



CORPORATE STRATEGY

Strategy 502, Sept-Oct 2008

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COURSE OBJECTIVES

This course develops concepts and analytical frameworks for creating sustainable competitive advantage. The perspective adopted is that of the general manager who has overall responsibility for the performance of the firm or of a business unit within the firm. Such a manager needs to understand the basis for the current performance of the firm and to identify those changes (inside or outside the firm) that are most likely to affect future performance adversely or that provide opportunities for the firm to improve its performance. The manager must then use the firm's resources to formulate and implement strategies to compete successfully in its new environment. The strategy must define the scope of the firm's activities, the logic through which the activities result in better performance, and what it is about the firm that allows it to better carry out those activities than its competitors.

The complexity of today's (and tomorrow's) competitive environment dictates that strategy cannot be the domain of top managers alone. In particular, functional specialists and mid-level managers—the starting positions of many MBAs—will be challenged increasingly to *think strategically* when confronting day-to-day issues, and to ground operational contributions in the strategic realities of the business. Our aim is to increase your ability to take the initiative and assume a leadership role in your company, no matter what your formal position might be. One way to do this is through cultivating the ability to make well-grounded and uncommonly insightful recommendations as to how the business actually is or should be competing.

In order to capture the pragmatic, action-oriented nature of the general manager's job and the complexity of the general manager's milieu, this course is taught through the case method. We will supplement case discussions with readings, lectures, and conceptual analyses. A central goal is for you to develop your own personal synthesis and approach for identifying and solving key strategic problems facing a business. The class also should help you see relationships between the various functional area courses you will take during your MBA program.

COURSE ORGANIZATION

The field of strategy, and this course, attempts to address the central issue in business: why do some firms outperform other firms? It is empirically evident that there are significant profitability differences *between industries*, and there are significant profitability differences between *firms within industries*. In the three modules in this course, we will develop an understanding of what underlies such inter-industry and inter-firm profitability differences.

In the first module we will systematically examine what drives *inter-industry profitability differences* and how firms can engage in effective strategy-making. In module two, we transition to understanding intra-industry or inter-firm profitability differences and examine the role of firm strategy in discriminating between good and bad performance. This module may be usefully partitioned into understanding *business-level strategy* (how businesses should compete within industries) and *corporate-level strategy* (which industries should firms compete in and what instruments are available to do so effectively). Finally, module three examines the effective *implementation* of strategy focusing on the design of organization structures and incentive systems to support business-level and corporate-level strategies. The course concludes with a discussion of the role of the modern corporation in society.

Text

You are required to buy a course pack. There is no text book for the course; however, you may find the following books useful if you want to read further.

- Ghemawat, P. (1997). *Games businesses play: Cases and models*. Cambridge, MA: MIT Press.
 Ghemawat, P. (2001). *Strategy and business landscape: Core concepts*. Upper Saddle River, NJ: Prentice Hall.
 Porter, M. E. (1980). *Competitive strategy*. New York: Free Press.

Attendance

Because of the course emphasis on case analysis, the major and important part of your learning in this course will take place in the classroom. Therefore, attending all classes is essential. Please arrive in time for each class so that we may start promptly.

If for some unavoidable reason you must miss a class, please let me know in advance in writing so that your absence will not be unexplained.

Preparation

For the learning process to be really effective, it is necessary that you carefully prepare the cases/readings before class and actively participate in the case discussions during class. I expect you to be fully prepared for each class and may call upon you to start the discussion or answer a specific question during the class on any day.

What you get from this course depends on what you put in. Preparation involves not just thorough analysis, but also developing a personal position on the issues raised in the case. Unless you have thought about and adopted a personal position, it is very hard to learn from others' contributions in the class.

If for some reason you are not fully prepared on a particular day, let me know before class so that I don't embarrass you inadvertently. I urge you to attend all classes, even if you have not prepared adequately.

Participation

Class participation involves being clear about your own position and defending it, and the willingness to seek alternative perspectives on the situation. Participation enables you to learn from your colleagues and to help them learn from you -- which is what the case method is all about. Accordingly, I expect you to participate effectively in the class -- analyze, comment, question, discuss, and build on others' contributions. Good class participation is not repeating case facts, monopolizing class time, second-guessing the instructor, or ignoring the contributions of fellow participants.

Behavioral Standards

A significant part of the learning in this course takes place through the process of class discussion. Each student is responsible for helping to make this process effective. **Use of laptops is not permitted** during the class. Please do not come late to class. Both these behaviors hurt not only the student, but also have a negative impact on the learning community in general.

Assignments

The course requirements include completing two individual take-home assignments during the term. The assignments involve writing up an analysis (2 typewritten pages excluding exhibits, 11pt Times Roman font with 1-inch margin on all four sides) of the discussion questions assigned for the case being discussed in class. The assignment has to be dropped in a box kept in the reception before 8am on the day of the class. Note that this is an individual assignment. You are NOT permitted to discuss the assignment with ANYONE. If you consult any material other than the case and the assigned reading, you are required to provide appropriate citations and attribution.

Group project

The course also includes a final group project to be completed and handed in at the end of term. The project may be completed in groups of 4-6 members. For the project, each group will be required to collect information on an industry and the businesses in it, and then analyze the industry and at least two firms in that industry. This project serves at least three educational objectives: 1) it helps you to learn how to gather information on industries and firms, 2) it provides an opportunity to practice your skills in strategic analysis, and 3) it offers a chance to

learn how to work in teams, tapping on your detailed knowledge of different functional areas. See the end of this note for details about the term project.

Course evaluation

Class participation 30%
Two individual assignments 30%
Group final project 40%

Deadlines

Form groups for project: Wed (09/10)
Assignment 1: Wed (09/17) by 8am
Project proposal: Fri (09/19)
Assignment 2: Mon (10/13) by 8am
Final project: Fri (10/17) by 9am

Disability

If you think you need an accommodation for a disability, please let me know at your earliest convenience. Some aspects of the course, the assignments, the in-class activities, and the way I teach may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, we can work with the Office of Services for Students with Disabilities to help us determine appropriate accommodations. I will treat information you provide as private and confidential.

Office Hours

I encourage you to come and talk to me about any aspect of your work. I am very accessible. I will post my office hours in class.

COURSE OUTLINE

PART I: INTRODUCTION: THE NATURE OF STRATEGY

1. W, Sep 3 What is strategy?

Case: Dogfight over Europe: Ryanair I

Readings: Corporate Strategy course syllabus

Karnani, A. (2006). *Essence of Strategy: Controversial Choices*. Working paper, University of Michigan.

Discussion Questions:

- a. What is Ryanair's strategy and why has it been successful so far?
- b. Looking to the future, what should be the strategic concerns of Ryanair? What recommendations would you make to the top management?

PART II: INDUSTRY STRUCTURE: WHY DO INDUSTRIES DIFFER?

2. M, Sep 8 Industry and competitive environment

Case: The Cola wars continue: Coke and Pepsi in 2006

Reading: Besanko, D., D. Dranove, M. Shanley, and S. Schaefer (2004). *Economics of strategy*. 3rd edition. Hoboken, NJ: John Wiley & Sons, Chap 10.

Discussion Questions:

- a. Why is the soft drink concentrate industry so profitable?
- b. Contrast the soft drink concentrate industry with the bottling industry. Why is the profitability so different?
- c. Can Coke and Pepsi sustain their profits in the future?

PART III: COMPETITIVE ADVANTAGE: WHY DO FIRMS DIFFER?

3. W, Sep 10 Business level strategy – I

Case: Wal-Mart Stores in 2003

Reading: Besanko, D., D. Dranove, M. Shanley, and S. Schaefer (2004). *Economics of strategy*. 3rd edition. Hoboken, NJ: John Wiley & Sons, Chap 11.

Discussion Questions:

- a. Analyze the basis of Wal-Mart's profitability in discount retailing. Use the data in the case to be specific.
- b. Can Wal-Mart sustain its competitive position? Why or why not?
- c. Can Wal-Mart replicate its advantage beyond discount retailing?

4. M, Sep 15 Business level strategy – II

Case: Samsung Electronics

Reading: Same as session 3.

Discussion Questions:

- a. What were the sources of Samsung's advantage in DRAM? Back up your analysis using numbers from the case.
- b. How would you respond to the threat of Chinese entry?

PART IV: INDUSTRY TRANSFORMATION AND BUSINESS STRATEGY

5. W, Sep 17 Managing strategic change

Case: TiVo 2007: DVRs and Beyond

Reading: Ghemawat, P., J. Rivkin (1998). Creating competitive advantage, HBS Note.

Discussion Questions:

- a. Evaluate TiVo's strategy in the initial years.
- b. What is Tom Rogers' vision for TiVo? Will it work? Why or why not?
- c. **What are TiVo's options going forward? Evaluate the options and recommend a strategy.**

Hard copy of Assignment 1 (only question c above) due at 8am

6. M, Sep 22 Industry change and competitive advantage

Case: Apple Computer, 2006

Reading: Ghemawat, P. (2006). *Strategy and the business landscape* (2nd edn.). Upper Saddle River, NJ: Prentice Hall, Chap. 5.

Discussion Questions:

- a. Historically, what was Apple's source of competitive advantage?
- b. Analyze the evolution of the PC industry in the 1990s.
- c. Evaluate Apple's strategy since 1990.

Review and recap

PART V: STRATEGY IMPLEMENTATION

7. W, Sep 24 Performance measurement, incentives, and control

Case: Camp Dresser & McKee: Getting Incentives Right

Reading: Jensen, M. C. (2001). Corporate budgeting is broken – Let's fix it, *Harvard Business Review*, 79 (10), 94-101.

Discussion Questions:

- a. What was the trigger for the crisis in the incentive system? How is it related to firm strategy?
- b. What are the specific problems with the BIPS process?
- c. How would you deal with the four specific cases that Furman is facing? What does your decision imply for overhauling the incentive system in the company?

8. M, Sep 29 Organization Design

Case: Proctor & Gamble: Organization 2005 (A)

Reading: Grant, R. M. (2005). *Contemporary strategy analysis: Concepts, techniques, applications*. 5th Edition. Malden, MA: Blackwell Publishers. Chap. 6 (186-218)

Discussion Questions:

- a. Map out the various structures that P&G adopted over the years. What do you gain and what do you lose from each of them?
- b. Do you think there was a problem with Organization 2005? Why or why not?
- c. In helping Lafley as he takes over, which one of the three diagnoses would you focus on? Why? Develop a strategy for how you would address the diagnosis that you picked.

PART VI: CORPORATE STRATEGY

9. W, Oct 1 Firm scope and diversification

Case: The Walt Disney Co.: The entertainment king

Reading: Ghemawat, P. (2006). *Strategy and the business landscape* (2nd ed.). Upper Saddle River, NJ: Prentice Hall, Chap. 6.

Discussion Questions:

- a. What accounts for the success of Walt Disney over so many decades?
- b. What are the key elements of Disney's strategy? To what extent is the strategy vulnerable to imitation or substitution?
- c. What strategy would you recommend to revitalize Disney?

10. M, Oct 6 Geographic diversification and international strategy

Case: The globalization of CEMEX

Reading: Ghemawat, P. (2007). *Redefining global strategy: Crossing borders in a world where differences still matter*. Boston, MA: Harvard Business School Press, Chap. 7.

Discussion Questions:

- a. What benefits have CEMEX and other firms in the cement industry derived from globalization?

- b. How and why has CEMEX managed to outperform its leading global competitors?
- c. What explains the sequence of markets that CEMEX entered? Is there a strategy involved?

PART VII: BUSINESS AND SOCIETY

11. W, Oct 8 Corporate social responsibility

Case: Patagonia

Reading: Becker G. (2005). Do corporations have a social responsibility beyond stockholder value? (Url: http://www.becker-posner-blog.com/archives/2005/07/do_corporations.html).

Porter, M. E. and M. R. Kramer (2006). Strategy and society: The link between competitive advantage and corporate social responsibility, *Harvard Business Review*, 84 (12), 78-92.

Discussion Questions:

- a. Evaluate Patagonia's strategy
- b. How important was Patagonia's environmental position to its strategy? How does it constrain or help its growth prospects?

12. M, Oct 13 Review and Conclusion

Case: Ice-Fili (Abridged)

Discussion Questions:

- a. **What strategic options does Ice-Fili have?**
- b. **What strategy would you recommend to Anatoliy Shamonov?**

Hard copy of Assignment 2 (questions a and b above) due at 8am

TERM PROJECT

Industry Analysis

Each group has to analyze the industry chosen and come up with the main strategic issues faced by firms in that industry. The industry analysis which primarily is geared to addressing the industry sources of profitability should contain the following elements:

- Analysis of the macro environment, if relevant
- Analysis of industry structure
- Main positions or strategic groups in the industry, how profitability varies across positions and the main dimensions of competition in each position
- Analysis of industry profitability

The mere collection of quantitative data and facts does not result in a good industry analysis. You are expected to analyze and interpret the data and draw inferences based on the evidence.

Firm Analysis

Each group has to analyze at least two firms operating in the industry picked by the group. Ideally, pick one firm that is considered a high performer and another that is a poor performer.

Your firm analysis should begin with an analysis of the financial statement (at least a five year trend so that you do not draw the wrong inferences from limited data). Based on your financial statement analysis you should **come to a conclusion on whether the firm is a high performer or low performer**. I encourage you to be creative in the way that you assess performance. You should recognize that different industries have different metrics that are appropriate in assessing performance.

Based on your conclusion, i.e., whether the firm is a high performer or low performer, you should you should identify the main reasons that, in your view, account for high or low performance. Such reasons may include acquisition strategy (e.g., Cisco), platform dominance (e.g., Microsoft), activity system supporting low cost (e.g., Walmart), strategic alliances (e.g., Corning), global strategy (e.g., News Corp). In all likelihood, you will end up identifying four or five main reasons for the high or low performance evaluation that you made.

As a final component of your firm analysis, I would like you to pick ONE of the factors identified above and do an in-depth analysis of why that factor is a significant driver of high or low performance as the case may be.

Alternatively, I would also be open to an in depth analysis of a very contemporary issue or problem (or strategy) that your firm is facing. This would be in lieu of the above analysis of factors explaining high or low performance. For instance, some of my students last year analyzed McDonalds Value Meal strategy, Gap revitalization strategy via shutting down stores, implications of Merck's loss of patent protection on its best-selling cholesterol drug etc.

Final Report

The final report should be about 20 pages (12 point font, double space, 1” margins on all sides) in length, excluding appendices. The industry analysis should be no more than 8 pages and the firm analysis comprising the remainder. Each firm analysis should be no more than 8 pages. The aim of the report is not to describe data. The bulk of data (e.g. a diagram describing the competitive forces or a table with financial data) should be reported in appendices. However, make sure you refer to the appropriate appendix when discussing issues coming out of those data.

Evaluation

The evaluation of the term project will be based on the extent to which students reached the learning objectives. A good term project is the one in which students collect relevant data, map these data onto appropriate frameworks, demonstrate sharp analytical skills, develop cogent arguments, identify the key strategic issues, propose sound strategic recommendation, all this underlined by good team work.

This project is designed as a team effort to benefit from the synergies developed as multiple ideas and diverse perspectives are brought together, and to share the workload. Most teams work well, and all members contribute equally and effectively. However, peer review of team members is essential in order to evaluate individual contributions fairly, particularly if some students have not contributed their fair share. Please submit the completed peer evaluation form, unless you think all the team members contributed equally to the project.

