for firm strategy. While skeptical of any major discontinuity created by the "knowledge-based" or "post-industrial" economy, I acknowledge the impact of digital technologies (including the internet) on productivity, industrial structure, and competition.

The main conclusion I draw, however, is that the combination of extreme-scale economies, network externalities, internationalization, and low entry barriers ushered in by information technologies are having the effect of increasing competition and undermining profitability across many sectors of the economy.

- Emerging concepts and theories. Among the themes that are currently influencing our ideas about strategic management, I look at the implications of complexity theory for strategy and organization, and the question of flexibility—in particular, the contrasting views of the dynamic capabilities and organizational inertia approaches.

Class Outline

On the basis that innovation in strategic management is driven by business practice rather than academic theorizing, my starting point is typically with business examples. For the purposes of challenging conventional ideas about strategy and organization, the AES case (see below) is particularly suitable. In particular, its ideas of a "honeycomb" structure and managers being encouraged *not* to make decisions are consistent with recent thinking about complexity and self-organization.

Alternatively, if I have devoted only a single class session to this topic, I may dispense with a formal case discussion and simply ask students for examples of companies with innovative strategies, organizational structures, or management methods. The high-tech sector is a fertile source of examples (e.g., Sun Microsystems, Cisco Systems, Dell Computer). However, other companies in more mature sectors also offer a rich source of new management thinking. For example:

- W.L. Gore's approach to shared ownership, incentives, and devolved authority.
- Kao Corporation's Buddhist management principles and unique knowledge management system.
- BP's unusual corporate structure that reconciles high levels of decentralization with strong, centralized accountability, and team-based management.
- Enron's innovative strategy, unusual organizational structure, and highly entrepreneurial management style.
- Oticon A/S's experiment with team-based disorganization (see case below).
- St Luke's, a London-based advertising agency, with its unique approach to ownership, governance, and the management of creativity and client relations (see "Creating the Most Frightening Company on Earth: An Interview with Andy Law of St. Luke's," *Harvard Business Review*, September 2000).

I then go on to the develop the issues that emerge from the case study (or from the discussion of different company examples) in terms of:

(a) Identifying the key issues that companies are facing during these early years of the twenty-first century. These include speed of technological change, international competition, shifting boundaries of industries and markets, need to reconcile conflicting performance goals (e.g., cost efficiency, innovation, flexibility, differentiation, and quality) within a single organizational design, and the quest for meaning among people.

(b) Identifying the strategies, structures, systems, and management styles that companies are developing in order to meet these challenges.

(c) Identifying concepts, themes, and theories that can help us understand these developments.

Cases

AES Corporation: Rewriting the Rules of Management (R.M. Grant, *Cases for Contemporary Strategy Analysis*, 3rd edition, Blackwell, 2002)

Despite its unglamorous industry, electricity generation, AES is a remarkable company. Founded by two civil servants, the company's primary goals are social responsibility and fun for employees. Its organization structure and management systems were described by the *Wall Street Journal* as "empowerment gone mad." There are virtually no staff functions: finance, human resource management, purchasing, and health and safety are devolved to *ad hoc* task forces. The basic guideline for managers is *not* to make decisions. At the same time, AES has achieved almost unrivaled revenue and profit growth within its industry. In 2001, the company is faced with several challenges: Can its unique management system and organization structure survive increasing growth, internationalization, growing competition, and the imminent retirement of its founders and spiritual leaders? The case updates an earlier version in the second edition of the casebook.

Oticon (A) (Harvard Business School Case No. 9-395-144)

Oticon, a Danish manufacturer of hearing aids, was transformed from a traditional, hierarchy and rule-based organization into a creativity-driven, highly flexible organization, with almost no hierarchy and little formal structure. The company has relied on team-based, informal collaboration supported by IT to provide the basis for coordination and integration.

St. Luke's Advertising Agency (Diane L. Coutu, "Creating the Most Frightening Company on Earth: An Interview with Andy Law of St. Luke's," *Harvard Business Review*, September 2000)

The article outlines the development of this innovative, employee-owned London advertising agency and its unusual approach to recruitment, incentives, organization, and the management of creativity. Chairman and cofounder Andy Law outlines the ideas and philosophy behind St. Luke's unique approach: "We're fundamentally convinced that there is a connection between co-ownership, creativity, collaboration, and competitive advantage . . . The firm requires people to peel away all the levels of their personalities . . . Self-knowledge is the DNA of a creative company in the creative age." The article provides a basis for discussing the viability of alternatives to shareholder-owned, profit-maximizing corporations in an era where competitive advantage is increasing knowledge based.

BP (Steven E. Prokesch, "Unleashing the Power of Learning: An Interview with British Petroleum's John Browne," *Harvard Business Review*, September 1997)

The article outlines some of the aspects of BP's organizational structure, knowledge management systems, and performance-driven philosophy that have made it the most admired of the oil and gas majors under Browne's leadership.

Enron: Entrepreneurial Energy (Harvard Business School Case No. 70007, 2000)

The case describes Enron's entrepreneurial approach to capitalizing on deregulation and privatization. The company's experiences in energy markets support discussion of the similarities and differences across markets that have been subjected to competitive shocks, and the balance to be struck between physical and intangible assets in pursuing market opportunities. Enron's expansion into telecommunications raises questions about how broadly applicable its strategy is.

APPENDIX SAMPLE COURSE OUTLINES

I include course outlines from several strategic management courses I have taught recently at Georgetown University, City University, and Bocconi University. Note that some of these course outlines include references to the earlier edition of *Contemporary Strategy Analysis*; however, the chapter numbers are the same. Note too that later versions of some of the cases are available (see the recommended cases listed above).

The course outlines included are:

1 Georgetown School of Business, MBA Strategic Management (a required, six-week, 1.5-semester credit strategy course taught in the first semester of the two-year MBA program).

2 Georgetown School of Business, undergraduate Strategic Management (a full-semester course taught to senior-level undergraduates).

3 Georgetown School of Business, MBA Elective in Capability-based Strategy (a second-year, six-week strategy elective that focuses on resource-based and capability-based approaches to strategic management).

4 Bocconi University, Strategic Management (a semester course in strategic management taught to final-year undergraduates at Bocconi University in Milan).

Robert M. Grant *Old North 405*
Tel. 687 3844 *grantr@msb.edu*
Georgetown University

McDonough School of Business: MBA Program

MGMT 570. Strategic Management

COURSE CONTENT

We address the question: What makes a firm successful? We define success in terms of creating shareholder value over the long term. The strategy of a firm is the set of decisions it makes concerning how it will achieve superior performance, and hence create value for shareholders.

This course presents a framework and set of tools for formulating successful strategies. The focus is on identifying and analyzing the sources of profitability available to the firm and on developing strategies to access these sources of profitability. We view strategy as a link between the firm and its business environment. This implies that there are two primary areas of analysis: the external industry environment of the firm (its industry) and the internal environment of the firm (in particular, the resources and capabilities that it possesses).

A central theme of the course is the analysis of competitive advantage. Superior performance is primarily the result of building sustainable competitive advantage through deploying internal resources and capabilities to exploit the key success factors within the firm's industry environment. We will analyze the potential for competitive advantage and design strategies that can build comparative advantage. Thus, the essence of the overall framework is to address the development and management of internal resources and capabilities in relation to the external environment to achieve competitive advantage.

The course is concerned not just with analysis but also with decisions. In our case discussions of individual companies, you will be taking the role of a senior executive or a consultant. You will be required to make decisions concerning key strategy issues and indicate how your decisions will be implemented.

OBJECTIVES

1. To acquire familiarity with the principal concepts, frameworks, and techniques of strategic management.
2. To gain expertise in applying these concepts, frameworks, and techniques in order to:

- understand the reasons for good or bad performance by a firm,
- generate strategy options for a firm,
- assess available options under conditions of imperfect knowledge,
- select the most appropriate strategy,
- recommend the best means of implementing the chosen strategy.

3. To develop your capacity as a general manager in terms of:
   - an appreciation of the work of the general manager,
   - the ability to view business problems from a general management perspective,
   - the ability to develop original and innovatory approaches to strategic problems,
   - developing business judgment.
4. To improve your skills of oral and written communication.

MY EXPECTATIONS OF YOU

The focus of the course will be applying concepts and ideas to real-world examples, primarily through our case discussions. I intend to keep lecturing to a bare minimum. For the class to work well, and for you to benefit from it, preparation for each class meeting is essential: All students are expected to arrive at class having read the assigned case and prepared to offer and defend their recommendations.

Since our class discussion forms the focus of the course, I shall be expecting you to attend all the class sessions. Also, it is important that I get to know who you are as soon as possible. Please display your name card and try to sit in the same seat every session.

An important feature of MGMT 570 is that it is an integrative class—I shall be expecting you to draw on the knowledge you have gained from your prior work (and lifetime) experiences and from concurrent courses in your MBA program.

But MGMT 570 is not just about reading and analysis, it is also about ideas. Outstanding business leaders are innovators—they seek to identify and exploit new opportunities for profit. In making recommendations I shall be expecting you to generate innovative yet feasible solutions to complex business problems.

ASSESSMENT & ASSIGNMENTS

Final Examination	30%
Group Project	30%
Case Submissions	20%
Class Participation	20%

Final Examination: Details of the format and date of the final exam will be announced.

Group Project: *msbchallenge.com* is a joint project with your OB class. Details of the project will be announced in a separate handout. Please note that your group presentations will be on Wednesday October 18.

Case Submissions: You must analyze and write up any two cases from the syllabus. Your write-up should be in the form of a memo to the CEO of the company. It should analyze (concisely) the issues identified in the discussion questions for the case and make a recommendation as to what the CEO should do. Maximum length: 800 words. Hand in your assignment at the beginning of the relevant class or they will not be accepted. It is important that your analysis drives to a conclusion, opinion, or decision.

Class Participation: I will systematically call on individuals to make sure I can evaluate everyone. The quality of your contributions, not the quantity, is important. Advancing the discussion is valuable; repeating comments already made, evading the question or diverting from the core of the discussion is not.

READING

The required text is: Robert M. Grant, Contemporary Strategy Analysis: Concepts, Techniques, Applications (draft chapters from the 4th edition, currently under preparation, will be made available online).

Those readings marked [P] are available in the course pack that can be purchased from the print shop; those readings marked [S] are available on the MSB share drive (S:) under “Grant,Rob/MGMT 570”.

PROGRAM

I. CONCEPT OF STRATEGY

Session 1, Wed. August 30: **Introduction**

Introduction to the course. The role and nature of strategy. Strategy, profit and shareholder value. A framework for strategy analysis. Strategy making in practice.

Readings: Grant: Chap. 1 [S]

II. ANALYSIS OF INDUSTRY & COMPETITION

Session 2, Wed. September 6: **The Fundamentals of Industry Analysis**

How industry structure determines competition, and the level of industry profitability. Porter’s Five Forces of Competition framework

Readings: Grant, Chap. 3 [S]

Case: Crown, Cork & Seal Inc. [P]
[Note: We shall distribute copies of this case to replace "Crown Cork & Seal in 1989" that is in the course reading pack.]

Discussion questions:

1. Analyze the metal container industry using Porter's Five Forces model.
2. What are the key problems and opportunities facing all companies in the industry?
3. What recommendations would you make to John Connelly with regard to CC&S's future strategy?

Note: This class will be led by Professor Elaine Romanelli. Professor Romanelli is a graduate of Columbia University and was on the faculty of Duke University before coming to Georgetown. She is renowned for her research into entrepreneurship and organizational evolution.

***Session 3, Mon. September 11*: The Fundamentals of Industry Analysis: Further Applications**

Applying the Porter framework to different types of industry. Forecasting industry profitability in the future. Strategies to influence industry structure. Industry analysis in the "New Economy"—competitive dynamics in information-based and winner-take-all markets.

Readings: Grant: Chap. 3 [S]

***Session 4, Wed. September 13*: Industry Analysis: Internationalization and Industry Evolution**

Changes in industry structure and their impact on competition and profitability. Analyzing market segments. Key success factors.

Reading: Grant, Chaps. 3 & 4 [S]

Case: Daimler-Chrysler and the World Automobile Industry

Questions for discussion:

1. What changes in the structure of the world auto industry between 1970 and 1998 caused industry profitability to decline?
2. How is the industry likely to evolve over the next ten years and will it be more or less profitable than the past five years?
3. Which companies will be most successful over the next ten years?

Session 5, Mon. September 18: **Analyzing Industries with Complex Structures**

Assignment: Does Porter's Five Forces framework work well in analyzing all industries? Choose an industry whose complex structure may challenge a Five Forces analysis. Conduct the analysis and prepare an overhead of your work to present to the class and/or to hand in at the end of class.

III. ANALYSIS OF RESOURCES & CAPABILITIES

Session 6, Wed. September 20: **Resources and Capabilities: Introduction**

Resource-based strategies. Identifying and appraising resources and capabilities. The determinants of sustainable competitive advantage.

Reading: Grant: Chap. 5. [S]

Session 7, Mon. September 25: **Analyzing Resources & Capabilities I**

Case: Wal-Mart Stores Inc. [P]

Discussion questions:

1. What is Wal-Mart's strategy? Why has it been so successful?
2. What are the key resources and capabilities that give Wal-Mart competitive advantage in each of the major stages of its value chain?
3. How sustainable is Wal-Mart's competitive advantage?

Session 8, Wed. September 27: **Analyzing Resources & Capabilities II**

Reading: C.K. Prahalad & G. Hamel, "The Core Competence of the Corporation" [P]

Cases: [A] Rocking in Shangri-la [P]
[B] Richard Branson and the Virgin Group of Companies [S]

Discussion questions:

1. Do MTV/Virgin have a "core competence" (or core capability)? What is it? How do you know?
2. Describe how the core competence of MTV/Virgin is translated into the delivery of value through products and businesses.
3. How do the two companies preserve and develop their core competencies?

IV. COMPETITIVE ADVANTAGE IN INDUSTRY ENVIRONMENTS

***Session 9, Mon. October 2*:** **Forms of Competitive Advantage**

Porter's "generic strategies." The sources of cost and differentiation advantage. Using the value chain to analyze cost and differentiation advantage. Competitive advantage in emerging and technology-intensive industries. The returns to innovation. First-mover advantage

Reading: Grant, Chaps. 8 & 9. [S]

***Session 10, Wed. October 4*:** **Cost and Differentiation Advantage**

Case: Harley-Davidson in 1998 [S]

Discussion questions:

1. Identify Harley-Davidson's strategy and explain its rationale.
2. Compare Harley-Davidson's resources and capabilities to those of Honda. What does your analysis imply for Harley's potential to establish cost and differentiation advantage over Honda?
3. What threats does Harley-Davidson face?
4. How can Harley-Davidson sustain and enhance its competitive position?

***Session 11: Wed. October 11*:** **Competitive Advantage in Dynamic & Technology-driven Industries.**

Reading: Grant, Chap. 11.

Case: Video Games [S]

Discussion questions:

1. How did Nintendo take market leadership from Atari, Sega from Nintendo, and Sony from Sega and Nintendo?
2. What are key success factors in the video game systems?
3. What are the sources of network externalities?
4. How should Sega and Nintendo respond to the launch of PlayStation II?

***Session 12, Mon. October 16*:** **Competitive Advantage in Dynamic & Technology-driven Industries (continued), and Conclusion.**

Standards and network externalities; other emerging issues in strategic management. Course review.

MBA Half-Semester Elective, Spring 2001 — Professor Rob Grant

Georgetown University

McDonough School of Business

MGMT 609-10. CAPABILITY-BASED STRATEGY

Objectives

The goal of the course is to develop your skills in analyzing strategic situations and formulating firm strategy. The course focuses on what has become known as the "resource-based view of the firm"—an approach to strategy that views the firm as a collection of resources and capabilities and emphasizes the role of these resources and capabilities in creating and sustaining competitive advantage. This approach is especially relevant to companies competing in markets subject to intense competition and rapid rates of change. In such markets, customer focus does not offer a secure basis on which to define long-term strategy. The course builds on your core strategic management course and extends the part dealing with the internal analysis of the firm. Our emphasis will be on identifying and appraising the resources and organizational capabilities of the firm, exploring the relationship between resources and capability, and examining how organizational capabilities are created and developed. We shall be emphasizing the creation and exploitation of some particular categories of resource—notably knowledge, technical knowledge in particular. This will take us into the management of innovation and competition for technical standards. Finally, we shall look at some of the new ideas that are reshaping current thinking about strategy making, management, and the structure of the corporation.

The course is intended for those pursuing careers in management consulting and general management, and those in more functionally specific roles who need strong strategic skills (e.g., brand managers, corporate financiers, MIS managers, investment analysts).

Course format and style

Classes will be interactive. Much of our discussion will focus on case studies, but I also intend that our discussions will go beyond the case studies to explore the ideas and examples contributed by class members.

Coursework

Coursework 1 (for submission Thursday January 18).
Dean Puto has requested your input into a strategy formulation exercise for Georgetown's McDonough School of Business, prepare a brief memo (maximum length two pages) which:

1. Identifies the most important resources and capabilities needed to be successful in the market for MBA education.

2. Evaluates the School's strength (relative to the top 30 US MBA programs) in each of the above resources and capabilities.

3. Presents your analysis in the form of a table and figure similar to those in Table 5.5 and Figure 5.9 in draft Chapter 5 of Grant, *Contemporary Strategy Analysis*, 4th edition.

4. Draws implications for a strategy capable of enhancing the School's competitive position over the next five years.

Courseworks 2 & 3

PREPARE <u>TWO</u> OF THE FOLLOWING CASE WRITE-UPS, THESE SHOULD BE UNDERTAKEN IN <u>GROUPS OF TWO</u>

1. Your Uncle Charlie has been appointed a part-time member of Eastman Kodak's board of directors. In anticipation of a board-level review of corporate strategy, Uncle Charlie has asked for your assessment of Kodak's digital imaging strategy. Write a brief (max. length 900 words) memo that explains the logic of Kodak's digital strategy, identifies the extent to which Kodak possesses the resources and capabilities needed to support the strategy, and assesses the potential of the strategy to deliver positive returns to Kodak's shareholders. (For submission January 30).

2. It is 1977, Dr. Powell has asked you to identify and assess the seriousness of the problems facing EMI's CT scanner business and to recommend a strategy for the business that is in the best interests of EMI's shareholders. (Max. length 1000 words; for submission February 13.)

3. Outline the competitive situation faced by either Nintendo or Sega in the market for video games systems in the Fall of 2000. What strategy recommendations would you offer the company? (Alternatively, you could outline the competitive situation facing Microsoft in the video games industry and design an entry strategy for Microsoft.) (Max. length 900 words; for submission February 15).

Group Project: A Strategy Case Study **(to be submitted electronically by Friday March 2)**

1. Form a group of 6 students (5 or 7 members also acceptable).

2. Select a company (or industry) from the list below, or agree the topic of your case study with me. When you have formed your group and selected the subject of you case study, email me to let me know. Only one team will be permitted to study any particular company.

3. Write up your case study in a way that would be suitable for use in an MBA strategy course together with a teaching note that suggests discussion questions, identifies the key issues, and provides a suggested analysis of these issues.

Possible Topics:

1. Laura Ashley Holdings (update existing case to Dec. 2000).

2. Wal-Mart—The World's Largest Retailer (exploration into resources and capabilities).

3. Eastman Kodak and the Digital Challenge (extend, develop and update existing case).

4. Starbucks Coffee—An Analysis of the Organizational Capabilities and Competitive Advantage.

5. Ford Motor Company: Internal Reorganization for Global Competitive Advantage (how has Ford adjusted its internal structure and management systems in order to meet the requirements of its changing strategy and a more intensely competitive world market?)

6. EuroDisneyland S.C.A—Planning and Executing Overseas Market Entry.

7. The US Airline Industry—A Study of Structure, Competition and Profitability (applying standard tools of industry analysis to the US airline industry).

8. Competition for Standards in Operating Systems for Handheld Digital Devices —Palm vs. Symbian vs. Microsoft.

9. General Electric: Adjusting to Life without Jack Welch (update/extend existing case).

Grading

Grading	Coursework 1	10
	Coursework 2	15
	Coursework 3	15
	Group project	35
	Class participation	25

Readings

The readings designated "P" are available in the Course Readings Pack
The readings designated "S" are available in electronic form on the Share (S) drive under Grant,Rob/Mgmt609/
The readings designated "C" will be distributed in class.

PROGRAM

Tues. January 16.	**Performance Diagnosis: Linking Strategic and Financial Analysis**
Objectives:	■ Outline a view of strategy as a quest for profitability. ■ Clarify the links between profitability and value maximization and the appropriate measures of these performance goals. ■ Develop skills in diagnosing performance problems in firms. ■ Build bridge between financial and strategic analysis.
Reading:	Grant, "Goals, Values, and Performance" (Chapter 2 of *Contemporary Strategy Analysis*, 4th edition) [S] "The Ins and Outs of Cash Flow," Business Week, January 22, 2002: 102–4.
Case:	Laura Ashley [S] Questions for discussion: [a] Appraise Laura Ashley's financial performance. [b] Identify reasons for deteriorating performance. [c] Consider whether and how Laura Ashley might be restored to profitability.
Thurs. January 18.	**Identifying & Appraising Resources & Capabilities**
Objective:	To gain practice in identifying an organization's resources and capabilities, appraising them in terms of the organization's relative strengths/weaknesses and their strategic importance.
Reading:	Grant, "Analyzing Resources and Capabilities" (draft Chapter 5 of Contemporary Strategy Analysis, 4th edition) [S]
Case:	Georgetown's McDonough School of Business (no written case: draw on your own experiences and perceptions plus evidence from BW and USN&WR rankings)
Tues. January 23.	**Resource & Capabilities & Competitive Advantage: Principles & Frameworks**
Objectives:	To develop understanding of the critical characteristics of resources and capabilities and their link with competitive

advantage. To develop the strategy implications of resource/capability analysis.

Reading: Grant, "Goals, Values, and Performance" and "The Nature and Sources of Competitive Advantage" (Chapters 5 and 7 of *Contemporary Strategy Analysis*, 4th edition) [S]

Thurs. January 25. ***CLASS CANCELLED***

Tues. January 30. **Developing Organizational Capability**

Reading: Dorothy Leonard Barton, "Core capabilities are core rigidities," *Strategic Management Journal* [P]

Case: *Eastman Kodak: Meeting the Digital Challenge* [S]
Discussion questions:

- Did Kodak need to divest its chemical and healthcare businesses?
- What is Fisher's strategy for developing Kodak's digital imaging business?
- What challenges does Kodak face and what are its chances of becoming a leader in this sector?
- What advice would you offer Fisher?

Thurs. February 1. **Developing Organizational Capability (continued)**

Tues. February 6. **Knowledge Management & the Development of Organizational Capability**

Objectives:

- To gain familiarity with some of the key principles and tools of knowledge management.
- To recognize how knowledge management can contribute to the development of organizational capability.
- To understand how the tools of knowledge management appropriate to a firm depend on its strategy.

Reading: Grant, "The Knowledge-based View of the Firm: Implications for Management Practice," *Long Range Planning*, June 1997 [S]

Hansen, Nohria, Tierney, "What's Your Strategy for Managing Knowledge?" *Harvard Business Review*, March 1999 [P]

Case: *Cultivating Capabilities to Innovate: Booz.Allen Hamilton* [C]
Discussion questions:

- Assess BAH's initiatives in knowledge management and capability development so far?
- Is it desirable for BAH to become more "product" oriented?
- What should Dickies and Varasano do?

Thurs. February 8. **Knowledge Management & the Development of Organizational Capability (continued)**

Tues. February 13. **Managing Innovation**

Objectives:

- To understand the determinants of competitive advantage in technology-based industries, including issues of appropriability, first-mover advantage, and the role of standards and complementary resources.
- To be capable of analyzing and selecting the most appropriate strategy to exploit an innovation.
- To recognize the organizational structures and systems that foster innovation.

Readings: Grant, "Technology-Based Industries and the Management of Innovation" (draft Chapter 11 of *Contemporary Strategy Analysis*, 4th edition) [S]
Bower & Christensen, "Disruptive Technologies: Catching the Wave," *Harvard Business Review*, Jan.-Feb. 1995 [P]

Case: *EMI & the CT Scanner [A] & [B]* [P]
Discussion questions:

(A Case) Evaluate EMI's entry strategy: Should EMI develop a new business to produce and market the CT scanner, or should EMI exploit its scanner innovation by licensing to other firms, or through some form of collaborative effort?
(B Case) What problems does EMI's medical electronics business face in 1977? What should Powell do?

Thurs. February 15. **Competing for Standards**

Objectives:

- To recognize the role of industry standards in competition and industry evolution.

- To identify sources of network externalities.
- To develop expertise in formulating strategies for winning standards wars.

Reading: C. Shapiro & H. Varian, "The Art of Standards Wars," *California Management Review*, Winter 1999 [P]

Case: *Competition in the Video Game Industry* [S]
Discussion questions:

- What are the sources of network externalities in the video game industry? How important are they?
- How was Sega able to overcome Nintendo's market leadership, and how was Sony able to capture leadership from Sega?
- Last names A–H: What advice would you give to Sony?
- Last names I–P: what advice would you offer Sega?
- Last names R–Z: What advice would you offer Nintendo?

Tues. February 20. **Competing for Standards (continued)**

Thurs. February 22. **The Quest for New Models of Management: Coordination, Self-Management and New Organizational Forms**

Objective: To gain familiarity with ideas and innovations that are influencing current thinking about strategy making and the role and structure of the corporation.

Reading: E. Beinhocker, "Strategy at the Edge of Chaos," *McKinsey Quarterly*, 1997 [P]
E. Beinhocker, "On the Origin of Strategies," *McKinsey Quarterly*, 1999 [P]
Grant, Chapter 17 from *Contemporary Strategy Analysis*, 4th edition

Robert M. Grant *Old North 321*
Spring Semester *Tel. 687 3844*
grantr@msb.edu

Georgetown University: BS Business Studies

MGMT 283. Strategic Management

Office hours: Mon. & Wed. 10:00–11:15
Other times by appointment

COURSE CONTENT

Success in business requires the firm to develop a strategy that creates a sustainable competitive advantage. This course presents a framework for analyzing and thinking about how a firm can do this. The essence of the framework is that a firm needs to develop and manage its internal resources and capabilities in relation to its external environment.

The course will explore the underlying principles of strategy formulation, including the analysis of industries and competition, and the appraisal of firms' resources and capabilities, and will consider their application in different business contexts. The course is concerned not just with analysis but also with decisions. You will be asked to take the role of a senior executive in the companies that we are discussing, or an adviser to that executive.

OBJECTIVES

1. To acquire familiarity with the principal concepts, frameworks, and techniques of strategic management.

2. To gain expertise in applying these concepts, frameworks, and techniques in order to:
   - <u>understand</u> the reasons for good or bad performance by an enterprise,
   - <u>generate</u> strategy options for an enterprise,
   - <u>assess</u> available options under conditions of imperfect knowledge,
   - <u>select</u> the most appropriate strategy,
   - <u>recommend</u> the best means of implementing the chosen strategy.

3. To integrate the knowledge gained in previous and parallel courses.

4. To develop your capacity as a general manager in terms of:
   - an appreciation of the work of the general manager,
   - the ability to view business problems from a general management perspective,
   - the ability to develop original and innovatory approaches to strategic problems,
   - developing business judgment.

5. To improve your skills of oral and written communication.

MY EXPECTATIONS OF YOU

The focus of the course will be applying concepts and ideas to real-world examples, primarily through our case discussions. I intend to keep lecturing to a bare minimum. For the class to work well, and for you to benefit from it, preparation for each class meeting is essential: All students are expected to arrive at class having read the assigned case and prepared to offer and defend their recommendations.

Since our class discussion forms the focus of the course, I shall be expecting you to attend all the class sessions. Also, it is important that I get to know who you are as soon as possible. Please display your name card and try to sit in the same seat every session.

An important feature of MGMT 283 is that it is an integrative class—I shall be expecting you to draw on the knowledge you have gained from your previous classes, and from your general knowledge of business affairs. To be specific, in analyzing the company cases, I shall be expecting you to:

- Undertake analysis of the firm's financial statements in order to assess its performance and financial status.
- Analyze the main features of its industry and market environment (drawing on the tools and techniques of marketing and microeconomics).
- Understand basic features of its production system and production technology and their implications for other functions of the firm.

But MGMT 283 is not just about reading and analysis, it is also about ideas. Successful entrepreneurs are innovators—they seek to identify and exploit new opportunities for profit. In making recommendations I shall be expecting you to generate novel, interesting, and commercially attractive ideas. Further information is provided below on preparing cases for class discussion and preparing your written reports.

ASSESSMENT & ASSIGNMENTS

Grades will be determined as follows:		
	Industry analysis exercise	5%
	Resource & capability exercise	5%
	Case submissions	15%
	Mid-term exam	25%
	Class participation	20%
	Group project	30%

1. **Industry analysis exercise.** Look at Table 3.1 in the Grant text that ranks the profitability of US industries. Select one of the industries in the table. Using your general knowledge and any facts you can gather about the industry (e.g., look at *US Industrial Outlook or S&P Industry Surveys*), apply Porter's Five Forces of Competition framework to offer an explanation of why the profitability of

the industry is high, low, or medium. (Your report should not exceed one side of paper.)

2. **Resource and capability analysis.** Objective: To appraise the resources and capabilities of the McDonough School of Business. What are the main resources and organizational capabilities required to be a top-performing business school? On each of these resources and capabilities, assess MSB's position relative to the leading group of US schools (the top 30 schools would be an appropriate benchmark). Your analysis may be presented in the form of the diagram such as Figure 5.9 in the Grant text. What are the implications of your analysis for the strategy of MSB? (Your report should not exceed one side of paper.)

3. **Case submissions** are one-page write-ups answering the case discussion questions for each case. [Note: do not answer all the discussion questions for the case, only those identified by an asterisk *.) You are required to submit case reports on three of the cases being discussed in class. Each case report is to be handed at the class in which that case is being discussed.

4. **Mid-term exam** will occur in class on March 15. It will draw on the material covered during January and February. It will require you to answer questions on a case that will be distributed one week previously. It will be open book.

5. **Class participation** will be assessed on the basis of attendance, preparation, contributions to class discussion, and listening. (Further information below.)

6. **Group projects.** Form groups of 4 or 5. Choose a project topic. Prepare a presentation and a written report. (Further details below.)

READING

- The required text is Robert M. Grant, <u>Contemporary Strategy Analysis: Concepts, Techniques, Applications</u>, 3rd edition, Blackwell Publishers, 1998.
- The cases are available are the School of Business share drive (S:) from which they can be downloaded.

PROGRAM

Wed. Jan. 13 — **Introduction**: Introduction to the course. Introduction to business policy. The role and nature of strategy.

<u>Lecture/Discussion</u>

<u>Reading</u>: Grant, Chap. 1.

Mon. Jan. 18	***M.L. King Holiday***
Wed. Jan. 20	**Fundamentals of strategy analysis**

Case: Pacific Aqua Foods

1. Is the British Columbia salmon farming industry likely to be a profitable industry to be in over the next five years?
2. What is PAF's strategy?
3. What are the main issues that PAF faces?
4. What should PAF do both short term and looking further ahead?

Mon. Jan. 25 **Strategy & financial performance**: Measuring & appraising profitability.
Profits and shareholder value. Diagnosing poor financial performance. Setting financial targets.

Reading: Grant, Chap. 2.

Case: Laura Ashley Holdings: The Crisis of 1998

1. Assess the company's recent performance.*
2. Using the data available, what reasons for the deteriorating performance can you identify?*
3. Can the company be returned to health? What actions should the CEO take?

Wed. Jan. 27 **Strategy & financial performance (continued)**

Mon. Feb. 1 **Industry analysis**: How industry structure determines the nature and intensity of competition, and the level of industry profitability. Strategies to influence industry profitability.

Reading: Grant, Chap. 3

Discussion: Industry analysis exercise: relating industry structure to profitability.

Wed. Feb. 3 **Industry analysis (continued)**: New entry and price wars. What conditions are conducive to destructive competition?

Discussion: The US Airline Industry

Video: New York Air

Mon. Feb. 8 **Industry analysis (continued)**: Changes in industry structure and their impact on competition and profitability. Analyzing market segments. Key success factors.

Reading: Grant, Chapters 3, 4, & 10

Case: Daimler-Chrysler & the World Automobile Industry

Questions for discussion:

- What changes in the structure of the world auto industry between 1970 and 2000 caused industry profitability to decline?*
- How is the industry likely to evolve over the next five years and will it be more or less profitable than the past five years?
- Which companies will be most successful over the next ten years?

Wed. Feb. 10 **Industry analysis (continued)**

Case: Daimler-Chrysler & the World Automobile Industry (video & discussion)

Mon. Feb. 15 ***President's Day Holiday***

Wed. Feb. 17 **Resources and capabilities**: How resources and organizational capabilities confer competitive advantage. Identifying and appraising resources and capabilities. Sustainability and appropriability.

Reading: Grant, Chap. 5

Discussion: The resources and capabilities of the McDonough School of Business (discussion of your written exercises).

Mon. Feb. 22 **Resources and capabilities** (continued)

Case: Eastman-Kodak: Meeting the Digital Challenge

Discussion questions:

- Why did Kodak divest its chemical and healthcare businesses?
- Does Kodak have the resources and capabilities needed to establish leadership in the market for digital imaging products? (Compare Kodak's position relative to leading competitors such as Canon, Hewlett-Packard, etc.)*
- What does Kodak need to do to establish such leadership?

Wed. Feb. 24 **Resources and capabilities** (continued)

Mon. Mar. 1 **Analyzing cost and differentiation advantage**. The determinants of relative cost position (learning, economies of scale, capacity utilization, etc.). The sources of differentiation advantage. The use of the value chain in analyzing cost and differentiation advantage.

Reading: Grant, Chaps. 7, 8, & 9

Case: Harley-Davidson

1. Identify Harley-Davidson's strategy and explain its rationale.
2. Compare Harley-Davidson's resources and capabilities to those of Honda.* What does your analysis imply for Harley's potential to establish cost and differentiation advantage over Honda?*
3. What threats does Harley-Davidson face?
4. How can Harley-Davidson sustain and enhance its competitive position?

Wed. Mar. 3 **Analyzing cost and differentiation analysis** (continued)

Discussion: Issues arising from Harley-Davidson case.

SPRING BREAK, MARCH 6–14

Mon. Mar. 15 **MID-TERM EXAM**

Wed. Mar. 17 **Discussion of mid-term exam**

Mon. Mar. 22 **Emerging industries and the management of technology**: Competition in emerging and technology-intensive industries. The appropriability of the returns to innovation, the role of complementary assets, first-mover vs. fast-follower advantage, the role of standards, network externalities. Organization structure and management systems in technologically dynamic industries.

Reading: Grant, Chapter 11

Case: AOL
Questions for discussion—to be announced.

Wed. Mar. 24 **Emerging industries and the management of technology (continued)**

Mon. Mar. 29 **Diversification and corporate strategy**: Deciding the scope of the firm. Diversification and shareholder value. Economies of scope and transaction costs. Related and unrelated diversification.

Reading: Grant, Chapters 13 & 14.

Case: Richard Branson and the Virgin Group of Companies

1. What common resources and capabilities link the separate Virgin companies?*
2. Which businesses if any should Branson consider divesting?*
3. What criteria should Branson apply in deciding what new diversifications to pursue?*
4. What changes in the financial structure, organizational structure, and management systems of the Virgin group would you recommend?

Wed. Mar. 31 **Diversification and corporate strategy (continued)**

Mon. April 5 ***Easter Monday***

Wed. April 7 **Developing group projects**

Mon. April 12 **Managing the multibusiness corporation**

Reading: Grant, Chapter 16

Case: General Electric

- What changes did Welch introduce at GE? For what reasons? Have they worked?
- To what extent are the management systems and style introduced by Welch suitable for other large diversified corporations?*
- Once Welch retires, should GE consider breaking itself up and floating off its divisions as separate companies?

Wed. April 14 **Managing the multibusiness corporation (continued)**

Mon. April 19
Wed. April 21 **PRESENTATIONS OF GROUP PROJECTS**
Mon. April 26

Wed. April 28 **Managing in a New Millennium**: Trends of the 1990s. Current trends and issues. New approaches to strategy, organization structure, and management systems.

Reading: Grant, Chapters 6 & 17

Case: AES Corporation
Discussion questions:

- What's different about AES?*
- Has AES succeeded despite or because of its novel organization and management?*
- Will AES need to adapt its management principles and systems in the future?

Mon. May 3 **Managing in a New Millennium (continued)**

Wed. May 5 **Conclusion**

CASE PREPARATION AND DISCUSSION

The course relies heavily on case materials, and the analysis and discussion of the cases forms the primary class activity. Your preparation of the cases and participation in the discussion will be critical to your learning process and to the success of the class as a whole in effectively diagnosing problems and reaching recommendations.

Preparation for case discussion should begin with a rapid reading of the assigned text and case material. Then, it is worthwhile to review the assignment questions for clues as to what issues require special attention. The next step is normally to reread the case carefully, taking notes that sort information, facts, and observations under a number of relevant headings. Most cases require that you perform some quantitative analyses and explore alternative hypotheses as to the reasons for the company's observed performance. Finally, preparation will include notes that can by used to guide your interventions in class discussions on the assigned or other issues judged to be critical to the company's apparent dilemma.

In grading class participation, I will look at both the quantity and quality of contribution. With regards to quality, some of the criteria I shall apply include:

- Are the points made relevant to the discussion?
- Do they go beyond a mere recitation of case facts, and are implications clearly drawn?
- Is there evidence of analysis rather than expressions of opinions?
- Are the comments linked to those of others?
- Did the contribution further the class's understanding of the issues?
- Is the participant a good listener?

GROUP PROJECT: ANALYSIS OF A CURRENT STRATEGIC SITUATION

Objective

The objective of the Group Project is to apply the tools of strategic analysis to evaluating a strategic situation involving a company, business unit, or industry, and to offer recommendations for the future.

Each group will take the role of a team of strategic management consultants hired by the company (or the industry association) to appraise the situation and the current strategy and establish a direction for the future.

The Groups

I should like you to form groups of FOUR or FIVE students.

The Companies/Situations

I should like you to look at a current situation where a company (or business unit, or industry) faces a decision, or a problem, or an opportunity where the appropriate strategy is not obvious and the outcome is uncertain. There may be some advantages in looking at local companies. Possibilities might include:

- An assessment of the Travelers-Citicorp merger and advice to the new Citigroup on post-merger strategy.
- An analysis of the prospects for competition and profitability in the US airline industry 2000–2004.
- Formulating a strategy for AOL-Time Warner.
- Georgetown University Medical Center: An analysis of the problem and appraisal of the strategy.
- Friedman Billings Ramsey: Developing a strategy for the next five years.
- US Air Group: From survival to what?
- The implications of electronic banking for the banking industry.

The Projects

The content of the project will depend on the characteristics of the situation you are addressing and the preferences of the group.

For a company-based project, the issues that you may wish to address might include some of the following:

(1) Identification of the current strategy. What is the company's current/recent strategy in relation to the scope of its activities and to the basis on which it has attempted to establish competitive advantage over its rivals, and the organiza-

tional structure, management systems, and leadership style through which the strategy has been implemented?

(2) Evaluation of current performance. How successful is the current strategy in terms of the recent performance of the company? (I will expect an incisive analysis of available financial data that examines the company over time and in relation to its industry or against key competitors.)

(3) Appraisal of internal resources and capabilities. On the basis of an appraisal of the company's resources and capabilities, what do you perceive to be the principal strengths and weaknesses of the company? To what extent is the current strategy most effectively exploiting the company's strengths in resources and capabilities and defend against weaknesses?

(4) Appraisal of the industry environment. What are the principal developments in the company's industry environment in terms of the factors that will influence the overall industry attractiveness and the determinants of relative success?

(5) Recommendations. What are your recommendations? How do you envisage the company's strategy being amended in order to achieve a better match between, on the one hand, the requirements of the external environment and, on the other, the company's internal potential for competitive advantage? What internal organizational changes does your analysis suggest? How would you prioritize your recommendations in terms of short/medium/long term?

Orientation

I encourage you to take a specific angle in order to focus your objectives of the study. For example, you could be the firm's top management team undertaking an annual strategic review. Or you could be an outsider, e.g., you might be Delta or UAL considering whether USAir Group is an attractive acquisition. In the case of the troubled Crown Books, you might take the role of the management team interested in mounting a leveraged buyout in order to rid the company of the Haft family. In the case of Sprint, you might want to evaluate the prospects of its "Spectrum" PCS venture.

Sources

For larger companies, you will be able to rely heavily on published data, including annual reports, 10K reports, newspaper articles, press releases, investment analysts' reports, product catalogs. It is also important to probe the thinking that lies behind the company's strategy: the chairman/CEO's letter to shareholders in the annual report can be revealing, look too at press releases and any interviews in the financial press. A meeting with a company manager is likely to be especially useful in gaining a deeper understanding of the company's current thinking, its perceptions of its internal strengths and weaknesses, and its ideas about the future. Most of what you need should be available from the websites of the company and its competitors, plus other financial and business data services.

Output
The project has two principal outputs:

(1) A written report that will comprise no more than 6,000 words (plus charts, tables, etc).

(2) An oral presentation of a maximum 15 minutes in which you will outline your principal findings and recommendations, to be followed by 10 minutes of questions and discussion.

Strategic Management

Università Commerciale Luigi Bocconi

Professors Robert Grant and Markus Venzin

Fall 1999

Course objectives

Welcome to the world of the general manager! The course in Strategic Management with its 36 sessions is a central part of your program at the University. It integrates the skills and knowledge you have acquired in your previous course work. Our perspective in the first 24 sessions of this course is that of a business unit manager.

After a brief introduction of the basic concepts within the field of strategic management, you will learn how to manage strategic processes and to develop a competitive market strategy for a single business. We will discuss value-based strategy, the analysis of resources and capabilities, dynamic aspects of industry analysis, innovation management, distinct competitive strategies, and organizational design. If you pass the first exam, you will be promoted to a general manager or chief executive officer for the remaining sessions. This second part of the course will be focused on issues in corporate strategy: resource allocation, realizing synergies, enabling knowledge sharing, and managing diversification. We will study the nature of the problems and challenges confronted by managers responsible for business and corporate strategy and the skills needed by them to function effectively as strategists and organization builders.

The course addresses the challenges of formulating and implementing strategy in companies that are active in multiple businesses. As such, it incorporates important recent developments in strategy that bring a broader perspective to issues of competitive advantage. The course will not only provide you with a "toolkit" on which you might be able to draw in case you will be faced with general management responsibilities (and it might happen sooner than you think). Furthermore, you will develop the skill to detect and understand specific approaches to strategy in various business environments.

Course format and style

Class sessions will be interactive and will rely heavily on the ideas and examples contributed by class members. We will be using a number of case studies.

Grading system

The students will be graded regarding their performance at the mid-term exam (40%) and the final exam (60%). The overall exam grade, however, can receive an upgrade of up to 3 points for outstanding oral participation.

Part I: Introduction to Strategic Management

Sessions 1 & 2 (20.9): The Concept of Strategy

Learning Objectives—Themes	Readings
1. Share expectations, experiences, and learning attitudes. 2. Get an overview of the concept of strategy, and how it evolved during the past 30 years.	***Required Reading: Grant, Chapter 1*** Andrews, K. (1987) "The Concept of Corporate Strategy," in Meyer & De Wit, Strategy: Process, Content, Context, pp. 40–46. Gary Hamel (1996) "Strategy as Revolution," *Harvard Business Review*, July–August. *Case:* Madonna

Part II: Business Unit Strategy

Sessions 3 & 4 (21/22.9): Strategy and Performance

Learning Objectives—Themes	Readings
3. Learning Objectives—Themes Readings Strategy as a quest for profit. 4. Diagnosing profit performance. 5. Cash flow vs. accounting profitability; accounting profit and economic profit 6. The goal of the firm: profitability and value maximization; setting performance targets; balanced scorecards.	***Required Reading: Grant, Chapter 2*** G. Bennet Stewart (1994) "EVA: fact & fantasy," *Journal of Applied Corporate Finance*, Summer. Copeland et al. (1995) *Valuation*, 2nd edition, McKinsey & Co./Wiley, Chapter 4: "Value-based Management." *Case Study:* Walt Disney Questions for discussion: ■ Evaluate Disney's performance during 1982–84. ■ Why has Disney been performing so poorly? ■ What should Eisner do to improve performance?

Sessions 5–7 (27.9, 0830–1630): Resources, Capabilities, and Competitive Advantage

Learning Objectives—Themes	Readings
7. Identification of different types of resources. 8. Knowing the impact of resources on corporate success. 9. Distinction of the resource-based approach of strategic management as opposed to the market-based approach. 10. Identification of key resources.	***Required Reading: Grant, Chapter 5*** David Aaker (1989) "Managing Assets and Skills: The Key to Sustainable Competitive Advantage," *California Management Review*. Jay Barney (1992) "Integrating Organizational Behavior and Strategy Formulation Research: A Resource Based Analysis," *Advances in Strategic Management*. *Case Study:* Walt Disney Questions for discussion: ■ What are Disney's principal resources and capabilities? ■ How might they be deployed more effectively (a) in Disney's existing businesses (b) in other businesses?

Sessions 8–10 (11.10, 0830—1630): Knowledge Management and the Knowledge-based View of the Firm

Learning Objectives—Themes	Readings
11. Discover the characteristics of knowledge. 12. Be able to manage the main knowledge management activities; identification, development, exploitation, and measurement. 13. Linking critical resources to competitive strategy.	***Required Reading: Grant, pages 433–7*** Nonaka & Takeuchi (1995) "The theory of organizational knowledge creation," and "Creating knowledge in practice," from *The Knowledge Creating Company*, Blackwell, Oxford. R. Grant (1997) "The Knowledge-based View of the Firm: Implications for Management Practice," *Long Range Planning*, June. Markus Venzin (1998) "Knowledge Management," *CEMS Business Review*. *Case Study:* Andersen Consulting Questions for discussion: ■ What is different about the way in which Andersen does business? ■ Should Andersen enter the business integration market? ■ Does it need to change its business model?

Sessions 11 & 12 (12/13.10, 0830–1030): Industry Analysis

Learning Objectives—Themes	Readings
14. Develop skills in understanding industry segmentation. 15. Analyzing the industry using the Five Forces model of Porter, PEST, and stakeholder analysis. 16. Criticism of the Porter Five Forces model.	***Required Reading: Grant, Chapters 3 & 4*** *Case Study:* Daimler-Chrysler Questions for discussion: ■ Is the automobile industry overall earning a satisfactory level of profit? ■ What structural factors have been depressing profitability? ■ What has been the impact of globalization on industry structure, intensity of competition, and level of profitability?

Sessions 13 & 15 (18/19.10): Creating Industry Foresight

Learning Objectives—Themes	Readings
17. Get an overview of forecasting techniques. 18. Draw an industry scenario.	Kees von der Heijden (1997) "Scenario Planning in Organizations," Wiley, pp. 113–30. *Case Study:* Arie P. DeGeus, "Planning as Learning . . . At Shell, Planning Means Changing Minds, Not Making Plans."

Session 16 & 17 (25.11): Summary of the first part of the course

Session 18 (2.11): Written Mid-term Exam

Sessions 19–21 (8/9.11): Competitive Strategy

Learning Objectives—Themes	Readings
19. Understanding the concept of competitive advantage. 20. Developing a vision—deriving objectives and goals. 21. Knowing different types of strategies. 22. Knowing how to develop and sustain competitive advantage based on cost leadership. 23. Knowing how to develop and sustain competitive advantage based on differentiation.	***Required Reading: Grant, Chapters 7–9*** James Collins and Jerry Porras (1996) "Building Your Company's Vision," *Harvard Business Review*, September–October. *Case Study:* Harley-Davidson in 1998 ■ What is H-D's strategy? ■ Evaluate H-D's competitive position (relative to its major rivals) in terms of cost and differentiation? ■ What can H-D do to reinforce its competitive advantage?

Sessions 22–24 (15/16.11): Strategy Implementation

Learning Objectives—Themes	Readings
24. Understanding the basic processes and tools for strategy implementation. 25. Designing organizations: structure and systems.	***Required Reading: Grant, Chapter 15*** Lawrence Hrebiniak and William Joyce, "Implementing Strategy." *Case Study:* In-class reading

Part III: Corporate Strategy

Sessions 25–27 (22/23.11): Parenting Advantage

Learning Objectives—Themes	Readings
26. Understanding the concept of parenting advantage. 27. Getting an overview of the general activities and tools on the corporate level. 28. Recognizing the value of horizontal strategies. 29. Formulating horizontal strategies.	***Required Reading: Grant, Chapter 5*** Andrew Campbell, Michael Goold, and Marcus Alexander (1995) "Corporate Strategy: The Quest for Parenting Advantage," *Harvard Business Review*, March–April.

Sessions 28–30 (29.30.11): Global Strategies and the Multinational Company

Learning Objectives—Themes	Readings
30. Understand the implications of international competition for industry analysis. 31. Analyzing competitive advantage within an international context. 32. Discuss comparative advantage of nations. 33. Overseas market entry; alliances and joint ventures. 34. Multinational strategies: globalization versus national differentiation. 35. Strategy and organization of the multinational corporation.	***Required Reading: Grant, Chapter 11***

Sessions 31–33 (13/14.12): Diversification Strategies

Learning Objectives—Themes	Readings
36. Under what circumstances does diversification create shareholder value? 37. What are the motives for diversification? 38. Managing the diversification process.	***Required Reading: Grant, Chapter 14*** *Case Study:* Richard Branson and the Virgin Group ■ What are the common resources and capabilities that create competitive advantage for the different Virgin companies? ■ What companies, if any, should Branson sell off? ■ What criteria should guide Virgin's future diversification? ■ What changes in the organizational structure of the group would you recommend?

Sessions 34–35 (20.12): Competitive Advantage and Industry Evolution

Learning Objectives—Themes	Readings
39. Understanding industry life cycles. 40. Analyzing different industry structure, competition, and success factors over the life cycle. 41. Making resource allocation decisions by using portfolio matrices. 42. Anticipating and shaping the future.	***Required Reading: Grant, Chapter 8*** *Case Study:* Daimler-Chrysler ■ How is the structure of the world car industry likely to change over the next ten years? ■ Create alternative scenarios of the industry in 2008. ■ Which companies in the industry are likely to be most successful during the next ten years?

Sessions 36 (21.12): Summary of the Course