

**MGMT 659E – Strategic Management II**  
EMBA 2008-2009

Professor Timothy B. Folta

MGMT 659E is concerned with corporate strategy – the development and management of *multi-business* or *multi-market* firms. This course builds directly from MGMT 650 (Strategic Management I) in our focus on the general manager or strategic leader as a decision-maker, and our concern for the overall success of the organization relative to rivals. We highlight that MGMT 650 dealt with the strategic management of *single-business* firms. We know, however, that many firms have multiple businesses within the corporate umbrella, and those that do not, sometimes consider adding or divesting businesses. When a firm shows strategic dependence across businesses there is the potential for value creation or value destruction. There is also increased complexity. This course hopes to illuminate when corporate decisions create or destroy value and how to cope with the added complexity.

We focus on the following questions:

- Choices concerning *market scope*: In which markets and businesses, and in which stage of the value chain, should the corporation choose to maintain a competitive presence?
- Choices concerning *organizational design*: What is the appropriate level of coordination across these businesses and how should it occur?
- Choices concerning *ownership*: What is the appropriate ownership structure for the corporation on the one hand, and for its individual businesses on the other?

Strategic Management II is designed to introduce you to the central strategic challenges facing general managers – particularly those in charge of multibusiness firms – and to equip you with an appropriate toolkit and solutions that can assist in tackling these challenges. The course examines how companies generate and preserve *corporate advantage*. The course is designed to make you proficient in tackling three central components of the typical decision problem in corporate strategy:

- (i) diagnosing the roots of corporate advantage;
- (ii) evaluating the limits to such advantage; and
- (iii) offering prescriptions that preserve and sustain corporate advantage over time by overcoming these limits.

When we refer to *corporate advantage*, we mean *the extent to which a corporate strategy enhances the competitive advantage of its component businesses, over an above that of the (the best) alternative ownership structures.*

The format for this course includes discussion of theoretical perspectives, analytical tools, and complex case studies. The cases cross a range of organizational forms and contexts. The discussion format for the class offers you the opportunity to develop critical thinking and communication skills, both vital to your success as a manager.

## **Grading Criteria**

**Pre-Residency Assignment (30%).** For each 3-page paper turned in, you will be graded with an A, B, or C. A's are awarded when the assignment addresses each question fully. B grades mean that you did an adequate job of completing the assignment but left some part incomplete, under-developed, or flawed. C grades mean that you did not fulfill a major aspect of the assignment. The biggest difference between A and B grades is the degree to which you apply the concepts described in the text and readings to answer the assignment questions.

**Case Participation (30%).** Your participation grade will be evaluated during residency and will be based on the following criteria:

- Quality of comments, including factors such as:
  - a) Relevance – Do your comments speak directly to the issues and concepts being addressed? Do they extend our understanding of those issues or concepts? Do they reflect your adequate preparation to participate in the discussion?
  - b) Additivity – Do your comments reflect active listening to the comments of other class members? Have they incorporated insights introduced earlier and built upon them?
  - c) Substance – Do your comments make a real contribution to the ideas being exchanged? Has anything new been gained from your contribution to the discussion?
  - d) Persuasiveness – Have your points been well articulated, argued, and supported, such that others take note of the convincing nature of your points?
  - e) Questioning – Have your comments reasonably questioned the comments of others or challenged their assumptions without disparaging the person who offered them?
- Amount of participation (this does NOT mean dominating the discussion).
- Degree to which participation is spread across sessions rather than concentrated in one.

Given your work experience or background, you may find that you have special expertise relating to one or more of the companies and industries that we will be discussing. If so, you are welcome to let me know in advance, so that we can benefit from your expertise.

**Grading : Final Exam (40%).** Note that there will be a single exam for both MGMT 650 and MGMT 659. The exam will involve material from lectures, readings, and analyses of cases (not the specific case material). Details about the exam will be presented during the residency period.

## PRE-RESIDENCY ASSIGNMENTS

In February and March 2009, you are required to write THREE brief reports as noted below. These assignments are designed to help you to marry the class concepts to your firm or a firm of your choice. There are at least two important benefits from these assignments. First, you will gain a more nuanced understanding of the corporate strategy of your own firm. Second, by applying class concepts and frameworks, you will improve your expertise in the area of corporate strategy, which will enable us to reach a deeper level of discussion in our residency period. This second benefit takes on greater importance given our limited residency period in China.

**Confidentiality.** The papers you submit will be kept confidential. If you want to discuss them with others or raise company examples in class, this is up to you. If you need me to sign non-disclosure agreements, this is no problem. However, I do not anticipate your needing to delve into company secrets to complete these assignments.

**Information Sources.** Ideally, you could gather information on your company through colleagues, supervisors, or other sources within your company. If you feel discussing your project with others in your company could be detrimental to you, you have two options: (1) restrict your analysis to publicly available information; or (2) choose a company that is not your own.

### February 13: First Assignment Due

Topic: Understanding how corporate strategy differs from business or competitive strategy.

Readings:

- Folta. “Corporate Strategy – Course Introduction”
- Porter. “From Competitive Advantage to Corporate Strategy” (HBR 87307)
- Grant. Chapter 1: The Concept of Strategy.

Description Choose a multi-business firm in the industry in which you are working or have worked (this could be your own firm). With that company as a reference point, prepare a 2-3 page memo addressing the following questions:

- (1) Describe your firm’s competitive strategy (Does it compete through lower costs or by increasing willingness-to-pay?).
- (2) Describe your firm’s corporate strategy? Justify.
- (3) Describe how your corporate strategy compares with one other firm in your industry.

Please be systematic in your appraisal of question (2). A systematic appraisal would use the framework in Folta to describe firm choices around scope, organizational design, and ownership. Note that I have not yet asked you to evaluate whether your firm has a corporate advantage. That comes with the next assignment.

Prepare a 2-3 page memo (PLUS up to 2 pages of exhibits if you like). Upload your assignment to the homework server before midnight on the due date.

### **February 27: Second Assignment Due**

Topic: Understanding how value is created through scope decisions.

Readings: 

- Grant. Chapter 15: Diversification Strategy
- Piskorski. A Note on Corporate Strategy

Description Choose a multi-business firm in the industry in which you are working or have worked (this could be your own firm). With that company as a reference point, prepare a 2-3 page memo addressing the following questions:

- (1) Evaluate the scope decisions of your firm. What are the primary reasons your firm has diversified into new industries?
- (2) Do these scope decisions really increase the competitiveness of its individual business units over and above what it could achieve otherwise? In other words, is there any corporate advantage?

Please be systematic in your analysis of these questions. A systematic appraisal would consider Piskorski's "better-off test" and "ownership test".

Prepare a 2-3 page memo (PLUS up to 2 pages of exhibits if you like). Upload your assignment to the homework server before midnight on the due date.

### **March 13: Third Assignment Due**

Topic: Understanding how coordination decisions complement scope decision.

Readings: 

- Grant. Chapter 6: Organizational Structure and Management Systems
- Grant. Chapter 16: Managing the Multibusiness Corporation

Description Choose a multi-business firm in the industry in which you are working or have worked (this could be your own firm). With that company as a reference point, prepare a 2-3 page memo addressing the following questions:

- (1) What methodologies does your corporation use for evaluating its portfolio of businesses? How are they linked to financial performance and to business strategy?
- (2) What activities has your company centralized to gain economies of scale and scope? What resources and capabilities are shared across businesses?
- (3) What are the most important top-down initiatives in your company and how have they contributed to the success of the business units?
- (4) How is your company structured and how does this structure affect the ability of the business units to improve their performance?
- (5) What are the key corporate-wide compensation and incentive schemes in your company and how does this affect value creation through corporate strategy?

Please be systematic in your appraisal. The Grant readings offer all the relevant frameworks to address these questions.

Prepare a 2-3 page memo (PLUS up to 2 pages of exhibits if you like). Upload your assignment to the homework server before midnight on the due date.

## CHINA RESIDENCY SESSIONS

Once in residency in China, the course relies heavily upon the discussion of cases and the discussion of topics drawing from your work experience. Our unique Chinese adventure places unusual burdens on us all. My experience with the China trip suggests that despite your best intentions, it is difficult to study and prepare material while in China. *I strongly advise you that prior to the residency period, you complete as much reading and preparation of case material as possible.*

**A word about case discussions.** My expectations for case preparation are HIGH. I believe everyone can play a role in activating a lively and interesting discussion that pushes our bounds of understanding. Every case is coupled with readings that provide concepts and frameworks to help you systematically analyze key problems in the case. Moreover, every case has a quantitative component, which I hope you explore. On occasion, I will “cold call” students to present their analysis.

### Day 1

Topic: **Vertical Integration**

Readings:

- Anand, B.; Khanna, T.; and Rivkin, J.; “Market Failures”
- Stuckey and White. “When and When Not to Vertically Integrate.”
- Grant. Chapter 13: Vertical Integration and the Scope of the Firm

Case: Arauco (A). Arauco (B) case handed out in class.

Case Preparation Questions:

- 1.) Should Arauco build the Nueva Aldea project?
- 2.) What are the sources of Arauco’s competitive advantage?
- 3.) Should Arauco own both forests and pulp production facilities? Does the Alto Parana project help you answer this question?
- 4.) Do you think there is a better alternative to investing in a pulp plant?

### Day 2

Topic: **Related Diversification**

Readings:

- Anand, B. “Strategies of Related Diversification”
- Piskorski, M.J. “Note on Corporate Strategy”
- “Lessons from Master Acquirers: A CEO Roundtable on Making Mergers Succeed”
- Grant. Chapter 15: Diversification Strategy

Case: Cadbury Schweppes: Capturing Confectionery (A). (B), (C), & (D) cases handed out in class.

Case Preparation Question:

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

### Day 3

Topic: **Unrelated Diversification & Ownership Choice**

- Readings:
- Anand, B. “Strategies of Unrelated Diversification”
  - Khanna, T. & Palepu, K. “Why focused strategies may be wrong for emerging markets”
  - Dyer, J.; Kale, P.; and Singh, H. “When to ally and when to acquire?”
  - A reading on real options to be distributed by professor

Case: eBay’s Strategy in China: Alliance or Acquisition

Case Preparation Questions:

- 1.) eBay first entered the Chinese market in 2002 by acquiring a 33% stake in its local counterpart, EachNet, followed by a full acquisition a year later in 2003. Critically assess eBay’s choice of market entry strategy for China?
2. Assess the potential benefits and risks of eBay’s joint venture with Tom Online.
3. eBay will have a 49% stake in the new joint venture while Tom Online will have 51% ownership. Critically assess both companies’ decisions on their respective percentage of stake

### Day 4

Topic: **Corporate Strategy Dynamics: Sustainability and Change**

- Readings:
- Collis and Montgomery. “Competing on Resources”
  - Kotter. Leading Change: Why Transformation Efforts Fail
  - Montgomery. “Putting Leadership Back into Strategy”

Case: Newell Company: Corporate Strategy

Case Preparation Questions:

- 1) What is Newell’s corporate strategy?
- 2) How does Newell’s acquisition strategy create value for stockholders?
- 3) Appraise Newell’s structure and administrative systems in light of its corporate and business strategies.
- 4) What is your appraisal of the acquisitions of Calphalon and of Rubbermaid?
- 5) Assess whether Newell’s corporate advantage is under threat, and, if so, offer advice as to how they might counter this threat.

### Case Packet

- (1) Folta. “Corporate Strategy – Course Introduction”
- (2) Porter. “From Competitive Advantage to Corporate Strategy” (HBR 87307)
- (3) Piskorski, M.J. “Note on Corporate Strategy” (Harvard Business School Note 9-705-449)
- (4) Khanna, T. and Palepu, K., “Why focused strategies may be wrong for emerging markets” (97404)
- (5) Stuckey and White. “When and When Not to Vertically Integrate.” (SMR006)
- (6) Anand, B.; Khanna, T.; and Rivkin, J.; “Market Failures” (Harvard Business School note 9-700-127)
- (7) Dyer, J.; Kale, P.; and Singh, H., “When to ally and when to acquire (R0407H)
- (8) “Lessons from Master Acquirers: A CEO Roundtable on Making Mergers Succeed” (HBS R00312)
- (9) Anand, B. “Strategies of Related Diversification” (Harvard Business School Note: 9-705-481)
- (10) Anand, B. “Strategies of Unrelated Diversification” (Harvard Business School Note: 9-705-480)
- (11) Collis and Montgomery. “Competing on Resources” (R0807N)
- (12) Kotter. “Leading Change: Why Transformation Efforts Fail” (R0701J)
- (13) Montgomery. “Putting Leadership Back into Strategy” (R0801C)
- (14) Arauco (A) (HBS 9-705-474)
- (15) Cadbury Schweppes: Capturing Confectionery (A) (HBS 9-708-453)
- (16) Bay’s Strategy in China: Alliance or Acquisition (HKU701)
- (17) Newell Company: Corporate Strategy (HBS 9-799-139)

## About Your Professor



I am an Associate Professor Management at Purdue University's Krannert School of Management and a Visiting Professor at EM Lyon Business School in Lyon France. I have taught courses in strategy or entrepreneurship at Krannert, and at various schools in Europe and Asia. I am also Director of BIOMEDSHIP, a program designed to study and provide leadership in biomedical entrepreneurship and innovation.

My research focuses on determinants of performance, entry, and survival of entrepreneurial firms; the management of strategy under uncertainty; and firm entry and exit. The medical device and biotechnology industries have been the focus of much of this research. I have published in *Administrative Science Quarterly*, *Journal of Economic Behavior and Organization*, *Journal of Business Venturing*, *Journal of Management*, *Managerial and*

*Decision Economics*, *Strategic Management Journal*, and elsewhere. I received two "Best Paper" Awards in the Academy of Management: Business Policy and Strategy Division (1994), and Entrepreneurship Division (1992), and another Best Paper Award from the Small Business Administration. I am on the editorial boards for the *Strategic Management Journal*, *Strategic Entrepreneurship Journal*, and the *Journal of Business Venturing*, and review for a number of other journals.

When I am not teaching or doing research, I have served the broader academic community in several capacities, including as a member of the Executive Committee for the BPS Division (2003-2005), the Chair for the BPS Doctoral Consortium in 2004 & 2005, and past member of the Research Committee for the BPS Division. Locally, I am board member of the West Lafayette School Board Foundation. I also try to keep active physically by running, playing basketball, lifting weights, skiing, biking, or playing with my four children. We live in West Lafayette.

I look forward to seeing you in China, and hope we all have a wonderful experience there.

Best Regards,

*Tim*

Professor Timothy B. Folta