

*Contemporary Strategy Analysis*

**Sixth Edition**

**A Guide for Instructors**

by

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# Introduction to the Instructors' Guide

## OBJECTIVES

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 additional materials to support your teaching of strategic management. These include:
  - Slides that reproduce figures from the book, summarize key points from the text, and provide additional examples to illuminate concepts and principles.
  - Suggested answers to the self-study questions included at the end of each chapter of the book.

## KEY FEATURES OF *CONTEMPORARY STRATEGY ANALYSIS*

*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 to enhance the performance of the organizations that they join.

## My Goals in Writing the Book

*Contemporary Strategy Analysis* first appeared 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.

It was never my intention to write a strategy text. If I could have found a text I liked, I would have used it. I wanted a text that combined the intellectual challenge and dynamism that characterized this rapidly developing field with practical guidance on making strategic decisions and managing corporate development. Disheartened by reading the leading strategy texts of that time, I resolved to write my own.

The resulting first edition of *Contemporary Strategy Analysis* was grounded in the fundamental concepts and basic theories of strategic management and was strongly focused on the determinants of profitability. However, the purpose of the book was not to teach theory, but to use theory to provide answers to the strategic decisions that general managers face: What businesses should we be in? Producing which products? Serving which customers? 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 insight into the sources of superior performance and the ability to use that insight to make better strategic decisions.

The sixth edition of *Contemporary Strategy Analysis* has the same goals and orientation. What's different is the content. As the field of strategy has developed in terms of theory and empirical evidence, and as the strategic issues facing companies have changed, so the sixth edition is the product of continuous updating.

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 content and goals of the program of which the strategy course is a component, the interests and characteristics of the students, and the capabilities and personality of the instructor. Although the text is supported by a various

supporting materials – including a casebook (a new edition of which accompanies this edition of the textbook) – my intention is to combine *excellence* in delivering the concepts and frameworks of strategic management with *versatility* in terms of compatibility with a variety of pedagogic approaches and 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 the five continents of the world. The most striking feature of these courses is their diversity. Although designed primarily for use 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 other 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

Most of the strategic management courses that use *Contemporary Strategy Analysis* as a core text use case studies as vehicles for teaching the meaning and use of strategy concepts and frameworks. An important objective of this *Guide* is offer advice to instructors on the choice of cases to use with the textbook. The sixth edition is accompanied by a new edition of *Cases to Accompany Contemporary Strategy Analysis*,<sup>1</sup> which comprises new and updated case studies, all of which have been specially written to accompany the text and illuminate and apply its content. In addition, a variety of other cases have used successfully with the text. These include cases from 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. Under the section "Topics, Outlines, and Recommended Cases" I offer guidance of the choice of cases.

## Other Supporting Materials

1. PowerPoint slides are available for each chapter of the text. These slides reproduce figures from the text, summarize key points from each chapter, and offer illumination of the concepts and tools of strategy analysis through additional examples.
2. Discussion questions are available for each of the chapters (see the chapter outlines below).

These teaching aids are from the *Contemporary Strategy Analysis* website [www.blackwellpublishing.com/grant](http://www.blackwellpublishing.com/grant).

## Content and Style

The content and style of *Contemporary Strategy Analysis* reflect 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 scope of strategy research – submissions to the Business Policy and Strategy Division of the Academy of Management conference increased fivefold between 2000 and 2006. The relationship between the field of strategic management and more established disciplines is also shifting. Strategic management continues to draw upon longer-established disciplines – economics, social and cognitive psychology, organizational sociology, systems science, and biology – for much of its conceptual and theoretical content. Yet, increasingly strategic management research is a source of conceptual and empirical nourishment for these more mature disciplines. In addition to its focus on the core strategy concepts, *Contemporary Strategy Analysis* draws upon the ideas and concepts that are reshaping our thinking about strategy.

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<sup>1</sup> Robert M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell Publishing, 2008.

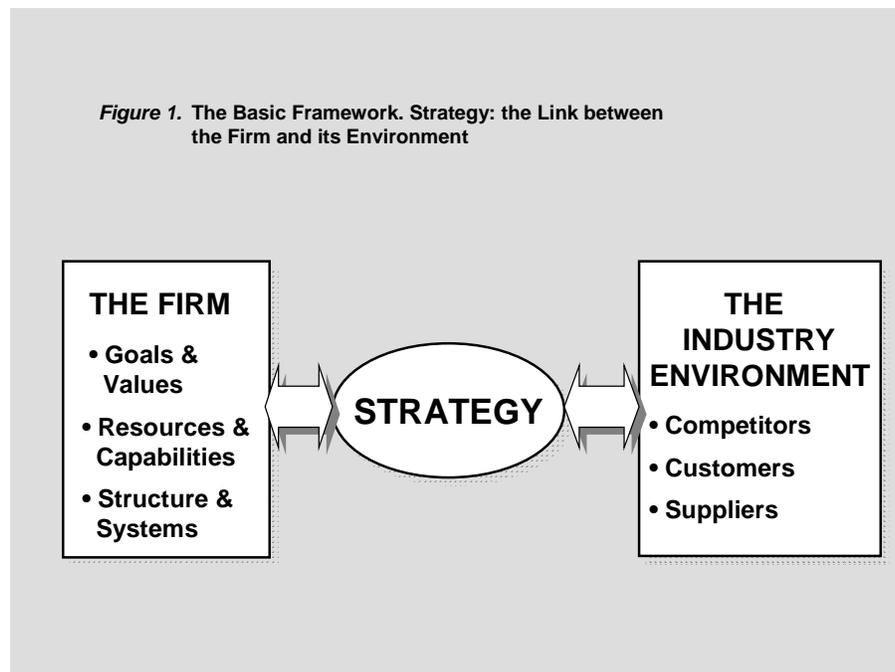
## How the Book is Organized

The structure and content of the book is guided by a single idea: strategy is a quest for superior performance. The principal dimension of performance is profitability (or, to be more precise, maximizing the value of the firm). While it is realistic to acknowledge that firms pursue other goals, the consequence of broader motivational assumptions is that strategy decisions are no longer amenable to rigorous, systematic analysis. Virtually all our techniques of strategic analysis are directed 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.

If strategy is a quest for superior long-term profitability, it follows that there are two major inputs into strategic decisions: analysis of the external environment of the firm, and analysis of the internal environment of the firm. The external environment offers profitable opportunities; the internal characteristics of the firm determine its ability to win out over rivals in exploiting these opportunities. 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: *goals and values* (the primary goal, we have noted, is profitability), *resources and capabilities*, and the *organization structure and management systems* through which resources and capabilities are deployed.

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 build around the four major inputs into strategy analysis as shown by this framework:

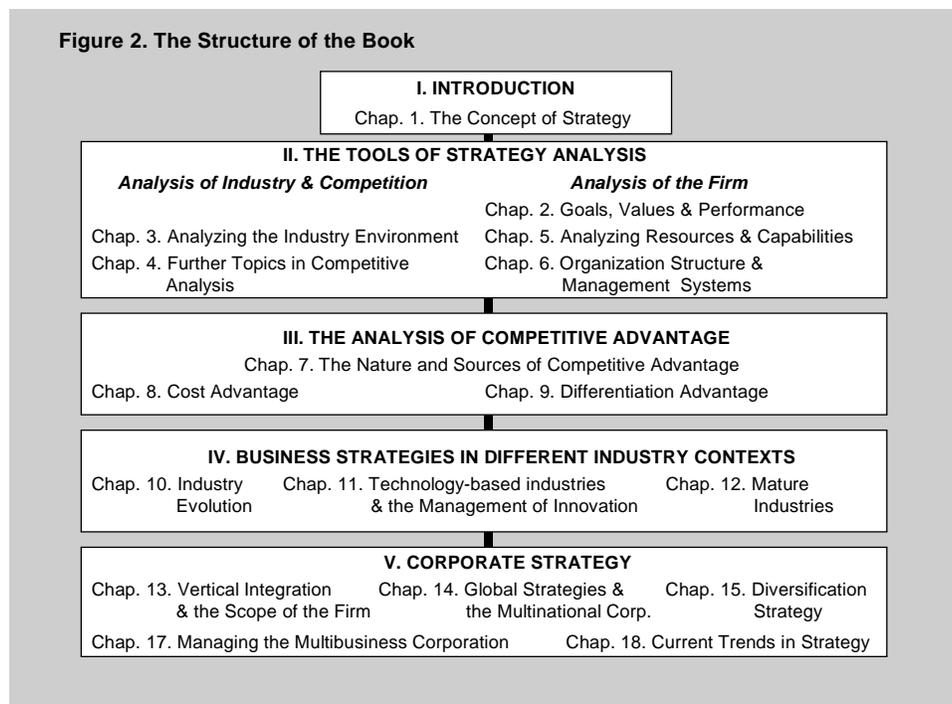
- Chapter 2 looks at “Goals, Values, and Performance.”
- Chapter 3 is concerned with analyzing the industry environment, which is developed further in Chapter 4.
- Chapter 5 deals with “Analyzing Resources and Capabilities.”
- Chapter 6 addresses “Organization Structure and Management Systems.”



Once the basic 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 (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. Chapter 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 as the new millennium unfolds.

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 creating and sustaining competitive advantage. Competitive advantage results from the favorable deployment of a firm's resources and capabilities within its industry environment. Thus, the two most important areas of strategy analysis are, first, analysis of the industry 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 a 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 the 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. Do internet protocols (IPs) present an opportunity or a threat to Nokia? The introduction of voice-over-internet represents a major source of substitute competition for the entire telecom sector. At the same time the provision of mobile internet solutions offers substantial opportunity for Nokia. Clearly, IP is both a threat and an opportunity for Nokia. What about Nokia's home base in Finland? Is this 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 substantially against the US dollar, it is a weakness.

The key strategic issue for Nokia is not some arbitrary classification of IP technology as a threat or an opportunity, but a deep understanding of IP's implications 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 questionable checklists, such as SWOT analysis, in favor of a focus on the fundamentals of strategy and competitive advantage. Rather than an arbitrary classification of external influences as opportunities or threats, our focus is a penetrating analysis of the industry environment. Rather than categorize internal factors into strengths or weaknesses, our focus is assessing the critical features of a firm's resources and capabilities.

Naturally, the tools and frameworks we deploy are designed to simplify business situations, e.g. by categorizing a large number of factors into a few groupings. However, my approach is not to offer checklists or taxonomies for their own sake; my goal is to promote understanding of the underlying determinants of firm performance.

### **What's New About the Sixth Edition?**

The structure of the 6th edition is almost identical to that of its predecessor: there are no new chapters and no major reordering 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 include skepticism over shareholder value maximization as a reliable basis for managing companies, concern over the social and environmental responsibilities of companies, increasing prominence of the BRIC countries (Brazil, Russia, India, and China) in the world economy, and the impact of digital technologies in driving the convergence of once-separate industries.

The outcome of these changes has been reaffirmation of the usefulness of the basic tools of strategy analysis. Amidst the turmoil of recent changes – including the bursting of numerous financial bubbles and the discrediting of recent management fads – has been reinforcement of the basic message of this book. Strategy is not about stargazing, wishful thinking, or pursuing the next big idea. 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. At the same time there has been the urgent need to extend our tools of strategy analysis to address more effectively the requirements for business success in the 21st century – in particular, the long-run sustainability of the business enterprise, adaptability to turbulence and complexity, and the need to access new and more sophisticated sources of competitive advantage.

In response to these and other developments, the 6th edition of *Contemporary Strategy Analysis* features the following additions and changes:

- In introducing the **concept of strategy** (Chapter 1), I consider more explicitly how we identify and describe a firm's strategy.
- The analysis of **goals, values, and performance** (Chapter 2) gives greater attention to reconciling the goal of long-run profit maximization with the role of values, ethics, and corporate social

responsibility. I make the point that the long-run profitability and survival of the firm depends critically on its responsiveness to the demands of society (“legitimacy”). I also identify one of the great paradoxes of strategy: the firms that are the most profitable over the long term are typically those that pursue goals other than profitability. Sustained competitive advantage is typically fostered by a strategic vision that transcends the pursuit of profit.

- **Industry and competitive analysis** places greater emphasis to the role of game theory and competitor analysis in analyzing the interactions between rival firms (Chapter 4).
- **Resource and capability analysis** (Chapter 5) has always been a central emphasis and key strength of *Contemporary Strategy Analysis*. In the new edition, I offer a more integrated and systematic approach to the identification and appraisal of resources and capabilities. I draw upon recent contributions to the literature to discuss how firms can create and develop organizational capabilities.
- The treatment of **organizational structure and management systems** offers a more integrated approach to organizational design from the viewpoint of the two central problems of economic organization: *cooperation* and *coordination*.
- Part III on **competitive advantage** includes Chapter 8 on cost advantage and Chapter 9 on differentiation advantage, which have been rewritten to make them more focused and concise.
- Chapter 10 on **industry evolution** integrates more effectively the principles and findings drawn from evolutionary economics, organizational ecology, and change management to provide a better guide to the implications of industry evolution for business strategy and the challenge of organizational adaptation.
- The discussion of strategies for **innovation and the management of technology** (Chapter 11) has been updated to consider more carefully alternative strategies to exploit new innovations and considers recent evidence on the strategies for winning standards wars.
- The analysis of **vertical integration** (Chapter 13) offers a more integrated examination of the costs and benefits of vertical integration and the factors that determine each.
- Chapter 14 on **global strategy and the multinational corporation** offers a more systematic treatment of the benefits of global integration and benefits of local differentiation. It incorporates recent research findings on how multinational corporations can reconcile the advantages of each.
- The analysis of **diversification** (Chapter 15) looks more carefully at the potential advantages of diversified companies in developing and allocating resources and the role of corporate identity and coherence.
- Finally, the discussion of **current trends in strategy** (Chapter 17) examines the key changes in the business environment during the 21st century, identifies promising new concepts (including complexity, real options, and self-organization), and explores emerging strategies and organizational forms.

# 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*, *competitive 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). Over time, the role of the required strategic management course changed. Increasingly strategic management 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 businesses, but 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 business courses.

## 2. Is the book suitable for undergraduates too?

The book was first developed for MBA teaching at the University of British Columbia, California Polytechnic, and UCLA. 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 that lack significant business experience. But this is certainly no excuse for approaching these students with any less rigor or intellectual challenge. My experience of teaching undergraduates at Georgetown, Bocconi University, and City University is that they like the book, they are well able to handle the concepts and analysis within the book, and they benefit greatly from the many examples and applications in the book.

## 3. What balance between discussion and exposition?

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. At the same time, effort needs to be devoted to generalizing issues arising from case discussions and reinforcing key learning. 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 (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 during the past ten years?

#### **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 and articulation of strategy generally occurs in tandem with the process of implementation. Hence, a feature of this book is the integration of strategy formulation and implementation. The sixth edition introduces “Organization Structure and Management Systems” (which is primarily concerned with strategy implementation) among the basic tools of strategy analysis (i.e. in Part II of the book). Then, 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 both strategy formulation and strategy implementation.

At the same time, the book’s focus 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.

# Class 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:

- To convey appreciation of 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).

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.
- How to identify and describe a firm's strategy.
- The debate between the *rational design* and *process* schools of strategy.

#### Class Outline

Even with the first class, I find it useful to kick off with a case discussion. Given that getting students to prepare a case before the first class is fraught with difficulty, I select a case example that most people have some familiarity with. I find that Madonna works fine in this respect. See Exhibit 1.1 for a brief description while my case on Madonna<sup>2</sup> provides 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 concerning accommodating to 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 capabilities as a singer, songwriter, dancer, and actress, and leads to comments concerning her skills 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 sense; however, in understanding her sustained success over the period 1984–2007, common patterns and themes are discernible.

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<sup>2</sup> *Madonna* (in R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edition, Blackwell, 2008) describes the career of superstar Madonna Ciccone and raises issues concerning the basis of her sustained success in the a fast-changing, highly competitive music business, the nature of strategy, and its role in attaining competitive advantage.

Madonna 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 Virgin or Google) displays clear direction combined with the flexibility to adapt to and exploit unexpected change.
- Propose the key elements of a successful strategy (see 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 the basic framework for strategy analysis, which comprises the same elements as were derived from the Madonna discussion (in Figure 1.1). The emphasis 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 practice of “long-range planning” emerged in the late 1950s (see Figure 1.3).

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* case, 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 which will be dealing with. Particularly suitable cases are those which deal broadly with issues of business success; which consider the roles of goals/values, organizational resources, and the industry environment; and 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 that are relatively simple – there will be plenty of opportunity for bewildering students with the complexity of strategic decisions as the course unfolds – and are short. (If you are beginning the first class with a case, many students will have little time for preparation.) Entrepreneurial cases also work well. Startups such as Bill Gates and Microsoft, Howard Schultz and Starbucks, James Dyson and the bag-less vacuum cleaner can be excellent vehicles for exploring the nature and role of business strategy.

**Madonna** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

See above for a discussion of the Madonna case as the basis for introducing the nature of strategy, its role in success, and the importance of strategic fit.

**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](http://depts.washington.edu/bacisb/gbc/starbucks_final.doc); S. Kotha and M. Schilling, “Starbucks Corporation (A),” in M. A. Hitt et al., *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.

***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](http://www.t-bird.edu/pdf/about_us/case_series/a07020009.pdf)).

Like Starbucks, 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.

***Doing A Dyson: Case [A]*** (Imperial College, ECCH Case No. 599-051-1).

James Dyson’s bag-less vacuum clearer is a stirring tale of the trials and triumph of a determined and stubborn British inventor and entrepreneur. The case offers an opportunity to explore the role of strategy in the seemingly haphazard development of a successful startup.

***Innovation and Renovation: The Nespresso Story*** (Kamran Kashani and Joyce Miller, IMD Case No. 046, 2000; also available through HBS and ECCH).

The case traces Nestlé’s development of its Nespresso coffee system in a separate business unit using a strategy that is a radical departure from that of most of Nestlé’s businesses. The case requires students to identify and describe Nespresso’s strategy; to consider its fit, both externally with the market and internally with Nestlé’s resources, capabilities and organizational structure and systems. It also introduces ideas of strategy as innovation.

***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 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 Strategy Analysis***

### **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 a company is 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 vs. 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:

- Using company information (both financial statements and qualitative information) to diagnose the sources of high or low performance. This includes disaggregating return on investment into sales margins and capital productivity ratios.
- Interpreting performance data and selecting performance indicators (including accounting profit vs. economic profit, cash flow vs. profit, and the relationship of enterprise value to profitability).
- The limits of financial analysis – why qualitative strategic analysis is important both in appraising past performance and predicting future performance. 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*.
- The role of values and mission and the extent to which corporate social responsibility is compatible with or conflicts with profit maximization.

#### **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 questions:

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

Progress is often slow 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 on careful diagnosis – the same for strategy as for medicine. I argue for a “scientific approach” – from an initial reading of the case and evaluation of performance, we can formulate hypotheses as to what the sources of the problems are. The task is then to use the data available to see which of these hypotheses is consistent with the facts.

I tend not to go into much detail regarding the accounting and operating ratios and other data that should be used to diagnose performance problems. However, I do emphasize that students should revisit finance and accounting

texts (for all business graduates, reading financial statements and using basic finance and accounting ratios to assess performance are fundamental parts of their “toolbox”).

Where I do place emphasis is on the strategic goals of the firm. If the firm is operated 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 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

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

***Laura Ashley Holdings plc*** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

Laura Ashley’s traditional 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 is owned by a Malaysian conglomerate and well into a restructuring plan that so far has yielded few performance benefits. The case requires that the students diagnose the sources of Laura Ashley’s 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 as 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 the struggling Cincinnati brewer facing intensifying competition as the national brewing companies move into its local market.

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

The case traces the development of Body Shop, the UK-based, values-driven supplier of toiletries and cosmetics. The Body Shop case allows us to explore the relationship between organizational values and profit. Despite the commitment of founder and CEO Anita Roddick to environmentalism and the rights of indigenous peoples and her scorn for profit and accepted management methods, Body Shop is an industry leader in profitability.

## **THE ANALYSIS OF INDUSTRY AND COMPETITION (CHAPTERS 3 AND 4)**

### **Class Topics**

Understanding competition, its determinants, and its implications for profitability is a fundamental component of any core strategy course. My preference is to introduce the tools of industry and competitive analysis early in the course.

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

Despite its limitations, I continue to make the *Porter five forces of competition framework* the centerpiece of industry analysis. It'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.

As a result, my preference is to emphasize the application of basic Porter-type industry analysis rather than to spend time on more sophisticated and rigorous analysis (e.g. game theory). Despite the theoretical rigor of game theory and attempts by several writers to make it operational for practicing managers, applying it in real-world situations typically requires carefully selected situations. For gaining a general picture of competition within a market and predicting the evolution of competitive behavior and profitability, it remains limited.

### **Class Outline**

I begin with a case. I particularly like cases that deal with lousy industries – airlines, automobiles, metal containers. Here students can quickly develop an understanding of the 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 how the different structural factors – number of firms, product differentiation, excess capacity, exit barriers, and ratio of fixed to variable costs – combine to determine the intensity of competition and overall level of profitability.

I then push students to use this framework to explain the reasons why profitability is what it is in different industries. With evidence on inter-industry profit differences in Chapter 3 (Table 3.1 and Figure 3.2), I 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 profitability. Hence, it is interesting to take a sector that is in the midst of rapid change (wireless telecommunications, automobiles, LCD flat screens, 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+ newspaper compete with the *Post*. To get to grips with competition within more tightly defined markets, it is useful to segment industries into more distinct market. Such segmentation can be performed on almost any industry. I typically use the world automobile industry (see Strategy Capsule 4.4) and ask students why, during the 1990s, were the SUV and minivan segments so much more profitable than the small car segment, and why has profitability declined in these segments.

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 Figure 3.7). It is also to look at how KSFs change over time. For example, in the world auto industry what factors will determine which companies will be most successful over the next five years?

## Cases

***The US Airline Industry in 2007*** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

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. Following a brief revival during the late 1990s, the industry plunged into deep recession following September 2001, with several major airlines entering Chapter 11. Yet, since 2004, the industry has been steadily moving back into profit. 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. To explain the recent revival in profitability, the case shows how the companies' strategies have moderated competitive pressure through changing the structure of the industry: mergers and alliances; establishing dominant positions at individual hubs; disciplining small, low-cost airlines with predatory pricing; and building customer loyalty through frequent flyer programs. Looking ahead, the key questions are whether the recent profit revival will continue, or whether the long-term tendencies towards entry, excess capacity, and commoditization will again cause the industry to revert to ruinous competition.

***Ford and the World Automobile Industry in 2007*** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

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 for 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. 9-378-024).

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

- (a) Analyzing industry segmentation – although the industry as a whole is unattractive, competitive conditions and demand prospects vary greatly between segments.
- (b) Analyzing competitor behavior – an important issue for Crown Cork and Seal is that its major competitors are all diversifying: so does this signal less commitment to the metal container industry, and what then are the implications for Crown Cork and Seal's competitive strategy?

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

This is an updated version of its predecessor – the classic CC&S case listed above. It provides an excellent basis for industry analysis, even if it does lack some of the richness and charm of the earlier case because it doesn't examine the CC&S's turnaround under CEO John Connelly.

***African Communications Group (Condensed)*** (Harvard Business School Case No. 9-799-148).

The case involves a startup company that proposes to establish a network of wireless-linked pay-phones in Tanzania. The case offers a very interesting opportunity for students to identify the key players in the industry and organize them into key groups: suppliers, direct competitors, substitutes, buyers, and potential entrants. Once the structure of the market for pay-phone services in Tanzania has been identified, the case then allows discussion of the strength of these various forces of competition and the potential of this market to support a satisfactory return on investment.

***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 the competitive dynamic 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 Nos 9-376-266, and 9-378-173 to 9-378-182).

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

[See also: ***The Cola Wars Continue*** (Harvard Business School Case No. 9-794-055) and ***Cola Wars Continue: Coke vs. Pepsi in the Twenty-First Century*** (Harvard Business School Case No. 9-702-442).]

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. It is an excellent case for the analysis of industry structure and industry attractiveness, the impact of structural changes on competition, and competitor analysis.

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

The case documents the outbreak of aggressive competition between the main US 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 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 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 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.

***Bitter Competition: The Holland Sweetener Co. vs. NutraSweet [A]*** (Harvard Business School Case No. 9-794-079).

The case examines the competitive interaction between Monsanto's NutraSweet subsidiary and newcomer Holland Sweetener in the market for aspartame. The case supports the application of a number of game theoretic concepts, including preemption, signaling, and prisoners' dilemma.

## **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* is the emphasis it has given to resources and capabilities as the foundation for competitive advantage and the way it introduced the resource-based approach as a practical and useful tool of strategy analysis.

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 identify and appraise a company's resources and capabilities.
- Drawing implications for strategy formulation from the above appraisal.
- Developing capabilities. What difficulties do firms face in developing new capabilities? What are different approaches for creating and developing capabilities and what are their relative merits?

Depending on the time available for the course, I sometimes 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 and their role in developing and replicating organizational capabilities.

## Class Outline

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

I proceed as follows:

1. I develop the concept of a resource-based strategy, where strategy is defined not so much in terms of markets or customer needs but in terms of the firm's resource and capability base. (Hamel and Prahalad's notion of the "core competence of the corporation" is useful here.) For examples, I draw on Canon, Honda, 3M, Sharp, and Virgin Group, among others.
2. I emphasize the distinction between resources and capabilities – companies may acquire the resources, but this doesn't guarantee capabilities. Sports teams are useful in this regard – several professional sports teams have talented and expensive players, but have not converted these into outstanding team-based capabilities. One lesson to be drawn is that, despite their central importance to competitive advantage, we don't know a great deal about the microstructure of organizational capabilities 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 major activity and the resources that each capability requires. Whichever approach is used, the goal is to build a list of resources and capabilities that can then be appraised in terms of their *importance* and *relative strength*. The resources and capabilities can then be shown on a single chart (see Figure 5.9). This analysis requires an example, preferably an organization that is familiar to everyone. At Georgetown I typically use our own business school.
4. The purpose of this analysis is to generate strategy implications. Here students readily identify the potential for building on weaknesses in resources and capabilities. Perceptive students will inquire into the possibility of outsourcing activities where the firm's capabilities are weak. But the key area of strategy is the exploitation of strengths. In which market segments, in relation to which customers are a firm's resource and capabilities strengths likely to be most effective? What are the implications for how the firm should compete?
5. I finish 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. (I find the HBS cases concerning knowledge management within management consulting firms especially suitable.)

## Cases

To the extent that almost all cases present issues of competitive advantage, 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:

**Wal-Mart Stores Inc., 2007** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

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. It looks too at Wal-Mart's unusual and highly effective upper management processes. The case asks students to explore the nature and basis of Wal-Mart's superior resources and capabilities and to consider whether Wal-Mart's competitive advantage is (a) sustainable and (b) transferable to overseas markets.

There are other Wal-Mart cases that offer a suitable means of analyzing the basis of the company's competitive advantage:

- *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)
- *Wal-Mart Stores in 2003* (Harvard Business School Case No. 9-704-430).

**Manchester United: The Glazer Takeover** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008)

Malcolm Glazer's purchase of Manchester United PLC coincides with the team's declining performance on the pitch. At the beginning of the 2005–6 season, Man United is in a difficult situation. It has been displaced by Chelsea as England's most successful team and, as result of the takeover, the club has been saddled with massive debt. If Glazer is to earn a financial return on his investment, it is essential that Man U is successful in both the English and European leagues. The case requires students to examine the determinants of team-based capability in professional sport and the mechanisms through which superior team-based capability can be developed.

**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 that are the most sustainable and most difficult to imitate are those founded on capabilities that 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 on its human resource policies, decision-making systems, supplier relationships, and marketing policies, all of which reflect a set of long-established and deeply ingrained 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, imagining 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* (in D. Collis and C. Montgomery, *Corporate Strategy*, Irwin, 1997).

**Airborne Express [A]** (Harvard Business School Case No. 9-798-070).

Although profitable, Airborne Express is considerably smaller than its two major rivals UPS and Federal Express. The case allows an assessment of Airborne's resources and capabilities relative to those of FedEx and UPS and an assessment of its potential for survival and competitive advantage in relation to these giants.

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

Compared with most banks, Capital One has taken a radically different approach to competing in the US credit card industry. Using IT and statistical analysis to capture new business, analyze credit risk, and tailor credit card offerings to the characteristics of individual customers, Capital One has emerged as one of the most profitable and rapidly growing credit card issuers in the US. The case allows students to examine the capabilities that underlie Capital One's superior performance and identify other markets where Capital One might deploy those same capabilities.

**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:

**Eastman Kodak: Meeting the Digital Challenge** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

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. Early in the 1990s, Kodak made a critical strategic decision – that it would be an imaging company rather than a chemical/pharmaceutical company. As a result it has divested its chemical and pharma subsidiaries and invested heavily in building digital imaging capabilities. The case reviews the development of Kodak's digital strategy and considers the challenges involved in developing digital capabilities. By 2004, Kodak has made progress in establishing a strong market presence in several digital imaging markets, but is not generating profits from digital imaging. This raises questions over whether Kodak's digital strategy needs reformulating and, if not, how its implementation can be made more effective.

**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 Hayek and develop the capabilities that permitted it to be internationally competitive once more.

Knowledge management and its link with capability development:

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

This case examines a major strategic shift at Booz Allen Hamilton and the firm's need to develop its capabilities in terms of a more systematized approach to management consulting that assimilates and reuses more effectively the knowledge gained in individual consulting assignments. The case describes the system of knowledge management developed by Booz 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 way in which McKinsey has developed structures, systems, processes, and practices to help it develop, transfer, and supply knowledge among its 3,800 consultants in 69 offices worldwide. 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 it is, then I leave discussion of organizational structures and management systems to case studies that focus on resources and capabilities, internationalization, diversification, etc., but which introduce implementation issues.

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 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 familiar real-world organizations. 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, the 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 (e.g. energy, financial services, telecom), competency-based practices (e.g. strategy, marketing, change management, IT), and communities-of-practice.

## Cases

***Reorganizing the Royal Dutch Shell Group.*** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

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 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,” most companies need to consider both cost efficiency and product differentiation. Hence, my cases in this section I use as vehicles for analyzing both cost and differentiation, even though the emphasis tends to be on one or the other. For example, while Harley-Davidson’s competitive advantage is based almost entirely on its unique differentiation, its annual output of around 300,000 bikes (compared with Honda’s 6 million) creates important issues of cost efficiency for Harley.

Following the structure of the three chapters (6, 7, and 8), I cover three main topics:

- The material in Chapter 6 explores the dynamics of competitive advantage. It builds on the analysis of resources and capabilities to show how competitive advantage emerges and how the processes of imitation result in its erosion through competition. A key learning here is the ways in which the opportunities for establishing and sustaining competitive advantage depend on the competitive characteristics of the firm’s market, which in turn depend on the characteristics of the resources and capabilities required to compete in that market.
- The analysis of cost advantage (Chapter 7) is concerned with the factors that determine differences in unit costs between competing firms and uses the value chain as the basis for a finer-grained analysis of costs. The emphasis of this analysis is on providing a basis on which to recommend actions to improve a company’s cost competitiveness.
- The analysis of differentiation advantage (Chapter 8) is concerned with identifying opportunities for matching together 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, while in automobiles it is new product development.

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

## Cases

**Harley-Davidson Inc., January 2007** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

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 that rests on a single strategic resource – the Harley image. However, in exploiting and developing this image, H-D has carefully developed a differentiation strategy based on quality improvement, new model development, promotional activities, upgrading of dealerships, and a widening range of customer service activities, from consumer financing to owners' club rallies. This strategy has been effective despite H-D's limited resources and capabilities relative to competitors such as Honda, Yamaha, and BMW. H-D's cost position is also important – how can a company producing just over a quarter of a million motorcycles annually avoid a widening cost gap with volume manufacturers such as Honda with production volume of around 6 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.

**Matching Dell** (Harvard Business School Case No. 9-799-158).

Dell Computer's direct sales model has given it a competitive advantage in the PC industry that other manufacturers are eager to imitate. The case requires an analysis of cost advantages of Dell's strategy and a consideration of the challenges facing its rivals in attempting to copy the Dell direct sales approach.

**Airborne Express [A]** (Harvard Business School Case No. 9-798-070).

Airborne Express is in a difficult competitive situation relative to its two major rivals, UPS and Federal Express. The case allows an assessment of Airborne's competitive position relative to those of FedEx and UPS and offers the opportunity to consider Airborne's potential for cost competitiveness in the face of the scale and network economies available to FedEx and UPS.

### **Wal-Mart.**

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

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

The cases provide a chronological sequence that 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.

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

This is a detailed and demanding case in cost analysis. The case involves the calculation of the installed cost of different roofing systems and shows how the cost advantage of different technologies varies by market segment.

## *Part IV. Business Strategies in Different Industry Contexts*

### **INDUSTRY EVOLUTION AND STRATEGIC CHANGE (CHAPTER 10)**

#### **Topics, Outline, and Cases**

For most of the strategy courses I teach, I do not include industry evolution 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 on the evolution of industries and the means by which companies adapt to change, the following cases are suitable.

#### *Intel*

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 an ideal 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).

#### *Other Cases*

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

- *Ford and the World Automobile Industry* (see under “Chapters 3 and 4, Industry and Competitive Analysis” 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 of the world automobile industry.
- *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 industry environments, I take particular interest in industries where innovation and managing technology are the keys to competitive advantage. Inevitably these tend to be emerging industries that are the result of innovation. In addition, there are industries where technology and innovation continue to be the principal form of competition – e.g. 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* is a perennial favorite case of mine. *Raisio and the Benecol Launch* introduces many similar issues regarding formulating and implementing a strategy to exploit an innovation.

I use these two cases 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 resources and capabilities.
- The rapid evolution of industry structure and key success factors as an industry moves from its “introduction” to “growth” stage of development.

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 (and 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 on past standards

battles – Sony and Matsushita in VCRs, IBM and Apple in PCs – and current standards battles – Palm vs. Microsoft vs. Symbian in operating systems for cell phones and handheld devices, Sony vs. Toshiba in high-density DVDs, and XM vs. Sirius in satellite radio broadcasting – to develop this analysis.

## Cases

Cases that 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:

***Raisio and the Benecol Launch [A] and [B]*** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

Raisio, a grain milling and vegetable oil company based in Finland, has developed a patented process for the production of stanol ester and its use as cholesterol-lowering food additive. Its first product to incorporate stanol ester has been a huge market success in Finland and Raisio's share price has increased tenfold. The company is anxious to exploit the worldwide potential for Benecol and is considering alternative strategies for exploiting its innovation.

The B case revisits Raisio three years later to find that its US launch has experienced regulatory delays, Unilever has developed a competing cholesterol-reducing margarine, and its global alliance with Johnson & Johnson is experiencing strains. What has Raisio done wrong and how should it adjust its strategy to meet the new market conditions?

***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*, 5th edn, 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* and (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*, 6th edn, Blackwell, 2008).

The case traces the development of the video games industry through its major eras of market dominance: from Atari, to Nintendo, to Sega, to the three-way battle for leadership between Microsoft, Sony, and Nintendo at the beginning of 2007. The case outlines the strategies of the different players and the dynamics of competition. This provides a basis for analyzing key success factors in the industry – including the role of network externalities. The case also explores the issue of convergence between computers, video game consoles, and consumer electronics and its implications for strategy and competition.

***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 cutthroat 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 – 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

**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 and 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, plus its internationalization strategy through which it pursues the product life cycle in packaging products across different countries. (See also: *Crown Cork & Seal in 1989* (HBS

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*** (in C. Baden Fuller and M. Pitt (eds) *Innovating Strategic Management: A Casebook*, Routledge, 1995).

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

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

This case was recommended for the purposes of analyzing resources and capabilities. Capital One can also be used as a case for examining the potential for strategic innovation in a mature industry. Under the guidance of two young consultants who perceive the opportunity for using information technology to refine and streamline credit card issuing, Signet Bank (later renamed Capital One) breaks away from the credit card business's "industry recipe" and adopts a radically new information-based strategy. The case raises interesting issues of why banks were so reluctant to adopt the approach advocated by the consultants, and whether Capital One's competitive advantage is sustainable.

## ***Part V. Corporate Strategy***

### **VERTICAL INTEGRATION AND THE SCOPE OF THE FIRM (CHAPTER 13)**

#### **Class Topics**

My main goals for this session are for students:

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

The chapter covers two main themes. First, there are general issues relating to the scope of the firm and the content of corporate strategy. Second, is the analysis of vertical integration (including the decisions over outsourcing). Unifying the two is the central role of *transaction costs* – this is critical both to the general issue of the boundaries of the firm and to the specifics of vertical integration decisions.

#### **Class Outline**

I typically begin by reviewing the development of the firm over time. Tracing the growth in the geographical, vertical, and product boundaries of the firm during the 19th and 20th century, I ask “why?” The points that emerge concern technology (the telephone, the computer) and the developments in management (financial systems, organizational forms, management techniques). I point to the role of these in lowering the costs of administration within large firms. I can then draw from the discussion the basic idea of transaction costs – economic activity is organized within markets or within firms according their relative organizational efficiency.

I then point to the narrowing of firm scope (especially vertical and product scope) during the past two decades. A possible explanation is the role of increased uncertainty and environmental turbulence, the result of which is to increase the costs of organizing within large firms relative to small firms coordinated by markets.

This then provides the basis for an examination of the costs and benefits of vertical integration. Typically, I base this on discussion – either of a case (e.g. Bird Eye) or of specific examples: AOL Time Warner, American Apparel vs. Gap, or the integrated oil and gas majors.

#### **Cases**

***Birds Eye and the UK Frozen Foods Industry*** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

Birds Eye’s competitive advantage was built on market dominance through its construction of a vertically integrated chain. The case raises important issues concerning the rationale for vertical integration over spot transactions or long-term contracts, 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.

**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 a general move 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. The teaching purpose is 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 achieves prominence through the creation of the first PC-based spreadsheet program, *VisiCalc*. Central to the case is the relationship between software development and software marketing and distribution. Originally the company is founded as a software publishing company, buying in products from independent developers. However, problems in managing these relationships result in the move towards an integrated development–distribution company.

**Eni SpA: Building an International Energy Major** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

The Eni case deals generally with the issues of corporate strategy. The development of Eni from an unprofitable, state-owned, widely diversified enterprise to a shareholder-owned, international energy company represents a remarkable transformation. Eni still faces questions of "Which businesses should we be in?" "How should resources be allocated between them?" and "How can the linkages between the different businesses be managed in order to create corporate advantage?" Key issues are (a) the inherent attractions of the different businesses that Eni is present in and (b) the potential for exploiting synergies between businesses.

## **GLOBAL STRATEGIES AND THE MULTINATIONAL CORPORATION (CHAPTER 14)**

### **Class Topics**

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

The topics that I believe should be covered include:

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

### **Class Outline**

Introducing the international dimension raises a wide range of strategic management issues, and no single case will include them all. Hence the choice of the cases for this topic is critical to the emphasis. I typically kick off with a case that deals with a company that, having been successful in its home market, is extending 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

***Outback Steakhouse: Going International*** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

The case provides a brief and fairly straightforward introduction to the issues involved in overseas expansion. Outback Steakhouse is a highly successful restaurant chain whose strategy has been carefully adjusted to the customers it serves and its competitive positioning within the US restaurant market. Overseas markets offer a huge opportunity for Outback, but it must consider how customer preferences and market conditions are different from the US, whether it can replicate its resources and capabilities overseas, and what adaptations need to be made to its US strategy.

***Euro Disney: From Dream to Nightmare*** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

The case explores the decision to create a Disney theme park in Europe, and examines the subsequent path 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 E-Bay Germany*** (Harvard Business School Case No. 9-402-006).

E-Bay is a business (online 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. 9-300-128).

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 countries in the world). 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.

***P&G Japan: The SKII Globalization Project*** (Harvard Business School Case No. 9-303-003).

This is a fascinating (and complex) study of the challenge facing P&G in its efforts to stimulate global innovation and new product development through supporting initiatives at the local level. P&G Japan has developed an innovative system of face cleaning and moisturizing. The challenge is to assess its potential in other markets and manage its international rollout. This calls for an analysis of the conflicting forces of globalization and localization within the context of product development in the cosmetics business.

***Four Seasons Goes to Paris*** (Harvard Business School Case No. 9-803-069).

Four Seasons' acquisition of the management contract for the venerable George V hotel in Paris offers an intriguing study of international management in the luxury hotel industry. The case focuses particularly on the challenges of cross-cultural management. The corporate values and management systems of the Four Seasons group must be reconciled with the national culture of France and the traditions and norms of the George V.

***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.

***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. It's study, therefore, is important!

The critical strategic issues raised by diversification are the corporate resources and capabilities of the firm, the ability to exploit those resources and capabilities to establish competitive advantage in another industry, and factors that 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 – for example, 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 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 value. 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 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 on the approaches and processes through which corporate headquarters can create value in the operating businesses (I draw heavily on the work of Andrew Campbell and Michael Goold here). Time permitting, General Electric under its two most recent CEOs, Jack Welch and Jeff Immelt, provides a wonderful background for a detailed examination of how corporate management systems can create value in a diversified corporation.

## **Cases**

***Richard Branson and the Virgin Group of Companies in 2007*** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

At the beginning of 2007, Branson’s Virgin Group of companies is continuing to diversify into new fields – a US airline, biofuels, and space travel. At the same time, several Virgin major businesses are facing cash flow difficulties, and some are clear money losers. 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.

***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 business ranging from food to chemicals to Playtex bras and Avis car rental. The case offers students the opportunity 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.

***Jack Welch and the General Electric Management System*** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

Under Welch's leadership from 1981–2001, GE achieved remarkable growth and shareholder return – a rare example of a highly 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 succeeded in becoming the world's most valuable company while maintaining a uniquely broad business scope.

***Jeff Immelt at General Electric, 2001–2006*** (R. M. Grant, *Cases to Accompany Contemporary Strategy Analysis*, 6th edn, Blackwell, 2008).

The case reviews the 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, but he must also deal with the fallout from 9/11/2001, disquiet over GE's accounting policies and Welch's retirement package, and a declining share price. The case reveals the strategic changes initiated by Immelt and the organizational changes aimed at supporting that strategy. Students are asked to consider the rationale for GE's new strategy, the extent to which it is a logical response to the new circumstances facing GE, the suitability of the organizational changes introduced to implement the strategy, and the chances that Immelt's strategy 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 on a number of different issues. Some of the topics I have directed attention towards are:

- Developments in the business environment during the 21st century, including: discrediting of the shareholder value model, pressures for environmental and social responsibility, technological convergence, and increasing competition from emerging market countries. Key implications of these changes are, first, the need to adapt to the turbulence and unpredictability of the business environment and, second, the increasingly difficult challenge of establishing competitive advantage.
- Emerging concepts and theories. Among the themes that are currently influencing our ideas about strategic management, I look at the potential for real option theory, complexity theory, dynamic capabilities, and knowledge management to augment our strategic management toolbox.
- Innovations in organizational structure and management systems including new approaches to the management of coordination and cooperation, and the potential for alliances and novel forms of interfirm collaboration.

### **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 of the “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. Lukes,” *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:

1. Identifying the key issues that companies are facing during these early years of the 21st century. These include: speed of technological change, international competition, shifting boundaries of industries and markets, the 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.
2. Identifying the strategies, structures, systems, and management styles that companies are developing in order to meet these challenges.
3. 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*, Blackwell, 6th edn, 2008).

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. During the post-Enron crisis, AES’s founders are forced out and with them their radical management principles. The case offers students the opportunity to discuss whether radical new approaches to management are possible or desirable, or whether tried and tested management principles will prevail, either because they are inherently superior or because of the inherent conservatism of financial markets.

***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. Lukes," *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 increasing knowledge based.

***The Transformation of BP*** (London Business School Case No. 302-033-1).

The case describes the transformation of BP under the leadership of John Browne. The changes involve the implementation of a rigorous system of performance management, radical decentralization, and the creation of a management system based on knowledge sharing rather than formal planning processes.

***IBM and Linux [A]*** (Harvard Business School Case No. 9-903-083, 2003).

Among 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 and elsewhere. Note that some of these course outlines include references to the earlier edition of *Contemporary Strategy Analysis* – however, the chapter numbers are the same. Note, too, that later versions of some of the cases are available (see the recommended cases listed above).

The course outlines included are:

1. **Georgetown MBA: Strategic Management** (a required, six-week, 1.5 semester credit strategy course taught in the first semester of the two-year MBA program).
2. **London Business School: Strategic Management** (a core strategy course taught to executive MBA students).
3. **Georgetown Undergraduate: Strategic Management** (a full semester course taught to senior-level undergraduates).
4. **Georgetown MBA Elective: Capability-based Strategy** (a second year, six-week strategy elective that focuses on resource-based and capability-based approaches to strategic management).
5. **Georgetown MBA Elective: Global Strategy** (a second year, six-week strategy elective that focuses on strategy formulation and implementation among multinational corporations and companies that are embarking on international expansion).

*Georgetown University*  
*McDonough School of Business*

**STRT 570. Strategic Management**

*Section 10: Tues. & Thurs. 1:15 p.m.–2:30 p.m., CBN 204*  
*Section 11: Tues. & Thurs. 11:40 a.m.–12:55 p.m., CBN 204*

**Instructor:** Professor Rob Grant  
**Office Hours:** Tues. & Thurs. 2:35–3.30 p.m. (in Car Barn)  
**Office:** 405 Old North  
**Telephone:** 202-687-3844  
**E-Mail:** grantr@georgetown.edu

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***COURSE OVERVIEW***

Strategic management is concerned with managing the competitive position and long-term development of the business enterprise to ensure its survival and success.

To survive and prosper over the long term, a firm must create and sustain a competitive advantage. This course will equip you with the frameworks, tools, and concepts you need to analyze and understand the sources of superior performance. The course focuses on two areas of analysis: the external environment of the firm and the internal environment of the firm.

Industries differ in the extent to which they provide opportunities for sustained profitability. Industries also evolve over time, providing firms with continuously changing opportunities and threats. Finally, firms in an industry jockey for position through their actions and interactions. Every firm seeks to obtain a competitive position in an industry through an appropriate configuration of its assets and products in order to generate superior value for its customers and superior returns for itself. The first section of the course takes us through the challenges of external analysis.

While industry and competitor analysis gives the firm an insight into what it *must do* to succeed, it does not throw much light on what it *can do*. Resource and capability analysis (and the investigation of the firm's "core competence") provides an insight into a firm's strengths and weaknesses (as they relate to the external environment). An understanding of a firm's internal strengths enables a firm to fully exploit and build its capabilities to compete successfully. The second section of the course focuses on internal analysis.

Finally, we shall bring our external and internal analyses together to consider the formulation and implementation of strategies that can create and sustain competitive advantage.

Students are placed in the position of key decision makers (or their advisers) and are asked to solve problems related to the development or maintenance of the competitive advantage of the firm. Readings and cases by leading researchers and practitioners in the field are used to provide contextual familiarity and teach the tools and skills required for competitive analysis.

***ADMINISTRATION AND EVALUATION***

**Readings**

The course text is *Contemporary Strategy Analysis* (5th edition, 2005, Blackwell Publishing) by Robert M. Grant (available in the bookstore). Some of the case studies and articles are available in a course packet that can

be purchased from the MSB Faculty Services Print Room (basement Old North Building); others will be distributed electronically through Blackboard.

## Evaluation

The course evaluation is as follows:

Final Examination	50%
Team Submissions	20%
Individual Case Submission	15%
Class Participation	15%

## Final Exam

The final exam will be administered at the end of the course.

## Team Case Submissions

You will be assigned to teams by the MBA office. Each four-person team will complete reports on two of the cases listed below. Each team submission is a **two-page** write-up (1.5 line spacing, 12 point font, Times New Roman, no attachments). Submit your report at the start of class on the day in which the case is being discussed.

### 1) e-Bay, Inc. (September 13)

*Assignment question:* What are the key structural features of the person-to-person electronic auction business? Using the five forces framework, evaluate the overall attractiveness of the industry. How are industry profits likely to be distributed between the industry leader (e-Bay) and other players in the industry (Yahoo!, Excite/Classifieds2000, OnSale, Auction Universe, etc.)?

### 2) Manchester United (September 27)

*Assignment question:* Malcolm Glazer has spent over 800,000 pounds purchasing Manchester United. What can Glazer do to earn a reasonable return on his investment? In particular, should his priority be expanding revenues through increased ticket prices, brand building, and increased licensing efforts, or should it be focusing on the performance of the football team? In relation to the latter, what advice would you offer Glazer?

### 3) Harley-Davidson (October 4)

*Assignment question:* Compare Harley-Davidson's resources and capabilities with those of Honda. What does your analysis imply for Harley's potential to establish cost and differentiation advantage over Honda?

## Individual Case Submission

The case submission is a **two-page** write-up (1.5 line spacing, 12 point font, Times New Roman, no attachments) answering a question set by the professor for the case scheduled on that day. Each student submits **just one** case submission during the course, before the start of class on the day when the case is being discussed. You have a choice regarding the case submission. Choose one of the two cases below:

### 1) Ford and the World Automobile Industry (September 8)

*Assignment question:* Bruce Blyth is interested in your views of the outlook for profitability in the world auto industry during 2005–2010; in particular, whether profitability will be higher, lower, or about the same as during the past 5 years. Write a note to Blyth that identifies the key changes you think will occur in industry structure and uses the five forces framework to evaluate their impact on competition and profitability.

### 2) Wal-Mart (September 20)

*Assignment question:* Identify three organizational capabilities that you consider are most important to Wal-Mart's competitive advantage. What are the key resources (both tangible and intangible) on which these capabilities are based? How easy would it be for competitors (Kmart, Target, etc.) to copy these capabilities of Wal-Mart?

## **Class Participation**

Your participation in class is essential to your own learning and that of your peers. Please come to class having read the assigned case, having thought about the assignment questions, and anticipating how the concepts and frameworks in the textbook (and other assigned readings) relate to the issues in the case. We are a large class and our class periods are short – hence, please be *concise* and *to the point* in making your comments.

In evaluating class participation, I will be asking the following questions:

1. Is the participant a good listener? Do the comments link previous contributions and with the overall direction of the discussion?
2. Do the comments reflect careful analysis?
3. Do the comments add to our understanding of the situation?
4. Is there a willingness to try new ideas or are all comments “safe”?
5. Is the participant considerate of other class members? (For example, in making economical use of “airtime.”)

## **COURSE OUTLINE**

### ***Introduction***

#### ***Session 1: September 1***

##### **Concept of Strategy:**

Readings: Grant: Chapter 1.

Discussion: Class administrative details. What is strategy? A framework for strategic analysis.

### ***Industry Analysis (Sessions 2–5)***

#### ***Session 2: September 6***

##### **Industry Analysis: How Industry Structure Drives Competition and Profitability**

Readings: Grant: Chapter 3.

Case: The US Airline Industry in 2004.

Discussion questions:

1. 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?
2. In what ways, and with what success, have the airlines attempted to counteract the competitive forces depressing profitability in the industry?
3. Assess the outlook for competition and profitability over the next five years (2006–2010).

#### ***Session 3: September 8***

##### **Industry Analysis: Structure, Competition, and Profitability in a Global Industry**

Readings: Grant: Chapters 3 and 4.

Case: Ford and the World Automobile Industry

Discussion questions:

1. What changes in the structure of the world auto industry between 1970 and 2004 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?

#### **Session 4: September 13**

##### **Industry Analysis in the “New Economy”: What Changes?**

Readings: M. Porter, “Strategy and the Internet,” *Harvard Business Review*, March 2001.

Case: e-Bay, Inc.

Discussion questions:

1. What are the main structural features of the person-to-person auction business? Is it an attractive industry to be in, now and in the future?
2. How worried should e-Bay be by the entry of Yahoo! and Amazon into the P2P auction business? What barriers to entry can e-Bay rely on to protect its market position?
3. What recommendations would you offer the e-Bay, Inc. management regarding the company’s future strategy?

#### **Session 5: September 15**

##### **Industry Analysis: Limitations, Extensions and Applications**

Readings: Grant, Chapter 4.

Topics for instruction and discussion: drawing market boundaries, the role of complements, segmentation, the role of game theory and competitor analysis.

### ***Internal Analysis: Resources and Capabilities (Sessions 6–8)***

#### **Session 6: September 20**

##### **Identifying and Appraising Resources and Capabilities**

Case : Wal-Mart.

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 Wal-Mart’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, and (b) to other retail sectors and formats? Why has Wal-Mart’s overseas performance to date been so patchy?

#### **Session 7: September 22**

##### **Identifying and Appraising Resources and Capabilities (continued)**

Readings: Grant, Chapter 5.

Lecture/discussion: How to identify and appraise resources and capabilities. The concept of a resource-based strategy.

**Session 8: September 27**

**Creating and Developing Distinctive Capabilities**

Readings: Grant, Chapter 5.

Case: Manchester United: The Glaser Takeover.

Discussion questions:

1. What should Glaser's strategic priorities be for Manchester United? What targets should he establish for his management team?
2. What determines organizational capability in football (soccer)?
3. What can Glaser do to help Manchester United regain its former position as England's best football team? Should Glaser retain Alex Ferguson as head coach/team manager?

**Session 9: September 29**

**Developing Critical Capabilities through Organizational Design**

Readings: Grant: Chapter 6.

Discussion: Organizing to exploit and build resources and capabilities.

***Creating and Sustaining Competitive Advantage (Sessions 10–12)***

**Session 10: October 4**

**Competitive Advantage: Cost and Differentiation Advantage**

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

Case: Harley-Davidson Inc.

Discussion questions:

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

**Session 11: October 6**

**Competitive Advantage: Cost and Differentiation Advantage (continued)**

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

Lecture/discussion: Porter's "generic strategies." The sources of cost and differentiation advantage. Using the value chain to analyze these advantages. Analyzing competitive advantage in different industry settings: emerging and mature industries.

***Session 12: October 11***

**Conclusion: Current and Emerging Issues in Business Strategy**

Readings: Grant, Chapter 17

Lecture/discussion: What's changing in the business environment? What are the principal challenges companies are facing today? What ideas, theories, and concepts are shaping current thinking about business strategy and the nature of the firm? Do we need a new model of the firm?

**London Business School**  
**STRATEGIC MANAGEMENT**  
**Executive MBA Core Course**  
**Spring 2005**

**Rob Grant: Email: rgrant2208@aol.com, grantr@georgetown.edu**

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***Course Overview***

Strategic management is concerned with managing the competitive position and long-term development of the business enterprise in order to ensure its survival and success. The goal of this course is to increase your effectiveness in managing strategically. This course will require that you:

- Acquire familiarity with the principal concepts, frameworks, and techniques of strategic management.
- 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,
  - appraise alternative strategy options,
  - select the most appropriate strategy,
  - recommend the best means of implementing the chosen strategy.
- Integrate the knowledge gained in previous and parallel courses.
- 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.
- Improve your skills in discussing firm strategy and articulating arguments about strategic issues.

The course will cover two key components of strategy analysis: first, analysis of the external environment of the firm – concentrating on industry analysis; second, analysis of the firm’s resources and capabilities. We shall explore strategy primarily at the level of the individual business; we shall also address some key issues in corporate strategy. In addition, I shall be encouraging you to apply the tools of strategy analysis to your own lives and careers.

***My Expectations***

The focus of the course will be applying concepts and ideas to real-world examples – both our case discussions and to your own companies and work situations. The success of the course in terms of individual and collective learning depends on your input into class discussion. This requires adequate preparation for class and willingness to take responsibility for the quality and constructiveness of class discussion.

Preparation for each class is critical, including careful reading of the assigned case, consideration of the assignment questions, and familiarity with the relevant textbook chapter or other background reading. Each case will require about 3 hours of preparation.

***Assessment***

Your final grade will be based on the following:

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Coursework 1	10%
Coursework 2	10%
Coursework 3	10%
Class Participation	20%
Final Exam	50%

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**Coursework 1: Laura Ashley Holdings plc [for submission January 8]**

Mr Cheong has asked for your advice. Write a brief memo (max. length 600 words) responding to the three questions he has posed:

- a) How serious is Laura Ashley's financial condition?
- b) What are the reasons for Laura Ashley's poor performance?
- c) What measures should be taken to restore Laura Ashley to profitability?

[Note: You will need to look carefully at both financial data and qualitative information relating to the company's strategy and general management in order to provide an incisive diagnosis of Laura Ashley's current (i.e. 1999) problems.]

**Coursework 2: Case Report [for submission on date of case discussion]**

Select *one* of the following case assignments:

THE US AIRLINE INDUSTRY (For submission on Jan. 21)

Why has the US airline industry earned such a low level of profitability since 1990? What is the outlook for profitability over the next 5 years? What actions can the major airlines take to help restore profitability?

FORD AND THE WORLD AUTOMOBILE INDUSTRY (For submission on Jan. 22)

Bruce Blythe has asked you to summarize your views on the following questions:

- How is the world automobile industry likely to evolve over the remainder of the decade?
- What will be implications of these changes will be for overall industry profitability?
- Which companies are best positioned to exploit these changes?

HARLEY-DAVIDSON (For submission on March 4)

Jeff Bleustein has asked you to identify the principal threats to Harley's continued growth and profitability and what actions he should take to sustain the company's performance.

EMI (For submission March 5)

Report to Dr Powell on the problems that EMI's medical electronics business faces in 1977 and what actions Powell should take.

BRANSON AND THE VIRGIN GROUP (For submission March 19)

- 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?

Your reports should be clear, concise, cogently analyzed, and not exceed 700 words. Submit your case at the beginning of the class in which the case is being discussed.

**Coursework 3: Analysis of your Organization's Resources and Capabilities** [submit to grantr@georgetown.edu by Wednesday 2nd February, 10:30 p.m.]

Prepare a resource/capability analysis of your own organization. Write a short memo (600 word maximum) that:

- (1) Identifies the principal resources and capabilities needed to compete effectively in your area of business.
- (2) Evaluates your organization's resources and capabilities in terms of (a) strengths and weaknesses relative to competitors' and (b) their importance for achieving sustainable competitive advantage.
- (3) Displays your results on a two-dimensional diagram similar to Figure 5.8 in the textbook (6th edn).
- (4) Derives strategy implications from your analysis: how can the organization exploit its strengths more effectively; what should be done about weaknesses?

Come to class prepared to show your diagram and discuss your analysis.

## ***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. In evaluating class participation, I will consider the quality rather than the frequency of contributions. 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, concise, compelling manner or is it confusing, repetitive or contradictory?

The most important criterion in my assessment of class participation will be: “How significantly did this student’s participation contribute to the learning of the section as a whole?”

## **PROGRAM**

*Session 1. Jan. 7*

### **Introduction to Strategy**

#### Objectives:

- To overview the course.
- To appreciate the role and nature of strategy.
- To gain familiarity with the development of strategic management over time.
- To explore how companies make strategy and the role that their strategic planning systems play.
- To consider the role of strategy analysis in your personal and career planning.

#### Readings:

Grant, Chapter 1.

C. Markides, *All the Right Moves* (HBS Press, 2000) Chapter 1.

S. Covey, *The Seven Habits of Highly Effective People* (Simon & Schuster, 1989) Chapter 4 “Begin with the End in Mind: Principles of Personal Leadership.”

#### Optional reading on strategic planning systems:

L. Bossidy and Ram Charan, *Execution* (Crown, 2002), Chapter 7 “The Strategy Process”, Chapter 8 “How to Conduct a Strategy Review”.

*Session 2. Jan. 7*

### **Performance Diagnosis and Strategy Analysis**

#### Objectives:

- To gain expertise in diagnosing performance problems in firms.
- To link quantitative financial analysis with qualitative strategic analysis.
- To consider the goals of the firm.

#### Readings:

Grant, Chapter 2.

#### Case:

*Laura Ashley Holdings plc: The Battle for Survival*

#### 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.

*Session 3. Jan. 21*

### **Industry Analysis**

#### Objectives:

- To understand how industry structure determines the intensity of competition in an industry, which determines the industry's profit potential.
- To gain proficiency in the use of Porter's five forces framework to explain and predict the overall profitability of an industry or market.

Readings: Grant, Chapter 3.  
"Steel: Big is Back," *Economist*, October 30, 2004, pp. 82–3.

Case: The US Airline Industry in 2004

Discussion questions:

1. Why has the US airline industry been so unprofitable since deregulation?
2. In what ways, and with what success, have the airlines' strategies attempted to counteract competitive forces depressing profitability in the industry?
3. What is the outlook for industry profitability for the next five years (2005–2009)?

Session 4. Jan. 22

### **Industry Analysis (continued)**

Objectives:

- To extend industry analysis into an international industry context.
- To gain expertise in identifying attractive market segments within industries.
- To become proficient in identifying *key success factors* within an industry.

Readings: Grant, Chapters 3 and 4.

Case: *Ford and the World Automobile Industry*

Discussion questions:

1. What changes in the structure of the world auto industry between 1970 and 2004 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?

Session 5. Feb. 4

### **Analyzing Resources and Capabilities**

Objectives:

- To be able to identify and appraise an organization's resources and capabilities.
- To gain expertise in designing strategies that exploit relative strengths while reducing vulnerability to relative weaknesses.
- To gain awareness of the potential and the difficulties of developing new organizational capabilities.

Readings: Grant, Chapter 5.

Case: *Wal-Mart Stores Inc., March 2004*

Discussion questions:

1. How good is Wal-Mart's overall performance? To what extent is its superior performance attributable to industry/market 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 Wal-Mart'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, and (b) to other retail sectors and formats?
4. How sustainable is Wal-Mart's competitive advantage? What recommendations would you offer Lee Scott for how Wal-Mart can best sustain profitability and shareholder return?

*Session 6. Feb.5* **Analyzing Resources and Capabilities (continued)**

Class discussion:

1. Discussion of your own organizations (see resources and capabilities assignment).
2. Issues in capability development.

*Session 7. Mar. 4*

**Analyzing Cost and Differentiation Advantage**

Objectives:

- To be able to recognize the sources of cost advantage and differentiation advantage within a business.
- To be able to identify opportunities for a company to improve its competitive position with regard to cost and differentiation, and devise strategies for exploiting such opportunities.
- To be able to appraise an organization's resources and capabilities.

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

Case: *Harley-Davidson Inc., February 2004*

Discussion questions:

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

*Session 8. Mar. 5*

**Emerging Industries and the Management of Technology**

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 able to select the most appropriate strategy to exploit an innovation.
- To recognize the implications of industry evolution for key success factors and competitive strategy.

Readings: Grant, Chapters 10 and 11.

Case: *EMI and the CT Scanner [A] & [B]*

Discussion questions:

1. (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?
2. (B Case) What problems does EMI's medical electronics business face in 1977? What should Powell do?

Session 9. Mar. 18

### **Written Examination**

- The exam will be based on a case that will be distributed to you at least one week in advance.
- Questions on the case will be given to you at the beginning of the exam.
- You will have 1 hour and 40 minutes to compose and write your answers.
- Your answers are to be written on paper.
- The exam is *open book* – you are free to annotate your copy of the case and bring with you whatever notes you need.

The exam will be followed by a discussion of the case.

Session 10. Mar. 19

### **[1] Diversification and Corporate Strategy**

#### Objectives:

- To recognize the conditions under which diversification can create value for companies.
- To recognize how different businesses may be related to one another and the corporate strategies that can exploit such relatedness.

Readings: Grant, Chapter 15.

Case: *Richard Branson and the Virgin Group of Companies*

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? How?
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?

### **[2] Current Issues and Emerging Trends in Strategic Management**

Objectives: To appreciate the current trends in the business environment and the recent developments in management thinking that are shaping business strategy during the 21st century.

Readings: Grant, Chapter 17.

**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, 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 innovative 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*.  
(5th edn, Blackwell Publishers, 2005).

### 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 affects 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 IN 2004 (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 2001 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 5.4 and Figure 5.8 in Grant, *Contemporary Strategy Analysis* (6th 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 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. BOOZ ALLEN HAMILTON (For submission 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 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 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 March 24.)
- What problems does EMI's medical electronics business face in 1977?
  - What should Powell do?
9. BRANSON AND THE VIRGIN GROUP (For submission 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 on 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 and explore how changes in industry structure have an impact on 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 2001 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 next 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. 155–62.

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, and (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 Patricia Russo?

*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 (HBS).

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" orientated?
3. What should Dickie 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 with those of Honda. What does your analysis imply for Harley's potential to establish cost and differentiation advantage over Honda?
3. What threats does H-D 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., Eisenstat, R. A., and Spector, B. “Why Change Programs Don’t Produce Change,” *Harvard Business Review*, December 1990, pp. 158–66.

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, on 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] & [B] (from Grant Casebook).

Discussion questions:

1. (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?
2. (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 (continued)**

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 examine 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 (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–H:] What should Microsoft do?  
[Last names beginning I–R:] 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 on 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 on 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 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 21st century. Some emerging concepts and management trends: cooperative strategies, complexity and self-organization, knowledge management, corporate governance and the future of the shareholder value model.

Readings: Grant, Chapter 17.

*Mon. April 28*

**Conclusion**

**Georgetown University**  
**McDonough School of Business**  
**STRT 609 CAPABILITY-BASED STRATEGY**  
**Sections 30 & 31**

**Objectives**

The goal of the course is to develop your skills in analyzing strategic situations and formulating firm strategy. The emphasis is on the role of resources and capabilities in creating competitive advantage for the firm. We draw upon the “resource-based view of the firm” – an approach to strategy that views the firm as a collection of resources and capabilities and analyzes how these resources and capabilities create and sustain 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 can offer a more secure basis on which to define long-term strategy than external customer focus.

The course builds on your core strategic management course and extends the part that dealt with the internal analysis of the firm. Our emphasis will be on identifying and appraising the resources and organizational capabilities of the firm, exploring the relationship between resources and 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 takes us to the frontiers of strategic management. For all the talk about “deploying our competencies and capabilities to build sustainable competitive advantage,” few companies have any clear idea about what their competencies and capabilities are, or what their role is in conferring superior performance. To understand why some firms perform certain tasks better than others and how a firm can develop a particular capability we will need to explore the fundamentals of collaboration, organization, and the deployment of effort.

The course is intended for those who will be involved with strategic management, whether as general managers, management consultants, or strategic planning/business development specialists. The course is also relevant to those in more functionally specific roles who need strong strategic skills (e.g. brand managers, corporate financiers, MIS managers, investment analysts).

**Grading**

1st coursework	15%
2nd coursework	15%
3rd coursework	15%
Final exam	35%
Class participation	20%

The final exam is scheduled for February 27, 12 noon to 2:00 p.m. The exam will be taken remotely. You will receive a short case in advance. Questions on the case will be made available electronically at the beginning of the exam. You will then email your answers at the end of the exam. If the scheduled date is inconvenient, contact me and we can arrange alternative dates.

## Coursework

Submit *three* pieces of coursework selected from the list of coursework assignments below. 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** Laura Ashley: Strategy Diagnosis (For submission Jan. 10; to be undertaken individually or in groups of two. Maximum length: 600 words.)

Mr Cheong is seeking your analysis of the situation he faces at Laura Ashley and advice on what to do. Prepare a concise memo for Mr Cheong that:

1. Assesses the seriousness of the financial situation at Laura Ashley.
2. Identifies the sources of poor performance. (Use the data – both the financial data and the qualitative information – to diagnose the sources of Laura Ashley’s problems.)
3. Advises Mr Cheong on what he should do.

**Coursework 2** McDonough School of Business: Analysis of Resources and Capabilities (For submission Jan. 17; to be undertaken in groups of two.)

Dean Daly has requested your input into a strategy formulation exercise for Georgetown’s McDonough School of Business. Prepare a brief memo (maximum length 2 pages) that:

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. Summarizes your analysis in the form of a table and figure similar to Table 5.4 and Figure 5.8 in Grant, *Contemporary Strategy Analysis*, 6th edn.
4. Presents your recommendations for a strategy that will enhance the School’s competitive position in the market for MBA education over the next five 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 Blackboard).]

**Coursework 3** Case Write-up: Eastman Kodak (For submission Jan. 24; to be undertaken in groups of two. Maximum length: 700 words.)

Your Uncle Charlie has been appointed an independent 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.

**Coursework 4** Case Write-up: Booz Allen Hamilton (For submission Jan. 31; to be undertaken in groups of two. Maximum length: 700 words.)

Brian Dickie has asked for your views on the issues facing BAH. Write a concise memo that: (a) Comments on 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; and (c) Makes recommendations for what BAH might do to overcome these impediments.

**Coursework 5** Case Write-up: Raisio & Benecol [A] (For submission Feb. 5; to be undertaken in groups of two. Maximum length: 700 words.)

What strategy alternatives does Raisio face in commercializing its stanol ester innovation. What are the key factors that Raisio should take into account in choosing between these alternatives? Does the licensing arrangement with J&J represent the best option available to Raisio?

**Coursework 6 Case Write-up: Video Games.** (For submission February 14. Maximum length: 700 words.)

On the basis of an identification of key success factors in the world market for video game consoles, write a projection of how this market is likely to evolve, and an assessment of the company's resources, capabilities, and strategic goals to recommend a strategy for either Nintendo or Microsoft.

## Readings

Most readings are available in electronic form on Blackboard (and also on the share (S:) drive under Grant,Rob/STRT609). For copyright reasons, some readings are only available in hard copy. These will be distributed to you in class.

# PROGRAM

## Wed. Jan. 10 Performance Diagnosis: Linking Strategic and Financial Analysis

### Objectives:

- To emphasize the key role of performance diagnosis in strategy analysis.
- To show the value of linking the quantitative analysis of financial statements with qualitative analysis of company events, CEO pronouncements, etc.
- To build a bridge between financial and strategic analysis.
- To examine the predicament of a company that is facing severe performance problems and take a systematic approach to diagnosing the sources of its difficulties.

Readings: Grant "Goals, Values, and Performance" (Chapter 2 of *Contemporary Strategy Analysis*, 5th edn, especially pp. 50–7).

Case: Laura Ashley

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.

## Wed. Jan. 17 Identifying and Appraising Resources & 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" (Chapter 5 of *Contemporary Strategy Analysis*, 5th edn, especially pp. 158–65).

Additional readings for MSB discussion: *Business Week*, MBA Rankings; *US News & World Report*, Best Graduate School; *FT MBA Rankings* and *FT MBA Rankings Methodology*. (See Blackboard and S: drive for postings of relevant articles/data.)

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

## Mon. Jan. 22 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).

**Wed. Jan. 24 Developing Organizational Capability**

Readings:

- Baghai, Coley, and White, “Turning capabilities into advantages,” *McKinsey Quarterly*, 1999 (No. 1). [S]
- Dorothy Leonard Barton “Core capabilities are core rigidities”, *Strategic Management Journal*, Summer 1992. [S]
- Grant “Analyzing Resources and Capabilities” (Chapter 5 of *Contemporary Strategy Analysis*, 5th edn, especially pp. 165–74).

Case: Eastman Kodak: Meeting the Digital Challenge [S]

Discussion questions:

1. What is Kodak’s strategy for developing its digital imaging business?
2. What progress has Kodak made? What challenges does Kodak face and what are its prospects of becoming a leader in digital imaging?
3. What advice would you offer Dan Carp?

**Mon. Jan. 29 Developing Organizational Capability (continued) – with special reference to capability development among sports teams**

Objectives:

- To develop the Kodak case discussion to look more generally at the challenges of developing organizational capabilities.
- To explore the factors that determine organizational capabilities among sports teams.

Readings: Berman, Down, and Hill, “Tacit Knowledge as a Source of Competitive Advantage in the NBA”, *Academy of Management Journal*, vol. 45, Feb. 2002, pp. 13–31. [S]

Class format:

General discussion focusing on examples of successful and unsuccessful team performance, the role of coaches, the determinants of coordination.

**Wed. Jan.31 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:

- R. Grant, *Contemporary Strategy Analysis* (5th edn), Appendix to Chapter 5.

- R. 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* (Oxford University Press, New York, 2002).

*Optional:*

- Hansen, Nohria, and Tierney, “What’s Your Strategy for Managing Knowledge?” *Harvard Business Review*, March 1999. [You can access this via the library.]

Case: Cultivating Capabilities to Innovate: Booz Allen Hamilton [P] (# 9-698-027)

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 Dickie and Varasano do?

*Mon. Feb. 5* **Knowledge Management and the Development of Organizational Capability (continued)**

*Wed. Feb. 7* **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.

Readings: Grant, “Technology-based Industries and the Management of Innovation” (Chapter 11 of *Contemporary Strategy Analysis*, 5th edn).

Case: Raisio and the Benecol Launch. [S]

Discussion questions:

1. (A Case) What is Raisio’s strategy for commercializing its innovation regarding stanol ester and its cholesterol-reducing properties? What alternative strategies are available to Raisio in 1997? What are relative merits of the different approaches?

*Mon. Feb. 12* **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 the 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. Feb. 14* **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. [S]

Case: Rivalry in Video Games. [S]

Discussion questions:

1. What are key success factors in this industry?
2. To what extent 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–H:] What should Microsoft do to gain market leadership?  
[Last names beginning I–R:] What should Nintendo do to survive?  
[Last names beginning S–Z:] What should Sony do to retain market leadership?

*Wed. Feb. 21* **New Directions: Novel Types of Organizational Capability; New Approaches to Capability Development**

Objectives:

- To identify examples of organizations that display unusual capabilities or novel approaches to capability development.
- To look at the role of alliances and networks in allowing firms to access resources and capabilities from outside their organizational boundaries.
- To consider organizational forms that allow capabilities to be created and deployed in new ways – including open-source software communities.

Readings: E. Beinhocker, "The adaptive corporation," *McKinsey Quarterly* 2006 (no. 2).

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*Georgetown University*  
*McDonough School of Business*  
**STRT 789. Sections 20 & 21**  
*Global Strategy*  
Fall 2006 (2nd module)

**Instructor: Rob Grant**  
**Office: 405 Old North**

**Tel: 202-687-3844**  
**grantr@georgetown.edu**

*Office Hours: By appointment*

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### **Course Description**

Internationalization of the business is both a threat and an opportunity for companies. How can companies be successful in the face of international competition? This course is designed to equip you with the tools and insight needed to identify and analyze international aspects of firm strategy, including: entry into overseas markets, managing activities across national borders, exploiting national differences in resource availability, and designing organizational structures and management systems to implement international strategies. We shall look beyond the buzzwords and hype often associated with discussions of globalization and global strategy and analyze the fundamental determinants of competitive advantage in international business.

The course builds on the concepts and theories covered in the core courses in Strategic Management, International Business, and International Macroeconomics (as well as drawing upon the core courses in Marketing, Operations Management, and Accounting and Finance). A distinguishing feature of this course is that it addresses the management of highly complex situations – the pervasive feature of strategy making and strategy execution in an international environment is the added *complexity* of different national markets, cultural differences, exchange rates, different legal regimes, and managing across geographical distance. As a result, this course will force us to address issues that are at the cutting edge of management practice.

### **Grading**

Grades will be determined as follows:

Coursework assignments (15% each ×3)	45%
Group project	30%
Class participation	25%

(The class participation grade will reflect attendance and the extent and quality of class contributions.)

### **Coursework Assignments**

SUBMIT THREE OF THE FOLLOWING COURSEWORK ASSIGNMENTS; THESE SHOULD BE UNDERTAKEN IN GROUPS OF TWO. MAXIMUM LENGTH: 800 WORDS. TO BE SUBMITTED EITHER BY EMAIL (PRIOR TO THE DATE AND TIME OF THE CORRESPONDING CLASS DISCUSSION) OR TO BE SUBMITTED IN HARD COPY AT THE BEGINNING OF THE CLASS IN WHICH THE RELEVANT TOPIC IS BEING DISCUSSED.

1. **EBay case** (*For submission Nov. 6.*) In terms of “globalization drivers,” how global a business is online auctioning? What are the implications of your analysis for EBay’s international strategy?
2. **Drivers of Global Consolidation** (*For submission Nov. 8.*) Select an industry in which international M&A activity is causing rapid consolidation (e.g. steel, beer, cement, retail banking, insurance, private banking). What forces are driving globalization in the industry? Is any one firm or group of firms the

primary initiator of the globalization? What extent are the performance implications of globalization – both for the pioneers of globalization and other firms in the industry?

3. **Euro Disney case** (*For submission Nov. 13.*) Explain why Disney chose to enter Europe through a combination of joint-venture, a licensing contract, a management contract, and various other agreements with the French government and with lenders. How do you think that Disney's experience with Disneyland theme parks in Japan and France influenced its ownership and management arrangements for Disneyland Hong Kong? (See note on Blackboard: "HK Disneyland.")
4. **Haier case** (*For submission Nov. 15.*) Assignment question to be announced
5. **BRL Hardy case** (*For submission Nov. 22.*) Advise Millar on how he should approach Carson's proposals regarding *D'istinto* and *Kelly's Revenge*.
6. **P&G Japan case** (*For submission Nov. 29.*) Assignment question to be announced.
7. **Four Seasons case** (*For submission Dec. 4.*) Assignment question to be announced.
8. **McDonough School of Business Internationalization Strategy** (*For submission Dec. 6.*) In what activities is it desirable for MSB to increase its level of international involvement? Outline an internationalization strategy for MSB.

## Group Project

See Appendix

## Readings

There is no course text. Individual readings are listed below for each topic. The readings indicated by [P] are available in a course pack available from the print room in Old North. Readings indicated by [B] are available in electronic form on Blackboard and also on the share drive under S:/Grant,Rob/STR789.

## COURSE PROGRAM

*Session 1, Mon. October 30: The Challenge of International Business – Introducing Key Issues*

**Readings:** "Global Strategies and the Multinational Corporation," Chapter 14 in R. Grant *Contemporary Strategy Analysis* (5th edn). [B]

**Case:** *Outback Steakhouse: Going International*. [B]

Discussion questions:

1. What are the principal themes of Outback Steakhouse's strategy in the US? Why has the strategy been so successful?
2. What are the key elements of the international expansion strategy being proposed by Hugh Connerty?
3. Assess the proposed strategy in relation to: (a) Should Outback Steakhouse expand internationally, or would it be better to expand through starting new restaurant chains within the US? (b) Does the strategy outlined by Connerty make sense?
4. If Outback is to expand internationally, advise Chris Sullivan on: (a) The optimal rate of international expansion; (b) The best mode of entry into foreign markets (e.g. direct management, JV, franchise); (c) Which country(ies) to enter first; (d) Whether Connerty is the right person to head the International Division.

*Session 2, Wed. November 1: No Class. Project Work*

No class meeting. Please use the time to consider topics for your group project (see appendix).

*Session 3, Mon. November 6: Globalization and Global Strategies*

- Readings:** G. Yip “Diagnosing industry globalization potential,” in *Total Global Strategy II* (Prentice Hall, 2003) pp. 28–63. [P]  
“Global Strategies and the Multinational Corporation,” Chapter 14 in R. Grant, *Contemporary Strategy Analysis* (5<sup>th</sup> edition), especially pp. 429–33. [B]

**Case:** *Meg Whitman and Ebay Germany*. [P]

Discussion questions:

1. In terms of “globalization drivers,” how global a business is online auctioning? Which aspects of the business need to be nationally differentiated?
2. In relation to listing fees, should Whitman insist that Ebay Germany adopts the same strategy as Ebay USA?
3. In 2000, Ebay Germany’s main competitor, Ricardo, was acquired by QXL, the UK-based online auction company. Evaluate QXL-Ricardo’s ability to compete with Ebay within Europe?

*Session 4, Wed. November 8: Globalization: What’s Driving Global Consolidation?*

- Readings:** P. Ghemawat and F. Ghadar, “Global integration & global concentration” *Industrial & Corporate Change* 14 (August 2006), pp. 595–624. [P]  
On steel: “Global contest for steel supremacy,” *Financial Times*, October 5, 2006. [B]  
On beer: “US brewers left to cry into their beers,” *Financial Times*, July 30, 2006. [B]  
On cement: *Financial Times* articles January 13, 2005; August 26, 2006. [B]

**Class Exercise:** The past decade has seen rapid globalization in industries where global scale economies do not appear to be especially important (e.g. steel, beer, cement, retail banking). From the viewpoint of individual firms in these industries, what forces are driving globalization. (Our discussion will draw on the facts and analysis in your coursework on Global Consolidation.)

*Session 5, Mon. November 13: Foreign Market Entry and Modes of International Expansion*

- Readings:** Root, *Entry Strategies for International Markets*, Chapter 1, “Designing Entry Strategies for International Markets.” [P]

**Case:** *Euro Disney: From Dream to Nightmare*. [B]

Discussion questions:

1. Was Disney’s decision to build a theme park in Europe soundly based?
2. What entry mode did Disney select in establishing Euro Disney? Why didn’t Disney select 100% ownership (as with its US theme parks) or pure licensing (as with Tokyo Disneyland)?
3. How effectively was the Disney theme park concept and model adapted for a French and European context?
4. What should Michael Eisner do next about Euro Disney?

*Session 6, Wed. November 15: Challenge of the Emerging-Market Multinationals*

- Readings:** “Emerging Giants,” *Business Week*, July 31, 2006. [B]  
Torun Khanna and Krishna Palepu, “Emerging Giants: Building World Class Companies From Emerging Markets,” (HBS, 2004). [B]

**Case:** *Haier*. [P]

Discussion questions: *To be announced.*

*Session 7, Mon. November 20: Challenge of the Emerging-Market Multinationals (continued)*

**Class discussion:** Building on our discussion of Haier in the previous class, we will discuss other emerging market MNCs and consider the extent to which there are commonalities in terms of strategy, organization, and the challenges and opportunities of internationalization. Please come to class having familiarized yourself with some aspects of the strategy and management of one emerging market MNC – e.g. Embraer, Petrobras (Brazil), Cemex, Televisa (Mexico), Lenova, SAIC (China), Infosys (India).

*Session 8, Wed. November 22: Balancing Global Integration with National Differentiation*

**Readings:** C. Bartlett and S. Ghoshal, “Managing across borders: New strategic requirements,” *Sloan Management Review*, Summer 1987. [P]  
C. Bartlett and S. Ghoshal, “Managing across borders: New organizational responses,” *Sloan Management Review*, Fall 1987. [P]  
J. Birkinshaw, “The structures behind global companies,” *Financial Times*, Dec. 4, 2000. [B]

**Case:** *BRL Hardy: Globalizing an Australian Wine Company*. [P]

Discussion questions:

1. Why has BRL been so successful?
2. What is the source of tension between Davies and Carson?
3. Should Miller approve Carson’s proposal? Why or why not?

*Session 9, Mon. November 27: Balancing Global Integration with National Differentiation (continued)*

*Session 10, Wed. November 29: Innovation and Learning within the Multinational Corporation*

**Readings:** C. Bartlett and S. Ghoshal, “Beyond the M-form: Towards a managerial theory of the firm,” *Strategic Management Journal*, Winter 1993, pp. 23–46. [B]  
J. Birkinshaw, “Managing internal R&D networks in global firms: What sort of knowledge is involved?” *Long Range Planning*, June 2002. [B]

**Case:** *P&G Japan: The SK-II Globalization Project* [P]

Discussion questions: *To be announced.*

*Session 11, Mon. December 4: Adapting to National Cultures*

**Reading:** Lisa Hoecklin, *Managing Cultural Differences*, Economist Intelligence Unit (selected chapters). [P]

**Case:** *Four Seasons Goes to Paris*. [P]

*Session 12, Wed. December 6: Internationalization Strategy for McDonough School of Business*

**Class discussion:** What is the nature and extent of MSB’s current international activities and involvement? How does this compare with other leading business schools? Is it desirable for MSB to increase its level of international involvement? If so, in what dimensions and activities? Outline an internationalization strategy for MSB.