Contemporary Strategy Analysis: Concepts, Techniques, Applications

Fifth Edition

A Guide for Instructors

by
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The Objectives of the *Guide*

The purpose of this *Guide for Instructors* 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]

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 in order to enhance the performance of the organizations that they join.

My Goals in Writing the Book

The first edition of *Contemporary Strategy Analysis* was published in 1991. It was the outcome of three years of research at London Business School's Center for Business Strategy during which I immersed myself in the strategy literature, followed by teaching core strategy courses at the University of British Columbia.

[1] The slides are available as downloadable files from the *Contemporary Strategy Analysis* website: http://www.blackwellpublishing.com/Grant.

It was never my intention to write a strategy text. If I could have found a text that met my needs, I would have used it. I wanted a text that combined the intellectual dynamism that has characterized this rapidly developing field with practical guidance in making strategic decisions and managing the development of the business enterprise. After several despondent weeks of reading and casting aside the leading strategy texts of the day, I resolved to write my own.

The resulting first edition of *Contemporary Strategy Analysis* was distinguished by its grounding in the fundamental concepts and basic theories of strategic management with a strong focus upon the determinants of profitability. However, the purpose of the book was not to teach theory, but to use theory in order to provide answers to the strategic decisions that managers are employed to make: What businesses should we be in? Producing which products? Serving which customers? In which geographical 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 to offer the reader an insight into the determinants of superior performance and to allow him or her to use that insight to make better strategic decisions.

During the 13 years since the first edition of *Contemporary Strategy Analysis*, the goals and orientation of the book remain the same. The main changes have been constant updating to reflect the development of the subject matter and take account of the many suggestions offered by users of the book.

Let me also be clear about what the book is not. *Contemporary Strategy Analysis* is not intended as "the complete instructor's package" for strategic management courses. The book was envisioned as a core text that could be used with a wide variety of supporting materials. Just as a good strategy is one that is adapted to the characteristics of the firm and its industry environment, so a good strategy course is one that takes account of the interests and characteristics of the students and the goals and expertise of the instructor. Although the text is supported by various supplementary materials, including a casebook (a new edition of which accompanies the new edition of this textbook), my intention is to combine *excellence* in delivering the concepts, theories, and techniques of strategic management with *versatility* in terms of compatibility with many types of strategic management course and with a variety of different teaching materials.

This versatility is apparent among current users of the book. *Contemporary Strategy Analysis* has been adopted as the required text by over 200 business schools across five continents of the world. The most striking feature of these courses is their diversity. Although designed primarily for used in core strategy courses at MBA level, the book has been used widely and successfully at the undergraduate level and in executive programs. *Contemporary Strategy Analysis* is also required reading on management courses accompanying degrees in engineering and finance and is used in the in-house training courses of several management consulting firms. In addition to widespread use on case-study based courses, *Contemporary Strategy Analysis* is also used with very different course formats, including strategy courses built around simulations, programmed learning, and talks by visiting executives. Common to these different courses, and a major source of joy to myself, has been the enthusiastic response of students to the book.

Cases

My intention in this *Guide* is to draw upon the experiences of users of the book to offer suggestions for course design and teaching.

Given that most courses on strategic management are built around case discussion, a key element of this *Guide* is advice on cases to use with the different topics covered by the book. The new edition of *Cases in Contemporary Strategy Analysis*[2] comprises a range of case studies, most of which have been specially written to accompany the text and provide illumination and application of the concepts and frameworks it covers.

In practice, the text is used with a wide range of cases (notably with cases available in the case collections of Harvard Business School, Darden (University of Virginia), Stanford, Insead, London Business School, IMD, IESE, Western Ontario, and the North American Case Writers' Association). The *Guide* lists cases that have been used successfully with the text in several leading schools.

Supporting Materials: PowerPoint Slides

PowerPoint slides are available for each chapter of the text. There are also PowerPoint slides that summarize key points from each of the cases in the casebook. The slides can be downloaded from the Blackwell website (www.blackwellpublishing.com/grant).

Content and Style

The content and style of *Contemporary Strategy Analysis* are the result of my desire to create a textbook that is analytically incisive, practical, and thoroughly up to date. Recent years have 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 continuing growth in the volume and range of strategy research, as evidenced by the growing volume of submissions of papers and symposia suggestions to the Business Policy and Strategy Division of the Academy of Management (up nearly 540 percent between 2000 and 2003) and the launch of several new strategy journals. Most of the theoretical foundations of strategic management are drawn from longer-established disciplines – economics, social and cognitive psychology, organizational sociology, systems science, and biology. One indicator of the dynamism of the field is that strategic management is less a recipient of theories and research from other disciplines and is increasingly providing the thought leadership that is reinvigorating research into organizational theory, organizational economics, the management of technology, entrepreneurship, and the evolutionary theory of the

[2] The new edition has been retitled: Robert M. Grant, *Cases to Accompany Contemporary Strategy Analysis, Fifth Edition*, Blackwell Publishers, 2005.

firm. While my focus is on the core strategy concepts and widely applicable analytical frameworks, I have tried to capture and integrate into the book some of the most promising and exciting themes of current strategy research.

How the Book is Organized

The structure and content of the book is guided by two central ideas. The first is that strategy is a quest for superior performance, the principal dimension of which is profitability (or, to be more precise, maximizing the value of the firm). Of course, firms pursue other goals too, 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 our techniques of strategic analysis are orientated towards identifying and accessing the sources of profit available to a firm. If the goal of a firm is to maximize the political influence of its CEO, or the welfare of its employees, or the world's biodiversity, there is not much that the concepts and techniques of strategy analysis can offer to further these objectives.

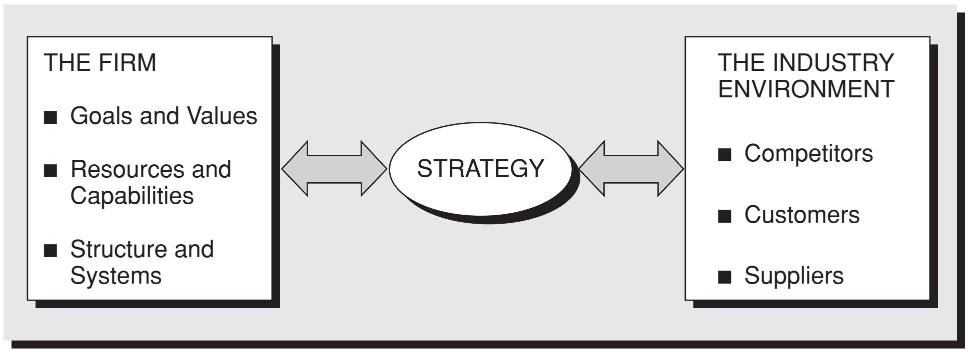
The second central idea is that there are two major inputs into strategic decisions: analysis of the business environment of the firm, and analysis of the internal environment of the firm. The central aspect of the business environment is the firm's industry environment, which is defined by the business relationships of the firm (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* the firm owns or controls and can deploy within its industry environment;
- The *organizational structure and management systems* that the firm will use to implement its strategy.

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

- Chapter 2 looks at "Goals, Values, and Performance;"
- Chapter 3, "Industry Analysis: The Fundamentals," 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."

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



Once the primary tools of strategy analysis have been acquired, students are 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:

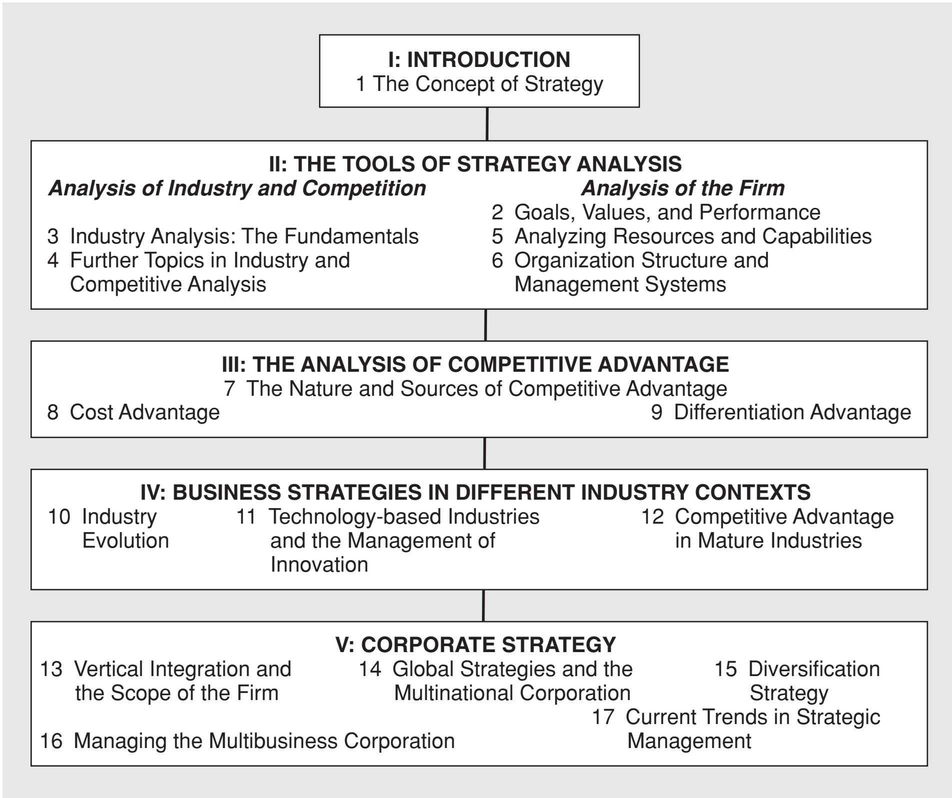
- Part III develops "The Analysis of Competitive Advantage" by integrating industry analysis and resource analysis. After establishing the key principles of competitive advantage in Chapter 7, Chapters 8 and 9 explore cost and differentiation advantage.
- Part IV applies this analysis of competitive 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.
- 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

The principal determinant of superior profitability is competitive advantage. Hence, the primary task of both business strategy and corporate strategy is to create and sustain competitive advantage. Competitive advantage results from the favorable deployment of a firm's resources and capabilities within its industry environment. Hence, the two most important areas of strategy analysis are, first, analysis of the industry

FIGURE 2 The structure of the book



environment and, second, analysis of the firm's resources and capabilities. Many strategy textbooks confuse these fundamentals of strategy analysis by introducing "SWOT analysis" as a basic framework for strategy appraisal and strategy formulation.

SWOT analysis proposes fourfold classification of the factors influencing strategic choice: Strengths, Weaknesses, Opportunities, and Threats. In some sense, SWOT is similar to my own emphasis on the analysis of industry and the analysis of resources and capabilities: strengths and weaknesses relate to the resources and capabilities of the firm; opportunities and threats relate to the external industry environment. However, the problem of the SWOT framework is the difficulty of distinguishing strengths from weaknesses and opportunities from threats.

Consider the case of Nokia in wireless telephones. 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. Consider too, the implications of Nokia's home base in Finland. Is this a strength or a weakness? To the extent that it puts Nokia in close contact with the world's most heavily penetrated wireless telephony market and access to Scandinavian design capabilities, it is a strength. To the extent that it saddles Nokia with high labor costs, high taxes, and a currency that has appreciated by about 50 percent against the US dollar, it is a weakness.

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 what the implications of 3G technology are for competition and competitive advantage in the market for wireless handsets. Similarly with resources and capabilities: the key is not to decide whether Nokia's location, its management, or its proprietary technologies are strengths and weaknesses, but to recognize the key strategic characteristics of these resources. *Contemporary Strategy Analysis* dispenses with simplistic frameworks such as SWOT analysis in favor of a focus upon the fundamentals of strategy and competitive advantage. Thus, rather than use SWOT's fourfold classification of the factors relevant to strategic decision making, the first part of the book concentrates upon an even simpler twofold classification of the factors influencing strategy – the industry environment and resources and capabilities.

This discussion also points to a further characteristic of *Contemporary Strategy Analysis*. Many of the frameworks introduced in the book are approaches that simplify complexity by allowing us to classify a large number of factors into a few groupings. However, unlike some strategy texts, my approach is not to offer checklists or develop taxonomies for their own sake – my approach is to promote understanding of the fundamental determinants of firm performance and influences on strategy formulation.

What's New About the Fifth Edition?

The structure of the fifth edition is almost identical to that of 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. The book is also significantly shorter than its predecessor.

Since the last edition, the main developments in the external environment have included the bursting of the internet bubble, collapse of the TMT (technology, media, and telecommunication) boom, and overall disenchantment over the dawning of the "New Economy." The result has been a "back-to-basics" movement among both business observers and practicing managers.

Recognition that digital technologies and the knowledge-based economy did not repeal the laws of economics nor invalidate the principles of management has reinforced the basic message of this book. Strategy is not about fads, stargazing, wishful thinking, or the pursuit of the novel. Strategy is about identifying and exploiting the sources of profitability in a business. Identifying the sources of profitability requires careful and systematic analysis of industry economics and the foundations of competitive advantage.

Recent history has reinforced this emphasis on the fundamentals of profitability in other ways too. Since 2001, the cause of shareholder capitalism has been damaged by the collapse of some of its most prominent advocates – notably Enron and WorldCom – and the tarnished reputations of several of its icons – such as General Electric and Tyco International. The lesson is that while shareholder value maximization may be the appropriate goal for the corporation, it is not a meaningful goal for managers, and its pursuit may lead to dysfunctional behavior – such as massaging financial statements and managing stock market expectations. The problem here is that the market value of the firm depends upon expected profit streams, and although management can influence those profit streams, it is the stock market that determines valuation. The danger is that managers focus less upon managing the strategic variables that determine long-run profitability and more on managing the stock market.

There is little doubt that the world has become a more turbulent place since 2001. In addition to international terrorism, the US-led invasions of Afghanistan and Iraq, and increased religious and ethnic intolerance, the world economy has experienced major shifts resulting from the substantial depreciation of the US dollar and the commodity price boom of 2002–2004.

In response to these and other developments, the fifth edition of *Contemporary Strategy Analysis* features the following additions and changes:

- The analysis of ***goals, values, and performance*** (Chapter 2) places the same emphasis as before on the primary goal of strategy formulation. However, it pays closer attention to what I identify as one of the great paradoxes of strategy: the firms that are the most profitable over the long term are typically those that do not establish profitability as their primary goal. The forms that are the most successful in building unmatched competitive advantage are typically those that are driven by a strategic vision that transcends the pursuit of profit.

- ***Industry analysis*** places greater emphasis on the practical issues of industry and competitive analysis, especially the problems of drawing the boundaries of markets and industries. In doing so, I address more explicitly the issue of whether the unit of competitive analysis is the industry or the market.

- The chapter dealing with the ***analysis of resources and capabilities*** places increased emphasis on the development of capabilities. In particular, I go beyond the notion of capabilities as routines and consider more explicitly the role of management in creating and developing organizational capability.

- The treatment of ***organizational structure and management systems*** has maintained its emphasis upon establishing the basic principles of organizational design, but has placed increased emphasis on contingency approaches through establishing the conditions appropriate to particular structures and systems.

- Part III on ***competitive advantage*** (including Chapter 8 on cost advantage and Chapter 9 on differentiation advantage) has retained most of its conceptual structure but has been rewritten to make it more concise and targeted on the practicalities of undertaking cost analysis and differentiation analysis.

- Chapter 10 on ***industry evolution*** and its implications for managing organizational change has been developed substantially in an attempt to integrate concepts and ideas drawn from evolutionary economics, population ecology, and the management of technology as well as the more conventional strategy literature. The result is a more integrated attempt to link together the key technological drivers of industry evolution with the dynamics of changing organizational populations, and the challenge of organizational adaptation to change. The result – I hope – is a chapter that captures more effectively the exciting developments in evolutionary processes at the level of both the industry and the individual firm.
- The discussion of strategies for ***innovation and the management of technology*** (Chapter 11) has been updated to take account of recent developments in this fast-moving field, including new material on the management of creativity and strategies for winning standards battles.
- Chapter 14 on ***global strategy and the multinational corporation*** has been reorganized to consider more closely the experiences of leading-edge multinationals – such as Procter & Gamble, GE, Toyota, and Cemex – in linking the international strategies with their internal organization structures and management systems.
- The analysis of ***diversification*** (Chapter 15) has been updated to take account of recent ideas based around corporate identity and coherence, real options thinking, and complementarities in resources and capabilities.
- The chapter on the ***implementation of corporate strategies*** (Chapter 16, "Managing the Multibusiness Corporation") has a new section on corporate growth strategies, including the management of mergers, acquisitions, and alliances.
- Finally, the discussion of ***current trends in strategy*** (Chapter 17) explores emerging themes in strategy during these early years of the twenty-first century. In particular, I examine applications of complexity thinking to strategic management (including the role of self-organization), recent developments in organization structure, and recent evidence on leadership.

Designing Your Strategic Management Course

1. Capstone or foundation?

Virtually every business degree program, both MBA and undergraduate, has a required course in strategic management – though sometimes it is called "business policy," "business strategy," or "management policy." Traditionally, strategic management has been viewed as a *capstone* course. Its 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. Increasingly strategic management courses became the *foundation* for further courses in business and management. The idea was that strategic management is not so much an integrator of functionally orientated courses in business 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. Students who have taken courses in economics, finance, accounting, and organizational behavior/organizational theory will find the book easier, simply because they are familiar with a number of the concepts and ideas introduced. However, the book does not presuppose any prior knowledge of these contributing disciplines. At Georgetown and at many other schools, *Contemporary Strategy Analysis* has been used successfully with students who are taking strategic management as one of their first during business courses.

2. Is the book suitable for undergrads too?

The book was developed initially for MBA teaching at University of British Columbia, Cal Poly, and UCLA. 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 students who lack significant business experience, but this is certainly no excuse for approaching these students with any less rigor or intellectual challenge than is applied to MBA students. My experience of teaching 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 benefit greatly from its many examples and applications.

3. What 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. Simultaneously, time needs to be spent on generalizing points from case discussions, clearing up misconceptions, and continually reinforcing key learnings. Case discussion is extremely valuable for illustrating the key concepts of strategy and getting students to apply particular frameworks and techniques. However, to really grasp the power and usefulness of the tools of strategy, a single application is usually not enough. My experience is that the frameworks for analyzing industry structure (e.g. Five-Forces) and resources and capabilities are fairly simple, but the real learning is in their application. I find it valuable to take time (either class time or through tests and coursework) to encourage students to apply the basic frameworks and key concepts to multiple examples and real-world situations.

My own approach is to devote a week to each main major topic (e.g. industry analysis, resource analysis, diversification, etc.). Students are required to prepare the assigned case and read the relevant chapter of the textbook. The first class is devoted to class discussion of the assigned case. I use the second class of the week to generalize the issues arising from the case and to reinforce the learning with additional applications of the core concepts and frameworks. For example, when teaching industry analysis I begin with a case such as the US airline industry. In the second class we develop more systematically the use of the Five-Forces Framework and apply it to a number of different situations. For example: why has the tobacco industry remained so profitable despite the fall in demand in the advanced industrial nations? Why do the oil and gas companies earn much higher returns on their upstream than their downstream investments? Why has profitability in the specialty segments of the world automobile industry (luxury cars, sports cars, SUVs, and passenger vans) declined substantially since the early 1990s?

4. What balance between strategy formulation versus 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 of strategy generally occurs in tandem with its implementation. Hence, a feature of this book is the integration of strategy formulation and implementation. In Chapter 6, "Organization Structure and Management Systems" is introduced as a core component of the basic tools of strategy analysis (Part II). When I go on to explore competitive advantage, business strategies in different industry contexts, and corporate strategy (Parts III, IV, and V), each chapter addresses issues of strategy formulation and strategy implementation in an integrated manner.

At the same time, the book's emphasis on the fundamental determinants of competitive advantage tends to place 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.

5. What ordering of topics?

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. The sample course outlines in the appendix offer some alternative sequencing of topics.

Topics, Outlines, and Recommended Cases

PART I: INTRODUCTION

The Concept of Strategy (Chapter 1)

Class Topics

In introducing strategic management I have two major goals for the first class. These are:

- For students to appreciate what strategy is both in a business context and in other competitive arenas (sport, politics, warfare);
- 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 I stress in introducing the course in strategy management are:

- The contribution of strategy to the success of organizations (and individuals too);
- The role of strategy in providing direction and integration to 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 the 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 fine in this respect – see Chapter 1, Exhibit 1.1 for a brief description, and my case on Madonna[3] for a fuller account of Madonna's career.

I start by asking: "Why has Madonna been so successful over such a long period?" This typically raises issues of 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, then it's good to shift from the external environment to Madonna's 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 Madonna 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 1984–2004, common patterns and themes are discernible: Madonna's career has been multimarket, multimedia, and multinational; it 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 Madonna from going too far (unlike Michael Jackson or Sinead O'Connor).

I summarize by using the points raised to:

- Explain the nature of strategy in a turbulent direction – it's 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

[3] *Madonna* (in Robert M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005) 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.

the same elements as were derived from the Madonna discussion. The emphasis here is on the 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 methodology of "long-range planning" emerged in the late 1950s (see Table 1.2).

This raises issues concerning the role and nature of strategy-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 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

Apart from my *Madonna* example, several cases have been used by different instructors to accompany the introductory chapter of the book. 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 which the course will be dealing with. Particularly suitable cases are those which deal broadly with issues of business success; those which consider the roles of goals/values, organizational resources, and the industry environment; and those which 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 which are relatively simple (there will be plenty of opportunity for bewildering students with the complexity of strategic decisions as the course unfolds) and which are short (if you are beginning the first class with a case, many students will have little time for preparation).

Starbucks (e.g. S. Kotha and D. Glassman, *Starbucks Corporation: Competing in a Global Market*, University of Washington, 2003, http://depts.washington.edu/bacisb/gbc/starbucks_final.doc; S. Kotha and M. Schilling, "Starbucks Corporation (A)," in Hitt, M. A. et al. (eds), *Strategic Management*, West Publishing, 1998; "Howard Schultz and the Starbucks Coffee Company," Harvard Business School Case No. 9-801-361, 2001).

As indicated, there are a number of Starbucks cases available. The advantage of using Starbucks as an introductory case is that the company is universally known, its growth under Schultz is a terrific story of entrepreneurial initiative, and the strategy is clear and easy to comprehend and analyze.

Coral Divers Resort (K. E. Neupert and J. N. Fry, in R. M. Grant and K. E. Neupert, *Cases in Contemporary Strategy Analysis*, 2nd edn, 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 ten-minute video is available (from University of Western Ontario Business School) to support the case.

Southwest Airlines (A. C. Inkpen and V. DeGroot, "Southwest Airlines 2002," Thunderbird, 2002, http://www.t-bird.edu/pdf/about_us/case_series/a07020009.pdf).
Like Starbucks (and Head Ski, as well), Southwest features a dynamic, founding entrepreneur – Herb Kelleher – and a consistent, clearly articulated strategy that established an unchallenged competitive advantage within the industry. The case is interesting because of success against a highly unfavorable industry background.

Phil Knight: CEO at Nike (1983) (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 Nike's strategy and competitive position from the perspective of its CEO. (See also the accompanying video, "Nike: Questions/Answers with Phil Knight," Harvard Business School 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 upon 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 Honda's entry into the US motorcycle market at the beginning of the 1960s. The strength of the case is in its two stories of the same events. The "A" case reviews Honda's success in motorcycles through the eyes of the Boston Consulting Group – it is 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: THE TOOLS OF STRATEGIC MANAGEMENT

Goals, Values, and Performance (Chapter 2)

Class Topics

Given that strategy is about achieving success and, in the business world, 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 a company performing and what are the sources of its superior or inferior performance?
- To review the students' 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 financial statements 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 the annual report of a company). The class discussion focuses on the following tasks:

- Evaluate the company's performance;
- Identify the sources of deteriorating/unsatisfactory performance;
- Determine 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 going as students struggle to recall basic financial statement analysis and fundamental accounting ratios. There is a continual desire for students to leap to recommendations. I emphasize the need for prescription to be based upon 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 as to 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 upon 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. This then requires some explanation of how this links with the information produced by accounting data that 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 the long-term value maximization with the need to monitor performance over the short and medium term.

Cases

I have used the following companies as vehicles for linking financial and strategic analysis.

Laura Ashley Holdings plc (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
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 had become owned by a Malaysian conglomerate and was 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 problem 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*, by Bill Burns, in J. M. Higgins and J. W. Vincze, *Strategic Management: Text and Cases*, 4th edn, Dryden Press, 1989.
- *Walt Disney Company (A)*, in 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 and the leading exponent of aggressive downsizing as a means of creating shareholder value. It also provides a basis for discussion of 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.

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 on 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's 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 areas of analytical frameworks, the value of the Five Forces model is in its use. Hence, it is critical for students to get 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 much 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 lousy 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 – placing a lot of emphasis on 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, goes on to 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 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, PDAs, travel agents) and to ask how structural changes are likely to have an impact on profitability.

Inevitably, most industry analysis is at too high a level of aggregation to explore the realities of competition at a more micro level – 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 5,000+ newspapers compete with the *Washington Post*. 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, Strategy Capsule 4.3) and ask students why, during the 1990s, were the SUV and minivan segments so much more profitable than the small car segment?

I normally finish up with 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, 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 3.5). I also 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 US Airline Industry in 2004 (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
The US airline industry is a wonderful setting for industry analysis. Since deregulation the industry's fortunes have been highly cyclical, but overall profitability has been meager. During the first half of the 1990s, the industry's profit performance was disastrous, with only Southwest Airlines showing consistent profitability. Following a brief revival during the late 1990s, the industry plunged into deep recession following September 2001 with several major airlines entering Chapter 11. The case allows students to identify and analyze the structural features of the industry which produced the huge losses over most of the past decade and a half. The case 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.

Ford and the World Automobile Industry (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
Internationalization and maturity in the world auto industry has 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 of the industry in the future. The case provides an opportunity for looking at the evolution of industry structure and applying 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 & Seal is that its major competitors are all diversifying: does this signal less commitment to the metal container industry, and what then are the implications for Crown Cork & 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 CC&S's turnaround under CEO John Connelly.

The Ready-to-Eat Breakfast Cereal Industry in 1994 (A) (Harvard Business School Case No. 9-795-191).
The packaged breakfast cereal industry is a classic small-group oligopoly with highly differentiated products. The case offers an excellent opportunity to study the structure of the industry and examine its implications for the future of competition and profitability. For example, will entry barriers remain high and are there opportunities for changing consumer preferences and retailers' own-brands to introduce new competition?

Cases Dealing With More Dynamic Aspects of Competition

Looking beyond the Porter Five Forces analysis 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.

Dogfight over Europe: Ryanair (A) (Harvard Business School Case No. 9-700-115, 2000).
Ryanair's decision to expand its routes puts it into direct competition with British Airways and Aer Lingus. How will these giants respond to tiny Ryanair's entry into their lucrative Dublin–London route? The case offers a good opportunity to undertake competitor analysis and predict competitive responses.

Polaroid-Kodak, and subsequent cases ***(B1)–(B10)*** (Harvard Business School Case No. 9-376-266, and Nos 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. 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 pet food 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 other markets.

Power Play (A): Nintendo in 8-bit Video Games (Harvard Business School Case No. 9-795-102).
Ultimately, strategy is not about understanding the industry environment and predicting changes in competition and profitability, but influencing industry structure in order to increase and exploit its profit potential. The Nintendo case is a classic case of a company not just achieving a near monopoly in an industry, but also managing its relationships with the suppliers of complementary goods (software companies) and distributors in order to appropriate the major part of the potential profit pool.

ANALYZING RESOURCES AND CAPABILITIES (CHAPTER 5)

Class Topics

Resources and organizational capabilities (or competencies) are important both as a foundation for strategy formulation and 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 among 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 upon the time available for the course, I then 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 upon 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 have talented and expensive players, but during 1995–2003 did not convert 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 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 of the major activities, 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 then 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 upon 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 capability strengths likely to be most effective? What are the implications for how the firm should compete?

5. I finish up 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 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. (The Harvard Business School cases concerning knowledge management within management consulting firms I find especially suitable.)

Cases

To the extent that almost all cases present issues of competitive advantage, then 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, the following cases are useful.

Wal-Mart Stores Inc., March 2004 (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
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 in-store operations to customer services, and looks too 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 asks students 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 & 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 which are the most sustainable and most difficult to imitate are those founded upon capabilities which are woven into the culture and management systems of a company. Marks & Spencer is particularly interesting in this regard. Its competitive advantages lie in its reputation, the loyalty of its employees, and the high quality-to-price ratio of its products. These advantages rest upon 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. Disney 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 effective and profitable deployment of Disney's film library, land assets, imaging skills, reputation, and

characters. There are several cases dealing with Disney: 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 by 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, then 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, the following cases are useful.

Eastman Kodak: Meeting the Digital Challenge (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
Resource-based strategies involve two major 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 began investing 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 analogue products and is also losing ground in the traditional photographic market.

Swatch (see: "Rebirth of the Swiss Watch Industry, 1980–92 (A)," Harvard Business School Case No. 9-400-087, 2000; "The Swatch Group: On Internet Time," Harvard Business School Case No. 9-500-014, 2000).
The rebirth of the Swiss watch industry under Nicholas Hayek's leadership is one of the greatest ever turnaround stories in recent business history. From a strategy viewpoint, the key interest is how a fragmented, declining industry on the brink of financial failure was able to restructure under the leadership of Nicholas Hayek and develop the capabilities that permitted it to be internationally competitive once more.

Knowledge management and its link with capability development are covered in the following cases.

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 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 and some of the problems in making the system work.

McKinsey & Co.: Managing Knowledge and Learning (Harvard Business School Case No. 9-396-357).
The case describes ways 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. The case offers specific examples of how the knowledge management system is used in specific consulting assignments and considers whether the firm's processes 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 OB/OT course. If they are, then I leave discussion of organizational structures and management systems to case studies that focus upon resources and capabilities, internationalization, diversification, etc., but which introduce implementation issues (e.g. EMI and the CT Scanner introduces interesting issues of organization design).

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

- The fundamental problem of organizing – how to reconcile *specialization* with *coordination* and *cooperation*.
- The development of the corporation over time – this introduces 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 geographical areas as the basis for structure. 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 in 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 real-world examples. For example, 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 disadvantages 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 have been increasingly collapsed so that by the late 1990s GM possessed a single North American car division. At the same time functionally defined groupings have become increasingly important.
- Traditionally, construction and management consulting industries were organized around geographical offices and project teams. As the need for specialist knowledge has increased and the companies have been under increased 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.

Ask students to explain these organizational changes.

Cases

Organizational Restructuring within the Royal Dutch/Shell Group (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
The 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) (Harvard Business School Case Nos 9-381-160 to 9-381-164, and 9-381-112). This is a classic case in the problems of organizing the multinational, multiproduct corporation. The case looks at the design of a matrix structure and the problems encountered in its implementation. There are several videos to support this case.

ABB's Global Relays Business: Building and Managing a Global Matrix (Harvard Business School Case No. 9-394-016).
ABB has been widely recognized as a leader in the organizational design of a company that combines widespread product diversification with global spread. Although ABB operates a matrix structure that combines product, geographical, and functional dimensions of coordination and control, it does so in a way that avoids complexity and bureaucracy. As a result, ABB has been regarded as one of the few companies of its size and complexity that has effectively reconciled decentralization with effective control. This case offers insight into the structures and processes that reconcile entrepreneurial decentralization with global integration within one area of ABB's main businesses.

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 is their primary focus, issues of both cost efficiency and product differentiation are relevant. Hence, my cases in this section are used as vehicles for analyzing both cost and differentiation. For example, while Harley-Davidson's competitive advantage is based almost entirely upon 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 upon 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 lesson here is the ways in which the opportunities for establishing and sustaining competitive advantage depend upon the competitive characteristics of the firm's market, which in turn depend upon 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 upon 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 upon 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, Strategy Capsule 9.4).

Cases

Harley-Davidson, Inc., February 2004 (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).

Harley-Davidson (H-D) is an interesting company to apply the analysis of cost and differentiation advantage to. H-D has been extremely successful in establishing a differentiation advantage which rests on a single strategic resource – the Harley image. However, in exploiting and developing this image, H-D has carefully developed a differentiation strategy which is based upon 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 producing less than a quarter of a million motorcycles annually 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 case 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 Ghemawat's Harvard Business School 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: given that 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 Wal-Mart's success?)

Starbucks Corporation (by M. Schilling and S. Kotha, it is available at http://us.badm.washington.edu/kotha/personal/pdf%20files/starbuck.pdf, and is reprinted in R. M. Grant and K. E. Neupert, *Cases in Contemporary Strategy Analysis*, 2nd edn, Blackwell, 1999).
The case explores the explosive success of the Seattle-based, now international chain of coffee houses. The case allows an interesting discussion of the nature of Starbucks' differentiation (the company offers a complex package of product and service differentiation) and of the capabilities and organizational systems which underlie this differentiation strategy and make it effective in an exceptionally competitive environment where imitation seems easy.

Southwest Airlines – 1993 (A) (Harvard Business School Case No. 9-694-023, 1997).
Southwest Airlines has a competitive advantage within the US airline industry that has been sustained for almost two decades. The result is that Southwest has been the most profitable of the US airlines over this period. Southwest is interesting in that it has combined cost leadership with differentiation advantage. The case explores the basis of its cost and differentiation advantages and considers the sustainability of this advantage in the face of plans by other airlines to create their own budget airline subsidiaries modeled on Southwest.

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 which 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 which traces 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 the opportunities for market preemption.

Airborne Express (A) (Harvard Business School Case No. 9-798-070, 1998). This case includes a wealth of information on costs and efficiency that allows students to analyze Airborne's cost position relative to its bigger competitors, UPS and Federal Express. Students can then address Airborne's critical strategic challenge: how can it achieve cost competitiveness against its bigger rivals in an industry where scale economies are so important.

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.

For those wishing to focus upon the evolution of industries and the means by which companies adapt to change, the following cases are suitable.

Intel Corp.
Intel is the classic example of a company that has prospered through an industry life cycle that has featured numerous disruptive changes. As a result, Intel is a classic example of a company that has displayed "dynamic capabilities" and is also interesting in terms of the strategy-making processes through which adaptation has occurred. There is a wealth of excellent cases on Intel, some of the best known being the series of cases by Robert Burgelman at Stanford.

- *Intel Corp.: Leveraging Capabilities for Strategic Renewal*, by C. A. Bartlett and A. Nanda, Harvard Business School Case No. 9-394-141, 1994.

- *Intel Corp. – 1997–2000*, by R. Casadesus-Masanel and M. G. Rukstad, Harvard Business School Case No. 9-702-420, 2001.
- *Intel Corp.'s Internal Ecology of Strategy Making*, by R. A. Burgelman and C. M. Christensen, Stanford Case No. SM95.
- *Intel Corp. (A), (B), (C), (D) and (E)*, by R. A. Burgelman and others, Stanford Cases.

Other Cases

Other cases I have used to explore industry and firm evolution include:

- *Ford and the World Automobile Industry* (see "Chapters 3 and 4. Analysis of Industry and Competition" above for details). The case offers potential not just for looking at industry change over the past 50 years, but also for developing scenarios for the future.
- *EMI and the CT Scanner* (see below) I use primarily for analyzing innovation and the management of technology. A central issue in the case is the speed of industry change during its early years and the need for EMI to develop its capabilities and adjust its competitive strategy.

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 which 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. 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 "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 highly knowledgeable, too), and partly because it is an 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 was 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 in this market. 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 standards is a fascinating area of strategy. I draw upon past standards battles – Sony vs. Matsushita in VCRs, IBM vs. 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 which explore the 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 the following.

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 to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
One of the all-time-greats among strategy cases, this case 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: (a) assess its competitive situation, particularly with regard to its comparative weaknesses in *complementary resources*; (b) develop an organizational structure and management systems to deal with the internal conflicts and inefficiencies it suffers.

Rivalry in Video Games (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
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. The case 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 towards a standard. The case 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 impact of Microsoft's X-box.

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.

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. Certainly we can 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 (e.g. 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 in Contemporary Strategy Analysis*, 2nd edn, 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, who 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, CC&S is also an excellent case for exploring the creation and sustaining of competitive advantage in a mature industry. CC&S'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 continuous 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. 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; and
- 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 begin this topic in one of two ways:

1. A general review of the historical evolution of the modern firm, from a small, single product enterprise serving a local market to the vertically integrated, diversified multinational corporations of the late twentieth century. This then provides a background and context for exploring the relative roles of firms and markets and why the boundaries of the firm have expanded over time. This leads to a discussion of transaction costs and the more specific analysis of their role in make-or-buy decisions. (This discussion follows the approach in Chapter 13 of the text.)
2. A case study that specifically addresses issues of vertical scope. The cases I have used to address these issues are the following: Birds Eye, Eni, and Visicorp.

Cases

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

Birds Eye and the UK Frozen Food Industry (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
Birds Eye's competitive advantage was built upon 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, 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.

AOL Time Warner, Inc. (Harvard Business School Case No. 9-702-421, 2002).
The merger of AOL and Time Warner in 2000 was widely regarded as the merger of a "new media" company with an "old media" company. In fact, the primary justification for the merger was the vertical linkage between Time Warner's content businesses and AOL's distribution business. A further vertical integration of the merger was between AOL's internet service business and Time Warner's cable assets. The case offers an opportunity to assess the arguments presented by the companies for the potential benefits of vertical integration.

Eni SpA: Building an International Energy Major (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
The international oil and gas majors are leading examples of vertical integration. However, the reasons that they became vertically integrated have largely disappeared following the emergence of efficient markets for trading oil, gas, and petroleum products, and the dominant position of national oil companies (especially Saudi Aramco) in the upstream sector. Like its peers, Eni is committed to vertical integration – in many ways it is more vertically integrated than the other energy majors, since it owns its own engineering and oilfield service companies. This commitment to vertical integration is especially important in natural gas, where Eni explores for gas, builds pipelines and both markets gas and converts it into electricity. The case offers students the opportunity to explore the rationale behind Eni's recent strategy and to develop a future strategy that can allow the company to adjust the scope of its activities to the distinctive aspects of its resource and capability profile.

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 towards forward integration. While many of its competitors seem to be faring poorly, Merck seems to have managed the Medco integration

superbly. Teaching purpose: to understand how channel strategies evolve with changes in industry environment.

Visicorp (by 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 achieved 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 was founded as a software publishing company buying in products from independent developers. However, problems in managing these relationships resulted in the move towards 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 upon whether students are taking a required course in international business and the content of such a course.
The topics that I believe should be covered include the following:

- The impact of internationalization on the geographical boundaries of industries and on the intensity of competition.
- The impact of national factors upon 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 and has extended into a foreign market. For this purpose I have found Euro Disney and Marks & 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, including 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: From Dream to Nightmare 1987–94 (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
The case explores the decision to create a Disney theme park in Europe, and examines the subsequent performance of the venture. In examining 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.

Meg Whitman and eBay Germany (Harvard Business School Case No. 9-402-006).
EBay is a business (on-line person-to-person auctions) where there are substantial scale economies supported by strong network externalities. Hence, international expansion is an attractive strategy. However, as the experience in Germany shows, exploiting global scale and network economies encounters significant difficulties arising from the need to adapt to national conditions and from the

challenges of integrating overseas acquisitions. The case provides a good introduction to the competitive advantages offered by global strategies and the need to reconcile globalization with national adaptation.

BRL Hardy: Globalizing an Australian Wine Company (Harvard Business School Case No. 5-300-128).
The wine industry is particularly interesting for the study of international strategy. International trade in wine is substantial (not least because wine-production is concentrated into a dozen major producing countries). At the same time, wine-drinking customers and preferences are highly differentiated. New world wine producers – the Australians in particular – have pioneered global strategies (including global brands) in wine. However, the design and implementation of BRL Hardy's international strategies face complex challenges because of the conflicting pressures for globalization and local adaptation.

Marks & 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 has 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 M&S's international strategy should be.

The US Major Home Appliance Industry in 1993: From Domestic to Global and Maytag Corporation, 1993: Strategic Reassessment (by J. David Hunger, *Case Research Journal*, 1993. Reprinted in T. L. Wheelen and J. D. Hunger, *Strategic Management and Business Policy*, 5th edn, Addison Wesley, 1995).
The home appliance industry ("white goods") provides a fascinating context for examining global strategy. This pair of cases examines the trend towards 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, it 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 the difficulties in 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 the challenge 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 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 area of ABB's business.

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, diversification has been responsible for the destruction of more shareholder value than any other corporate activity. Its study, therefore, is important!

The critical strategic issues raised by the 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 which limit the range of industries over which a firm can transfer its competitive advantage. Analyzing the potential for diversification to create value requires 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 (e.g. where diversification is directed towards reducing risk; where economies of scale can be exploited efficiently through market transactions).

The obverse of diversification is the divestment of non-core businesses. I regard diversification and divestment decisions as symmetric.

I feel that it is also important to look beyond individual diversification decisions, and 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 making 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 kick off with a case that can be used to analyze specific diversification decisions and to 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 Virgin 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 Virgin needs to possess in order to best 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 towards 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 primary emphasis upon 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: Life After Jack*) or one of the Harvard Business School cases (e.g. *Jack Welch: General Electric's Revolutionary*, Harvard Business School Case No. 9-394-065; *General Electric: Jack Welch's Second Wave (A) and (B)*, Harvard Business School Case Nos 9-391-248 and 9-392-113) are excellent for this purpose.

Cases

Richard Branson and the Virgin Group of Companies in 2004 (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis, Fifth Edition*, Blackwell, 2005). This case is an update of the 1998 version published in the 2nd 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 the 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 determine 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 Generale 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 a French business context which raises issues of corporate governance, financial structure, and a legal environment that imposes severe restrictions on staff reductions. The problems of Vivendi since 1992 give an added piquancy to the analysis of its corporate strategy.

Beatrice Companies – 1985 (Harvard Business School Case No. 9-375-358. Reprinted in D. Collis and C. Montgomery, *Corporate Strategy*, Irwin, 1997). Beatrice is a sprawling $12 billion conglomerate with businesses ranging from food to chemicals, to Playtex bras and Avis car rental. The case asks students to consider the reformulation of corporate strategy by CEO James Dutt and make recommendations for how Beatrice can best restructure its portfolio and manage the linkages between its different businesses in order to maximize the value of the company.

General Electric: Life After Jack (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005).
Under Welch's leadership from 1981–2001, GE has 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 an 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 considers the management challenges facing GE's new CEO, Jeffrey Immelt. Not only must Immelt fill the shoes of one of the world's most famous and highly regarded CEOs, he must also deal with the collapse of GE's attempted acquisition of Honeywell and increasing disquiet over GE's accounting policies. Students are asked to formulate a corporate strategy and recommend organizational changes at GE that will allow GE to adjust to a post-Welch era and will allow GE to continue its remarkable 100-year history of adaptation and development.

Current Trends in Strategic Management (Chapter 17)

Class Topics

I devote the final session of the course to considering emerging trends in strategic management. There is scope here for focusing upon a number of different issues. Some of the topics I have directed attention towards 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 does it mean 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) upon 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 is particularly suitable. In particular, its ideas, "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). But 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, the 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 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 to Accompany Contemporary Strategy Analysis*, *Fifth Edition*, Blackwell, 2005). 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 was 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 2nd edition of the casebook.

Oticon (A) (by J. Kao, 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 the 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 increasingly 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 BP the most admired of the oil and gas majors under Browne's leadership. (See also: ***The Transformation of BP***, London Business School, 2002, distributed by European Case Clearing House.)

IBM and Linux (A) (Harvard Business School Case No. 9-903-083, 2003).
Within emerging new organizational forms, open-source software communities are among the most radical – and also the most successful. Of these, Linux, which has developed a free operating system to challenge Microsoft's Windows, is the best known. The case offers insight into the organizational model that lies behind Linux (and to a great extent, other open-source communities) and also shows how a giant computer company like IBM can create value through allying with an open-source community.

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 structure and chapter numbers are the same in the new fifth edition. 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 MBA: Strategic Management** (a required, six-week, one-and-a-half semester credit strategy course taught in the first semester of the two-year MBA program).
2. **Georgetown Undergraduate: Strategic Management** (a full-semester course taught to senior-level undergraduates).
3. **Georgetown MBA Elective: Capability-based Strategy (**a second year, six-week strategy elective that focuses upon 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).

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 upon 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 AND 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 ensure that everyone gets the opportunity to contribute to class discussion. 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 issues of the discussion is not.

READING

The required text is: Robert M. Grant, *Contemporary Strategy Analysis: Concepts, Techniques, Applications* (Blackwell Publishing, 2003 (4th edn), 2005 (5th edn)). The cases are drawn primarily from *Cases to Accompany Contemporary Strategy Analysis, Fifth Edition* (Blackwell Publishing, 2005).

The readings designated [S] are available in electronic form on the Share (S) drive under Grant, Rob/Mgmt 570. The readings designated [P] are available in the Course Readings Pack.

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, Chapter 1.

II. Analysis of Industry and 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, Chapter 3.

Case: The US Airline Industry in 2004 (from Grant casebook).

Discussion questions:

1. Can the industry's dismal financial performance over the past 20 years be explained using Porter's Five Forces framework? Which structural features of the industry have been most important in causing strong competition and low profitability?
2. In what ways, and with what success, have the airlines' strategies attempted to moderate competitive pressures in the industry?
3. What is the outlook for industry profitability over the next 5 years?

***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, Chapter 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.

Readings: Grant, Chapters 3 and 4.

Case: Ford and the World Automobile Industry (from Grant casebook).

Discussion questions:

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 10 years and will it be more or less profitable than the past 5 years?
3. Which companies will be most successful over the next 10 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 and 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.

Readings: Grant, Chapter 5.

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

Case: Wal-Mart Stores Inc. (from Grant casebook).

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 and Capabilities II**

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

Cases: (A) Rocking in Shangri-la (from article on MTV from *The New Yorker*).
(B) Richard Branson and the Virgin Group of Companies (from Grant casebook).

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.

Readings: Grant, Chapters 8 and 9 [S].

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

Case: Harley-Davidson (from Grant casebook).

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 and Technology-driven Industries**

Readings: Grant, Chapter 11.

Case: Video Games (from Grant casebook).

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. What recommendations would you offer (a) Sony, (b) Nintendo, and (c) Microsoft?

***Session 12, Mon. October 16*: Competitive Advantage in Dynamic and Technology-driven Industries (continued), and Conclusion**
Standards and network externalities; other emerging issues in strategic management. Course review.

Georgetown University

MGMT 283-06. STRATEGIC MANAGEMENT

[Required course for undergraduate business majors]

OVERVIEW

Strategic management deals with the ways firms build and sustain superior competitive positions and achieve long-run profitability. Successful strategy design and implementation requires an understanding of the firm's external environment and its internal resources and capabilities. It also requires an integrated view of the firm that spans functional areas such as operations, marketing, and finance. Strategic analysis draws on a number of academic disciplines, primarily economics, but also psychology and sociology, and political science.

The primary objectives of the course are:

- To acquire familiarity with the principal concepts, frameworks, and techniques of strategic management.
- To gain expertise in applying these concepts, frameworks, and techniques in order to:
  - *understand* the reasons for good or bad performance by an enterprise;
  - *generate* strategy options for an enterprise;
  - *assess* available options under conditions of imperfect knowledge;
  - *select* the most appropriate strategy;
  - *recommend* the best means of implementing the chosen strategy.
- To integrate the knowledge gained in previous and parallel courses.
- 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.
- To improve your skills of oral and written communication.

COURSE MATERIALS

Textbook: R. Grant, *Contemporary Strategy Analysis: Concepts, Techniques, Applications* (Blackwell Publishing, 2003 (4^{th} edn), 2005 (5^{th} edn)).

Cases: Cases for class discussion and coursework are available on the School server's share drive (S:/Grant,Rob/MGMT 283).

MY EXPECTATIONS

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. This emphasis on case discussion places important responsibilities on students in terms of preparation and participation. These expectations may differ sharply from those you have experienced with your other courses at Georgetown.

I. Class Preparation

Preparation for each class is critical, including careful reading of the assigned case and careful analysis based on the assignment questions. I encourage preparation in study groups as a means for enriching the learning experience. I will assume that every student has prepared the day's assignment prior to class. If for whatever reason you are not prepared for class on a particular day, I expect you to let me know before the start of class.

II. Attendance

In case method pedagogy, class attendance is critical to individual and collective learning. My expectation is that every student arrives on time and attends every class. Since emergencies will arise on occasion, I expect that anyone who cannot attend class *for any reason* will contact me in advance if at all possible. Absenteeism and lateness to class counts heavily against the class participation grade since it adversely impacts the learning of the section as a whole.

III. Class Participation

Active and thoughtful class participation will be critical to your learning and the learning of your classmates. I will "cold call" students throughout the discussion. Class participation accounts for a significant portion of the total grade in the course (see below). In evaluating class participation, I will consider both quality and frequency of contributions, with emphasis on the former. In assessing quality, I consider the following types of issues:

- Does the comment simply repeat facts from the case, or does it provide analysis that adds to our understanding of the case and its broader implications?
- Does the comment fit well into the flow of the discussion? Is it linked to the comments of others?
- Is the comment presented in a clear, compelling manner or is it confusing, repetitive, or contradictory?

In making my overall assessment of class participation, the overarching criterion is "how significantly does this student's participation contribute to the learning of the section as a whole?"

GRADING

Your final grade will be based upon the following items:

Coursework 1	10%
Coursework 2	10%
Coursework 3	10%
Coursework 4	10%
Class Participation	20%
Final Exam	40%

COURSEWORK

Write concise, clearly analyzed reports on *four* of the cases listed below. The maximum word limit for each report is 700 words. Submit your case report in class on the same day that the case is being discussed. Late submissions will not be accepted. You are encouraged to discuss the cases with your classmates, but please write your reports independently.

1. The US Airline Industry. (For submission on Jan. 13.)
   - Use Porter's "Five Forces of Competition" framework to show how the structure of the airline industry has caused low profitability during the past 20 years.
   - What is the outlook for industry profitability during the remainder of the decade?
2. Ford and the World Automobile Industry. (For submission on Jan. 27.)

- What changes in the structure of the world auto industry between 1970 and 2003 caused industry profitability to decline?
- How is the industry likely to evolve over the next 10 years? Will it be more or less profitable than the past 5 years?

3. McDonough School of Business. (For submission on Feb. 3.)
   - Identify the main resources and capabilities needed to be successful as a business school. Evaluate the MSB's position relative to other leading US business schools for each of these resources and capabilities. Present your analysis in the form of a table and figure similar to those in Table 5.5 and Figure 5.9 in Chapter 5 of Grant, *Contemporary Strategy Analysis* (5th edn).
   - Draw implications for a strategy capable of enhancing the School's competitive position.
4. Wal-Mart. (For submission on Feb. 5.)
   - What are the principal resources and capabilities that form the basis of W-M's competitive advantage in discount retailing?
   - To what extent is W-M's competitive advantage sustainable against imitation by other retailers?
5. Eastman Kodak. (For submission on Feb. 10.)
   - Outline and explain Kodak's strategy for establishing leadership in the market for digital imaging.
   - Will the strategy be successful in delivering returns to Kodak's shareholders?
6. BAH. (For submission on Feb. 19.)
   How successful has BAH been in capturing, codifying, and deploying the knowledge and innovations produced by its consultants? Why has it been less successful than it wished in these efforts? What recommendations would you offer to Dickie and Varazano?
7. Harley-Davidson. (For submission on March 17.)
   - Given Harley's huge disadvantage in size and scale relative to much bigger competitors such as Honda, Suzuki, Yamaha, and BMW, how is it that Harley-Davidson has emerged as one of the world's most profitable motorcycle companies?
   - What threats does Harley face and what recommendations would you offer Bleustein as to how Harley-Davidson can sustain and enhance its competitive position?
8. EMI. (For submission on March 24.)
   - What problems did EMI's medical electronics business face in 1977?
   - What should Powell do?
9. Branson and the Virgin Group. (For submission on April 9.)
   - Through what common resources and capabilities does the Virgin Group create competitive advantage for its separate businesses?
   - Which businesses (if any) should Branson consider divesting?
   - What criteria should Branson apply in deciding what new diversifications to pursue?

Program

Wed. Jan. 8: **Introduction to Strategy**
This introductory class will give an overview of the course; it will explore the role and nature of strategy; consider the development of strategic management over recent decades; and examine strategy making and strategic planning within companies.

Readings: Grant, Chapter 1.

Case: Madonna (from Grant casebook).

Discussion questions:

1. Why has Madonna been so successful for so long?
2. Does Madonna have a strategy? If so, what are the main elements of that strategy?

Mon. Jan. 13: **Industry Analysis: Introduction**
The first major component of the course looks at how we can understand and identify the sources of profit in the external environment of the firm. Our focus is on how industry structure determines the nature and intensity of competition and the level of industry profitability. This analysis is then used to formulate strategies to increase industry profitability.

Readings: Grant, Chapter 3.

Case: The US Airline Industry in 2004 (from Grant casebook).

Discussion questions:

1. How has the US airline industry performed financially during the past 20 years?
2. To what extent can the industry's low profitability be attributed to the structure of the industry? Which of Porter's five forces has had the biggest impact in depressing industry profitability?
3. In what ways, and with what success, have the airlines' strategies attempted to counteract competitive forces depressing profitability in the industry?
4. What is the outlook for industry profitability during the remainder of the decade?

Wed. Jan. 15: **Industry Analysis: Principles and Techniques**
Drawing upon our discussion of the airline industry, we will look in greater detail at the Porter "Five Forces" framework and its application to other industries.

Lecture/Discussion

Mon. Jan. 20: M. L. King Holiday

Wed. Jan. 22: Private Study: No class meeting

Mon. Jan. 27: **Industry Analysis (continued)**
Using the auto industry as our case, we look at competition in global industries, explore how changes in industry structure impact competition and profitability. We look at the analysis of industry segments and the identification of key success factors.

Readings: Grant, Chapters 3 and 4.

Case: Ford and the World Automobile Industry (from Grant casebook).

Discussion questions:

1. What changes in the structure of the world auto industry between 1970 and 2003 caused industry profitability to decline?
2. How is the industry likely to evolve over the next 10 years? Will it be more or less profitable than the past 5 years?
3. Which firms will be most successful over the 10 years?

Wed. Jan. 29: **Resources and Capabilities**: **Introduction**
Our second major section of the course concentrates on the internal environment of the firm, particularly on the analysis of resources and capabilities. How do resources and organizational capabilities confer competitive advantage? How do we identify and appraise resources and capabilities?

Readings: Grant, Chapter 5.

Mon. Feb. 3: **Resources and Capabilities: Application (1)**
In this class you will put the basic tools of resource and capability analysis to work by identifying and appraising the main resources of our own school and using this analysis to provide a basis for strategy recommendations.

In-class exercise: The Resources and Capabilities of MSB.
Questions:

1. What are the most important resources and capabilities needed to be a successful business school?
2. What is MSB's position relative to other leading US business schools in each of these resources and capabilities?
3. What implications can we draw for the future strategy of the School?

Readings: Grant, Chapter 5, especially pp. 144–55.

Wed. Feb. 5: **Resources and Capabilities**: **Application (2)**

In analyzing the remarkable success of Wal-Mart, we shall use the value chain to identify and analyze resources and capabilities and examine the characteristics of resources and capabilities that can sustain competitive advantage in the face of competition. We shall look at the extent to which a company is able to deploy its capabilities to other markets.

Case: Wal-Mart Stores, Inc. (from Grant casebook).

Discussion questions:

1. To what extent is Wal-Mart's performance attributable to industry attractiveness and to what extent to competitive advantage?
2. In which of Wal-Mart's principal functions and activities (namely: purchasing, distribution and warehousing, in-store operations, marketing, IT, HRM, and organization and management systems/style) do W-M's main competitive advantages lie? Identify the distinctive resources and capabilities in each of these functions/activities.
3. To what extent has W-M been able to transfer the competitive advantage it established in discount retailing in the US (a) to other countries, (b) to other retail sectors and formats? Why has W-M's overseas performance to date been so patchy?
4. To what extent is W-M's competitive advantage sustainable? Why have other retailers had limited success in imitating W-M's strategy and duplicating its competitive advantage?
5. Looking ahead, what measures does W-M need to take to sustain its recent performance and defend against competitive (and other) threats?

Mon. Feb. 10: **Resources and Capabilities: Developing Organizational Capability**

We will use Eastman Kodak as the basis for examining the problems that companies face in developing new capabilities.

Readings: Grant, Chapter 5, especially pp. 162–71.

Case: Eastman Kodak: Meeting the Digital Challenge (from Grant casebook).

Discussion questions:

1. What is Kodak's strategy for building a presence in digital imaging?

2. Does Kodak possess the resources and capabilities needed to be successful in the market for digital imaging products? How is Kodak acquiring and building the capabilities it needs?
3. What advice would you offer Dan Carp?

Wed. Feb. 12: **Resources and Capabilities: Developing Organizational Capability (continued)**

Mon. Feb. 17: President's Day Holiday

Wed. Feb. 19: **Knowledge Management and Capability Development**
What is "knowledge management" all about? How can knowledge management techniques such as "lessons learned" and "best practices transfer" help companies in developing organizational capability? Designing a knowledge management strategy. Implementing a knowledge management strategy.

Readings: Grant, Chapter 5, Appendix on Knowledge Management.

Case: Cultivating Capability to Innovate: Booz-Allen Hamilton (Harvard Business School).

Discussion questions:

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

Mon Feb. 24: **Analyzing Cost and Differentiation Advantage**
The Harley-Davidson case will be used as a basis for examining the determinants of relative cost position (learning, economies of scale, capacity utilization etc.) and the sources of differentiation advantage.

Readings: Grant, Chapters 7, 8, and 9.

Case: Harley-Davidson (from Grant casebook).

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 advantage?

Wed. Feb. 26: **Analyzing Cost and Differentiation Advantage (continued)**
We will look at the analysis of cost and differentiation advantage systematically, including the use of the value chain to examine opportunities for cost and differentiation in individual activities.

Mon. March 3: **Industry Evolution and Organizational Change – Introduction**
(Guest Lecturer: Steve McGuire)

Readings: Grant, Chapter 10.
McGuire, S. (2001). "Introduction to Managing Organizational Change," in *Managing Organizational Change*. Boston: Pearson.
Beer, M., R. A. Eisenstat and B. Spector. "Why Change Programs Don't Produce Change."

Wed. March 5: **Industry Evolution and Organizational Change**
(Guest Lecturer: Steve McGuire)

Readings: McGuire, S. (1999). Note on Gender Discrimination and Sexual Harassment.

Case: Hooters of America, Inc.

Discussion questions:

1. What are Hooters' primary sources of competitive advantage?
2. What challenges/threats does Hooters face?
3. What type of change is called for? (Please use the framework discussed in the previous class session).
4. Prepare an outline of the actions that you think Hooters should take to manage change throughout its restaurant system. Identify the "levers of change" that need to be pulled as well as specific change actions.
5. Suppose that upon graduation you are offered a job as a senior manager at HOA. The pay is "modest" but you are provided with a generous amount of stock options that can be exercised 5 years from now. Would you take the job? Why or why not?

Mon. March 10 and Wed. March 12: *Spring Break*

Mon. March 17: **Managing Organizational Change: Conclusion**
(Guest Lecturer: Steve McGuire)

Wed. March 19: No class

Mon. March 24: **Emerging Industries and the Management of Technology**
Using EMI's management of its CT scanner invention, we will examine competition and competitive advantage in emerging and technology-intensive industries.

Readings: Grant, Chapters 10 and 11.

Case: EMI and the CT Scanner (A) and (B) (from Grant casebook).

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?

Wed. March 26: **Emerging Industries and the Management of Technology (cont.)**
On the basis of the issues arising from the EMI scanner case, we shall look more systematically at appropriating value from innovation; at the extent and sources of first-mover advantage, and how industries evolve over the life cycle.

Mon. March 31: **Emerging Industries and the Management of Technology: Competition for Standards**
We shall use the video games industry to look at the nature and emergence of technical standards, at the sources of network externalities, and at strategies to win standards wars.

Readings: Grant, Chapter 11, pp. 345–52.

Case: Rivalry in Video Games Industry (from Grant casebook).

Discussion questions:

1. What are key success factors in this industry?
2. In what sense and for what reasons is this a "winner-take-all" industry?
3. What strategies and what circumstances have allowed newcomers to unseat established market leaders?
4. [Last names beginning A–G:] What should Microsoft do?
   [Last names beginning H–O:] What should Nintendo do?
   [Last names beginning S–Z:] What should Sony do?

Wed. April 2: **Emerging Industries and the Management of Technology: Competition for Standards (continued)**
Drawing upon video games, personal computers, VCRs, wireless telecommunications, and other standards battles, we shall develop our analysis of technical standards, dominant designs, and competitive strategies in such markets.

Mon. April 7: **Corporate Strategy: Introduction**
We shift our focus from business strategy to corporate strategy. We focus upon the scope of the firm and the determinants of firm boundaries, including the role of economies of scope and transaction costs.

Readings: Grant, Chapters 13 and 14.

Wed. April 9: **Diversification and Corporate Strategy**

Using the Virgin Group as an example, we examine the rationale for diversification and the conditions under which diversification can create shareholder value.

Readings: Grant, Chapter 14.

Case: Richard Branson and the Virgin Group (from Grant casebook).

Discussion questions:

1. Does the Virgin Group have a corporate strategy?
2. Does membership of the Virgin Group of companies add value to the individual businesses?
3. Which businesses if any should Branson consider divesting?
4. What criteria should Branson apply in deciding what new diversifications to pursue?
5. What changes in the financial structure, organizational structure, and management systems of the Virgin Group would you recommend?

Mon. April 14: **Managing the Multibusiness Corporation**

The theory of the M-form. The role of the corporate headquarters. Corporate management systems: strategic planning, financial control, human resource management.

Readings: Grant, Chapter 16.

Case: General Electric (from Grant casebook).

Discussion questions:

1. What were the principal strategic and organizational initiatives introduced by Welch at GE and inherited by Immelt? To what extent do these initiatives amount to a new system of managing the large firm?
2. Why has the management system created by Welch been so successful? Can you detect a theory of management or set of general principles that link together Welch's various initiatives?
3. What should Jeff Immelt do to sustain and revive GE's track record of superior performance? Should GE consider break-up (like so many other diversified companies)?

Wed. April 16: **Managing the Multibusiness Corporation (continued)**

Mon. April 21: *Easter Monday*

Wed. April 23: **Emerging Trends in Strategic Management**
Major trends of the past decade. Key external challenges facing businesses in the twenty-first century. Some emerging concepts and management trends: cooperative strategies, complexity and self-organization, knowledge management, corporate governance, and the future shareholder value model.

Readings: Grant, Chapter 17.

Mon. April 28: **Conclusion**

Georgetown University

McDonough School of Business

MGMT 609. CAPABILITY-BASED STRATEGY

Sections 20 and 21

OBJECTIVES

The goal of the course is to develop your skills in analyzing strategic situations and formulating firm strategy. The course focuses upon 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, a company's internal capabilities offer a more secure basis on which to define long-term strategy than external customer focus. The course builds upon your core strategic management course and extends the part that dealt with the internal analysis of the firm. Our emphasis will be upon identifying and appraising the resources and organizational capabilities of the firm, exploring the relationship between resources and capabilities, and examining how organizational capabilities are created and developed. We shall give particular attention to those resources and capabilities required for competitive advantage in knowledge-based industries – this will take us into issues of knowledge management and competition for technical standards. Finally, we shall look at some of the new ideas that are reshaping current thinking about strategic management and organizational design.

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 upon 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

All coursework is to be submitted on the date of the relevant class discussion. Submit either in class, or by email (prior to start of class).

Coursework 1 (For submission on Wed. March 19. To be undertaken in groups of two; if you can't find a partner, complete individually.)
Answer the following questions:

1. How bad is the situation at Laura Ashley?
2. Why is performance so poor? (Use the data – especially the financial data – to diagnose the problems.)
3. What should Mr. Cheong do?

(Maximum 600 words, to be submitted in class.)

Coursework 2 (For submission on Mon. March 24. To be undertaken in groups of two.)
Dean Mayo 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 resources and capabilities important for success 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 Chapter 5 of Grant, *Contemporary Strategy Analysis*, 5th edn.
4. Draws implications for a strategy capable of enhancing the School's competitive position over the next 5 years.

[Note: You may base this coursework entirely on your own perceptions of MSB, other schools, and the US market for MBA education. However, you may also wish to refer to data available in the rankings published by *Business Week*, *Financial Times* and *US News and World Report* (see S:/Grant,Rob/MGMT609).]

Coursework 3 and 4
Prepare *two* of the following case write-ups. These should be undertaken in *groups of two or three*. (Maximum length: 700 words.)

1. **Eastman Kodak** (*For submission on March 31.*) 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 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.

2. **Booz-Allen Hamilton** (*For submission on April 7.*) Brian Dickie has asked for your views on the issues facing BAH. Write a concise memo that (a) comments upon the desirability of BAH moving towards a more "product-based" business model; (b) identifies the reasons for the limited success of this strategy to date; (c) makes recommendations for what BAH might do to overcome these impediments.

3. **EMI (B)** (*For submission on April 14.*) 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.

4. **Video Games** (*For submission on April 23.*) On the basis of an identification of key success factors in the world market for video game consoles, a projection of how this market is likely to evolve, and an assessment of the company's resources, capabilities, and strategic goals, recommend a strategy for either Nintendo or Microsoft.

Alternative to one of the above case assignments:
Prepare a paper and a 10-minute presentation on an organization whose structure, systems, and management style are innovatory or unusual and can provide insight or inspiration for companies seeking to develop the capacity to compete effectively in the turbulent and challenging environment of the twenty-first century. You may wish to use an organization from outside the world of business: e.g. a sports team, a charity, a religious organization, an entertainment organization (band, circus, theater group). The presentation will be in the last week of class. You may do this individually or in a group of two or three.

GRADING

Your final grade will be based on the following items:

Coursework 1	10%
Coursework 2	10%
Coursework 3	10%
Coursework 4	10%
Final exam	35%
Class participation	25%

READINGS

The course text is R. Grant, *Contemporary Strategy Analysis: Concepts, Techniques, Applications* (Blackwell Publishers, 2003 (4th edn), 2005 (5th edn)).

The readings designated [S] are available in electronic form on the Share (S) drive under Grant, Rob/Mgmt609. The readings designated [P] are available in the Course Readings Pack.

PROGRAM

***Mon. March 17*: Introduction: Resources, Capabilities, and Competitive Advantage**

Objectives: To introduce the role of resources and capabilities as the basis of competitive advantage and foundation for strategy formulation. To outline procedures for identifying and appraising an organization's resources and capabilities. To develop understanding of the key characteristics of resources and capabilities and their link with competitive advantage. To discuss the linkage between financial analysis and strategic analysis.

Readings: Grant, "Analyzing Resources and Capabilities" (Chapter 5 of *Contemporary Strategy Analysis*, 5th edn).

***Wed. March 19*: Performance Diagnosis: Linking Strategic and Financial Analysis**

Objectives:

- Develop skills in diagnosing performance problems in firms.
- Build bridge between financial and strategic analysis.

Readings: Grant, "Goals, Values, and Performance" (Chapter 2 of *Contemporary Strategy Analysis*) [S].

"The Ins and Outs of Cash Flow," *Business Week*, January 22, 2001: 102–104 [S].

Case: *Laura Ashley* [S].
Discussion questions:

1. Appraise Laura Ashley's financial performance.
2. Identify reasons for deteriorating performance.
3. Consider whether and how Laura Ashley might be restored to profitability.

***Mon. March 24*: Identifying and Appraising Resources and Capabilities – An Application**

Objectives: To gain expertise in identifying and appraising an organization's resources and capabilities and deriving strategy implications from such analysis.

Readings: Grant, "Analyzing Resources and Capabilities" and "The Nature and Sources of Competitive Advantage" (Chapters 5 and 7 of *Contemporary Strategy Analysis*, 5th edn); especially pp. 144–55.

Additional readings for MSB discussion: *Business Week*, 2002 MBA Rankings [S]; *US News & World Report*, Best Graduate School (for summary see [S]); *FT MBA Rankings* [S] and *FT MBA Rankings Methodology* [S].

Class discussion: Georgetown's McDonough School of Business (discussion of coursework assignment).

***Wed. March 26*: Identifying and Appraising Resource and Capabilities: Principles and 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.

Readings: Grant, "Analyzing Resources and Capabilities" and "The Nature and Sources of Competitive Advantage" (Chapters 5 and 7 of *Contemporary Strategy Analysis*, 5th edn) [S].

***Mon. March 31*: Developing Organizational Capability**

Readings: Baghai, M., C. Coley and D. White, "Turning capabilities into advantages," *McKinsey Quarterly*, 1999 (No. 1) [S].

Dorothy Leonard Barton "Core capabilities are core rigidities," *Strategic Management Journal*, Summer 1992 [P].

Grant, "Analyzing Resources and Capabilities" (Chapter 5 of *Contemporary Strategy Analysis*, 5th edition); especially pp. 162–71.

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

1. Was Fisher right to divest Kodak's chemical and healthcare businesses? Was there an alternative strategy?
2. What is Kodak's strategy for developing its digital imaging business?

3. What progress has Kodak made? What challenges does Kodak face and what are its prospects of becoming a leader in digital imaging?
4. What advice would you offer Dan Carp?

Wed. April 2: **Developing Organizational Capability (continued)**

Mon. April 7: **Knowledge Management and the Development of Organizational Capability**

Objectives:

- To gain familiarity with some of the key principles and tools of knowledge management.
- To recognize the role of knowledge management in the development of organizational capability.
- To learn some basic principles concerning the design of systems of knowledge management.

Readings: Grant, *Contemporary Strategy Analysis,* Appendix to Chapter 5.
Grant, "The Knowledge-based View of the Firm," in Nick Bontis and Chun Wei Choo, *The Strategic Management of Intellectual Capital and Organizational Knowledge: A Collection of Readings* (OUP, New York, 2002) [S].
Hansen, M., N. Nohria, and A. Tierney, "What's Your Strategy for Managing Knowledge?" *Harvard Business Review*, March 1999 [P].

Case: *Cultivating Capabilities to Innovate: Booz-Allen Hamilton* (Harvard Business School Case) [P].
Discussion questions:

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

Wed. April 9: **Knowledge Management and the Development of Organizational Capability (continued)**

Mon. April 14: **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 which foster innovation.

Readings: Grant, "Technology-Based Industries and the Management of Innovation" (Chapter 11 of *Contemporary Strategy Analysis*, 5th edn).
Case: *EMI and the CT Scanner (A) and (B)* [S].
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?

***Wed. April 16*: Competitive Advantage and Capabilities in Emerging and Technology-based Industries**
Objectives: To recognize some general issues arising from the EMI case with regard to the development of resources and capabilities and the competitive advantages of different types of company in technology-based and newly established industries. To apply these concepts to different examples, including the e-business sector.
Readings: Grant, "Industry Evolution" (Chapter 10 of *Contemporary Strategy Analysis*).

***Wed. April 23*: 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.

Readings: C. Shapiro and H. Varian, "The Art of Standards Wars," *California Management Review*, Winter 1999 [P].
Case: *Rivalry in the Video Games Industry* [S].
Discussion questions:

1. What are key success factors in this industry?
2. In what sense and for what reasons is this a "winner-take-all" industry?
3. What strategies and what circumstances have allowed newcomers to unseat established market leaders?
4. [Last names beginning A–F:] What should Microsoft do?
   [Last names beginning G–P:] What should Nintendo do?
   [Last names beginning Q–Z:] What should Sony do?

Mon. April 28: **The Quest for New Models of Management: Coordination, Self-Management, New Organizational Forms, Current Directions in Strategy**

Objective: To gain familiarity with ideas and innovations that are influencing current thinking about strategy making and the role and structure of the corporation. In particular, the implications of complexity thinking and evolutionary theory for management.

Readings: E. Beinhocker, "Strategy at the Edge of Chaos," *McKinsey Quarterly*, 1997 [S].

E. Beinhocker, "On the Origin of Strategies," *McKinsey Quarterly*, 1999 [S].

Bill McKelvey, "A Simple Rule Approach to CEO Leadership in the 21st Century," UCLA, August 2003 [S].

Grant, Chapter 17 from *Contemporary Strategy Analysis.*

Class format: Student presentations (see alternative original case research under Coursework 3 and 4) and general discussion.

Università Commerciale Luigi Bocconi

STRATEGIC MANAGEMENT

Professors Robert Grant and Markus Venzin

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 coursework. 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 provide you with a "toolkit" which you might be able to draw upon 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 upon 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.

Program

Part I: Introduction to Strategic Management

Sessions 1 and 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 and De Wit, *Strategy – Process, Content, Context*, pp. 40–6. Gary Hamel, "Strategy as Revolution," *Harvard Business Review*, July–August, 1996. *Case Study*: Madonna

Part II: Business Unit Strategy

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

Learning Objectives – Themes	Readings
1. Strategy as a quest for profit. 2. Diagnosing profit performance. 3. Cash flow vs. accounting profitability; accounting profit and economic profit. 4. The goal of the firm: profitability and value maximization; setting performance targets; balanced scorecards.	***Required Reading: Grant, Chapter 2*** G. Bennet Stewart, "EVA: fact and fantasy," *Journal of Applied Corporate Finance*, Summer 1994. Copeland et al., *Valuation* (2nd edn), McKinsey & Co./Wiley, 1995, Chapter 4: "Value-based Management." *Case Study*: Walt Disney Questions for discussion: ■ Evaluate Disney's performance during 1982–4. ■ 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
1. Identification of different types of resources. 2. Knowing the impact of resources on corporate success. 3. Distinction of the resource-based approach of strategic management as opposed to the market-based approach. 4. Identification of key resources.	***Required Reading: Grant, Chapter 5*** David Aaker, "Managing Assets and Skills – The Key to Sustainable Competitive Advantage," *California Management Review*, 1989. Jay Barney, "Integrating Organizational Behavior and Strategy Formulation Research – A Resource Based Analysis," *Advances in Strategic Management*, 1992. *Case Study*: Walt Disney Questions for discussion: ■ What are Disney's principal resources and capabilities? ■ How might they be deployed more effectively in Disney's existing and in other businesses?

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

Learning Objectives – Themes	Readings
1. Discover the characteristics of knowledge. 2. Be able to manage the main knowledge management activities; identification, development, exploitation, and measurement. 3. Linking critical resources to competitive strategy.	***Required Reading: Grant, Chapter 5*** Nonaka and Takeuchi, "The theory of organizational knowledge creation," and "Creating knowledge in practice," from "The Knowledge Creating Company," Oxford, 1955. Grant, "The Knowledge-based View of the Firm: Implications for Management Practice," *Long Range Planning*, June 1997. Markus Venzin, "Knowledge Management," *CEMS Business Review*, 1998. *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 and 12 (12/13.10. 0830–1030): Industry Analysis

Learning Objectives – Themes	Readings
1. Develop skills in understanding industry segmentation. 2. Analyzing the industry using Five Forces Model of Porter, PEST, and stakeholder analysis. 3. Criticism of the Porter Five Forces Model.	***Required Reading: Grant, Chapters 3 and 4*** *Case Study*: Ford 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
1. Get an overview of forecasting techniques. 2. Draw an industry scenario.	Kees von der Heijden, *Scenario Planning in Organizations*, Wiley, 1997, pp. 113–30. *Case Study*: Arie P. DeGeus: “Planning as Learning. . . . At Shell, Planning Means Changing Minds, Not Making Plans.”

Session 16 and 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
1. Understanding the concept of competitive advantage. 2. Developing a vision – deriving objectives and goals. 3. Knowing different types of strategies. 4. Knowing how to develop and sustain competitive advantage based on cost leadership. 5. Knowing how to develop and sustain competitive advantage based on differentiation.	***Required Reading: Grant, Chapters 7–9*** James Collins and Jerry Porras, “Building Your Company’s Vision,” *Harvard Business Review*, September–October 1996. *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
1. Understanding the basic processes and tools for strategy implementation. 2. Designing organizations: structure and systems.	***Required Reading: Grant, Chapter 6*** Lawrence Hrebiniak and William Joyce, “Implementing Strategy.” *Case Study*: In class reading

Part III: Corporate Strategy

Session 25–27 (22/23.11.): Parenting Advantage

Learning Objectives – Themes	Readings
1. Understanding the concept of parenting advantage. 2. Getting an overview of the general activities and tools on the corporate level. 3. Recognizing the value of horizontal strategies. 4. Formulating horizontal strategies.	***Required Reading: Grant, Chapter 5*** Andrew Campbell, Michael Goold, and Marcus Alexander, "Corporate Strategy: The Quest for Parenting Advantage," *Harvard Business Review*, March–April 1995.

Sessions 28–30 (29/30.11): Global Strategies and the Multinational Company

Learning Objectives – Themes	Readings
1. Understand implications of international competition for industry analysis. 2. Analyzing competitive advantage within an international context. 3. Discuss comparative advantage of nations. 4. Overseas market entry; alliances and joint ventures. 5. Multinational strategies: globalization vs. national differentiation. 6. Strategy and organization of the multinational corporation.	***Required Reading: Grant, Chapter 14***

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

Learning Objectives – Themes	Readings
1. Under what circumstances does diversification create shareholder value? 2. What are the motives for diversification? 3. 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
1. Understanding industry life cycles. 2. Analyzing different industry structure, competition, and success factors over the life cycle. 3. Making resource allocation decisions by using portfolio matrixes. 4. Anticipating and shaping the future.	***Required Reading: Grant, Chapter 10*** *Case Study*: Ford ■ How is the structure of the world car industry likely to change over the next 10 years? ■ Create alternative scenarios of the industry in 2008. ■ Which companies in the industry are likely to be most successful during the next 10 years?

Sessions 36 (21.12.): Summary of the Course