THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

CORPORATE AND ORGANISATIONAL STRATEGY (MG220)

Course duration: 54 hours lecture and class time (Over three weeks)

Summer School Programme Area: Business and Management

LSE Teaching Department: Department of Management

Lead Faculty: Dr Jordi Blanes i Vidal (Dept. of Management)

Pre-requisites: A university level introductory course in psychology, sociology, political science, management, or economics.

Summary:

This course is an introduction to the discipline of Corporate and Organisational Strategy. It covers key concepts and theories in the field and how they can be applied to real business situations. *As it corresponds to a 200 course, the level is equivalent to intermediate university courses.* All topics are illustrated with examples of real companies in different industries. Classes will be organized around business cases; in the classes, students are expected to make presentations and to actively participate in the discussions.

Course Aims:

The focus of this course is on the strategic plan for managing a diversified firm. It studies how the firm portfolio of products and its internal organisation can be designed to maximise corporate performance. It combines in a unified framework the study of two separate but complementary issues: the opportunities and challenges afforded by the firm's external environment, and the resources and capabilities arising from the firm's internal environment.

Our teaching encourages students to address questions such as:

- which products and businesses should the firm focus on?
- which activities should be subcontracted and which should be carried out inside the firm?
- how should the firm be organised internally to coordinate and motivate employees, managers and other stakeholders?
- what are the consequences of providing workers and managers with performance pay?
- what is corporate culture, and does a strong culture affect the way that an organisation reacts to changes in the environment?
- what are the decision-making and integration challenges arising in acquisitions?
- what makes strategic alliances valuable and stable?

The course will present an introduction to the issues above. The course draws on theory and evidence from a range of social sciences, including mostly economics and finance, but also psychology and organisational behaviour. Particular emphasis will be placed on bringing theoretical, empirical, and case-study perspectives together. The course will only require basic mathematical knowledge but will call for rigorous reasoning.

Intended Learning Outcomes:

By the end of the course students will be able to:

- understand the concepts, theoretical frameworks and empirical evidence bearing on the key issues in corporate strategy.
- adapt the major concepts in corporate strategy (such as strategic resources, firm boundaries, product scope and corporate culture) to the analysis of real world corporations.
- identify the sources of corporate advantage and link them to the external environments in which firms operate.
- predict how a firm's optimal corporate strategy is affected by technological and environmental change.

Structure and assessment:

The course comprises 12 three-hour lectures and 12 1.5-hour classes spread over a three-week period. The classes will concentrate on the discussion of thought-provoking case studies. Class work will be linked to what has been covered during the lectures.

Formal assessment will be based on the outcome of a final two-hour written examination (80%) and coursework based on a case study (20%). Detailed instructions for the latter are provided below. The final two-hour exam will include a long question (40% of the exam marks) and six short questions (60% of the exam marks). The examination will take place on the Friday of week 3, the precise time and location of the exam will be circulated during the programme.

Formative Assessment

Students will be provided with a discussion document. They will be expected to read the document and answer a short set of questions. Feedback will be provided on these answers. The discussion document will be roughly equivalent to the long question in the final exam.

Instructions for the case study presentation exercise:

In the last two sessions of Week 2 the students will form groups of three or four and will identify a corporate strategy by a firm. This will involve firstly describing the product, outsourcing and geographical scope of the firm. If possible, a description of how the internal organisation of the firm fits with its corporate strategy would also be valuable. One point that should be emphasized is whether the firm's portfolio creates (or destroys) value, relative to the different businesses operating separately. A second important aspect to focus on is whether the firm's corporate strategy seems to fit the environment where it operates. Students should choose which company they want to analyse.

It is expected that students will get their data mostly from online sources, but other printed sources (such as books) may also be used. Each group is expected to make a short power-point presentation. Students should be cautious to avoid being purely descriptive, their presentation is expected to be analytical, referring to concepts discussed in the lectures, whenever appropriate. The format will be set and common for all groups. A sample presentation will be provided in the MG220 Moodle page. After the presentation, students will have to answer questions from the class. The power point slides produced by the students will count towards their 20% project work.

Summer School

APPROXIMATE SCHEDULE FOR LECTURES AND CLASSES

Week	Day	Lecture	Subject	Class
1	Monday	Road Map	Components of strategy, corporate strategy and organisational strategy	No Class
1	Tuesday	Vertical Scope	Reasons why a firm may want to buy from the market/sub-contract	Introduction
1	Wednesday	Vertical Scope	Reasons to produce in-house	Starbucks
1	Thursday	Product Scope	Exploiting synergies	Coca-Cola
1	Friday	Product Scope	Internal Markets and Business Groups	Oil and Gas Industry
2	Monday	Pay	Performance pay and its limits	Newell - Formative Assessment Deadline
2	Tuesday	Corporate Culture	What it does and when it is beneficial	Tata
2	Wednesday	Power	Decisions and (Mis)-Communication, Delegation	Executive
2	Thursday	Strategic Alliances	Challenges and solutions for cooperation in alliances	Class Presentations
2	Friday	Strategic Alliances	(Continued)	Class Presentations
3	Monday	M&As	Challenges of Integration, in particular in relation to culture	Gucci
3	Tuesday	Catch up and Revision		VF
3	Wednesday			Bananas
3	Thursday			
3	Friday	Exam		

Topic 1: ***Road Map - What is strategy? What is corporate strategy? What is organisational strategy?***

Lecture Content (60 slides)

In this lecture we introduce key concepts of this course by defining and explaining the different components that comprise 'strategy'. We regard strategy as 'the process by which a firm's valuable resources are directed towards the right activities, so that the firm can enjoy competitive advantage, add value and generate economic profit'. We first illustrate how possessing a competitive advantage is a necessary (although not sufficient) condition for a firm to obtain economic profit. We then list the conditions that the firm's resources must meet in order to be a source of competitive advantage. We also illustrate how the existence of complementarities between resources and activities can strengthen a firm's advantage. We finish this lecture by briefly defining corporate strategy and organisational strategy, the main subjects of this course.

Case: Starbucks [Richard Ivey School of Business 98M006]

Questions for the class discussion:

1. What is Starbucks' strategy?
2. Why has the company been so successful?
3. How should Starbucks approach its various growth opportunities? How should Schultz respond to the McDonald's offer?

Optional Readings:

"Creating Competitive Advantage", Harvard Business School 9-792-074

Comment: *This is a crystal-clear examination of why some firms generate more profits than others. The emphasis is not on industry structure (i.e. business strategy) but instead on how a firm can add and appropriate value within an industry.*

Topic 2: ***Vertical Scope***

Lecture Content (126 slides)

We start our examination of a firm's corporate strategy by studying whether an activity should be subcontracted or instead produced in-house. Firstly, we define the concept of value chain and describe the alternative institutions that can govern the relation between two vertically related activities, namely the firm or the market. We then examine the reasons why the market may be the optimal institution (i.e. the existence of economies of scale, and the coordination and incentive problems arising inside organisations). We then introduce the concept of transaction costs and discuss the various forms it can take. We conclude this topic investigating why the existence of transaction costs increases the efficiency of the firm relative to the market.

Case: Coca-Cola in 2011: In Search of a New Model [HBS 5-712-501]

Questions for the class discussion:

1. What are Coca-Cola's competitive advantages?
2. What are the biggest challenges facing Coke today? Why?
3. What were the pros and cons of buying CCE – the largest acquisition in Coke's history? Does it address the challenges? Improve the prospects of reaching the 2020 vision?
4. What should Coke do with CCE going forward? Own/retain CCE? Follow a "beer" model? Replay the "hospital ward" strategy? Other? Why? What are the benefits of each of these strategic options?

Case: The Oil and Gas Industry [Thunderbird School of Global Management TB0035]

Questions for the class discussion:

1. What are key characteristics of the oil and gas industry?
2. What is the basis for competitive advantage?
3. Why are many of the largest competitors in the industry vertically integrated?
4. How does the emergence of other players, such as NOCs and independents, affect the competitive dynamics? Does this change the motivations for vertical integration?

Optional Reading:

"When and When Not to Vertically Integrate", Stuckley, J. & D. White; Sloan Management Review; 1993, 34:3, 71-83

Comment: *This is an alternative treatment of the make-or-buy decision. It's written more for practitioners and therefore the level of intellectual discourse is less satisfactory. It however provides a good complement to the essential reading.*

"The Organization of Production: Evidence from the Aerospace Industry", Masten, S.; Journal of Law & Economics; 1984, 27, 403-416

Comment: *This is a seminal paper studying how increased complexity leads to increased need for coordination/fit and therefore translates into a higher likelihood of vertical integration. The introduction and section 1 are highly readable and very short.*

"Supplier switching costs and vertical integration in the automobile industry", Monteverde, K. & D. Teece; The Bell Journal of Economics; 1982, 13, 206-213

Comment: *Another seminal paper studying how asset specificity predicts vertical integration. Although the discussion is a bit outdated, the paper is very short and may be worth reading.*

"Technical Dialog as an Incentive for Vertical Integration in the Semiconductor Industry", Monteverde, K.; Management Science; 1995, 41, 1624-1638

Comment: *A paper on 'language as interface'. The argument is a bit unclear, unfortunately. It would be the last paper that I read in this topic.*

Topic 3: *Product Scope*

Lecture Content (83 slides)

The focus of this lecture is horizontal diversification, the second major component of Corporate Strategy. We start by defining the concept of economies of scope and discussing what characteristics a firm's resources must meet in order to represent a springboard for a successful diversification. We then examine the organisational limits to firm scope: mis-coordination, agency costs and influence costs. We also study whether (and if so, when) the capital markets internal to a corporation can allocate resources more efficiently than external capital markets. Our discussion includes a critique of the Boston Consulting Group Portfolio Management Theory. We end this topic by briefly discussing the unique challenges associated with business groups.

Case: Newell Company: Corporate Strategy – [HBS 9-799-139]

Questions for the class discussion:

1. How does Newell add value to the businesses within its portfolio?
2. What challenges faced the company in the late 1990s?
3. In this context, does the acquisition of Calphalon make sense? Rubbermaid?

Case: Creating a Corporate Advantage: The Case of the Tata Group [ISB005]

Questions for the class discussion:

1. Identify and describe the mechanisms by which the Tata group added value to its group companies.
2. What are the differences, if any, between the way the Tata group adds value and the way a multi-business conglomerate such as GE adds value? Should Tata group make the subscription of its services by group companies mandatory?

3. Should the approach to the creation of a corporate advantage by a business group differ based on the level of relatedness among businesses in the group? Why?
4. Should the portfolio of services offered by the Tata Group change as economic institutions develop in India?

Optional Reading:

"The Scope of the Corporation", Harvard Business School 9-795-139

Comment: *This is a very interesting document written by David J. Collis and Cynthia A. Montgomery. It doesn't only focus on the material in this topic, but instead offers a unified framework for vertical and horizontal scope, as well as for the drawbacks associated with large corporations.*

"Effects of Corporate Diversification on Productivity", Schoar, A.; The Journal of Finance; 2002, 62:6, 2379-2404

Comment: *In the first three pages you can find the summary of the 'new toy effect'. It illustrates why conglomerates may be destroying value in the act of diversification.*

Topic 4: ***Pay***

Lecture Content (85 slides)

In this topic we switch to the study of Organisational Strategy. We examine the first major component of an organisation: the motivation and incentives of its members. We start by presenting the concept of conflict of interests. We then assess whether performance-based pay can realign the interests of workers and the organisation principals (for for-profit firms these would typically be the shareholders). We discuss the various reasons why performance pay may backfire and also the reasons why performance pay may not even be as indispensable as often believed.

Case: Executive Pay and the Credit Crisis of 2008 (A) [HBS 9-109-036] and (B) [HBS 9-110-005]

Questions for the class discussion:

1. What factors led to the credit crisis of 2008?
2. What was wrong with the compensation packages? Which compensation system could have prevented the credit crisis?
3. 'Say on Pay': will it affect behaviour? Why?

Optional Reading:

"On the Folly of Rewarding A, While Hoping for B", Steven Kerr, Academy of Management Journal, 1975

Comment: *This is a classic and hilarious discussion of the many instances in which performance-based schemes are likely to backfire.*

Topic 5: ***People and Corporate Culture***

Lecture Content

We now study the second 'leg' of the organisation: its people and corporate culture. This topic first decomposes the contribution of an individual to his firm's performance into three components: general skills (or ability), firm-specific skills and hybrid skills. In the second part of the lecture we study the concept of corporate culture. Corporate culture is often defined in a very circular way: whenever we encounter corporate success, we are tempted to find 'a strong corporate culture'. We try to avoid this trap by first defining corporate culture narrowly and then analysing the situations in which it may lead to higher performance as well as the situations in which it may lead to lower performance.

Optional Reading:

"Can They Take It With Them? The Portability of Star Knowledge Workers' Performance", Groysberg, B., L. Lee & A. Nanda; Management Science; 2008, 54:7, 1213-1230

Comment: *The first five pages contain a very good general discussion of the debate regarding the relative importance of general and firm-specific human capital.*

"The Firm Specificity of Individual Performance: Evidence from Cardiac Surgery", Huckman, R. & G. Pisano; Management Science; 2006, 52:4, 473-488

Comment: *The first three and a half pages are also good to understand whether individual performance is firm-specific.*

"Culture Clash: The Costs and Benefits of Homogeneity", Van den Steen, E.; Management Science; 2010, 56:10, 1718-1738

Comment: *The introduction of this paper outlines in simple words the key mechanisms behind 'culture as beliefs'. It also advances some of the themes that we will study in the topic on mergers and acquisitions.*

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Topic 6: ***Power***

Lecture Content (66 slides)

We finish the study of Organisational Strategy by examining how decision-making power should be distributed inside an organisation. Our starting point is the recognition that, in organisations, executives typically do not have information that is essential to good decision-making. This requires other agents to communicate such information, but, as we study, truthful communication is by no means guaranteed inside organisations (cheap talk, signal jamming and distortion of verifiable information). We then examine the potential mechanisms to resolve this problem of mis-communication, most importantly the formal or informal delegation of decision rights to agents closer to the decision.

Case: Gucci Group: Freedom within the Framework – [HBS 9-109-079]

Questions for the class discussion:

1. Why did Gucci create a corporate group of luxury brands? Why may the Gucci Group be worth more than the sum of its parts?
2. What elements of Freedom within the Framework enable Gucci to capture the benefits of the Group?
3. Assess the current product development/creative process at Gucci. What are its benefits and risks? What, if anything, should be changed in how Gucci develops new products?

Optional Reading:

"Delegation of Decision Rights and the Winner's Curse", Jordi Blanes i Vidal, Economics Letters, 94, 163-169 , 2007

Comment: *A very simple model formalising the idea that decision-making rights allow workers to better signal their abilities. The introduction to the paper is very short and conveys the message quite well.*

Topic 7: ***Strategic Alliances***

Lecture Content (107 slides)

We now examine an institutional arrangement that lies half-way between 'make' and 'buy': strategic alliances. These refer to relationships such as supply or purchase agreements, technology sharing agreements, joint ventures, etc. We first briefly examine the position of strategic alliances in the make-or-buy framework. We then use a standard tool from economics (i.e. the Prisoner's Dilemma) to study the (lack of) cooperation issues arising in alliances. The treatment is a little bit formal, but investment in understanding the model should pay off. We then outline a number of alliance characteristics that can make the cooperation dilemmas less severe: long-term horizons, trust, complementarity, commitment through equity and transparency of the relationship.

Summer School

We use the Prisoner's Dilemma to illustrate how these characteristics are likely to make alliances more valuable and stable.

Case: VF Brands: Global Supply Chain Strategy – [HBS – 9-610-022]

Questions for the class discussion:

1. How has VF Brands' operations strategy evolved over the two decades? How well aligned was the operations and business strategy?
2. How would you characterise VF's various products/brands in terms of critical competitive priorities? What are the implications for sourcing strategy?
3. What is your evaluation of the "Third-Way" sourcing strategy proposed in the case? Is it the "best of both worlds" or the "worst of both worlds"? For which kind of products/brands would you pursue "Third-Way"? For which types would you pursue traditional sourcing and internal manufacturing? Why?
4. What are the implications of the statement made by the head of operations that "Today apparel is produced just about everywhere in Earth, and we have basically run out of new 'low cost' places to source production – until, of course, penguins learn to sew. We have to find cost savings by how we manage our supply chain."

Optional Reading:

"Effective Interfirm Collaboration: How Firms Minimize Transaction Costs and Maximize Transaction Value", Dyer, J., Strategic Management Journal, 18:7, 535-556, 1997

Comment: *The classic account of how Toyota and other Japanese manufacturers were able to decrease transaction costs which increasing relation-specific investments. Very easy to read and great empirical evidence.*

"Competition for Competence and Inter-Partner Learning Within International Strategic Alliances", Gary Hamel (1991), Strategic Management Journal, 12, 83-103

Comment: *Survey-based evidence (with great quotes) about learning races between competitors.*

"A Note on Strategic Alliances", Harvard Business School 9-298-047

Comment: *A relatively short introduction to some of the issues discussed here.*

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Topic 8: ***Mergers & Acquisitions***

Lecture Content (68 slides)

A firm can expand horizontally or vertically by (a) developing internally the extra resources that it requires in the new business or activity, (b) hiring or renting these resources, and (c) buying the resources ready-made in the form of an existing firm (mergers and acquisitions). In this topic we analyse the challenges associated with this last alternative, in particular the challenges arising during the integration of two initially separate organisations. We conclude the topic with an 8-point checklist of issues to consider during the integration process.

Case: Bananas (A) – [HBS – 9-712-451] and (B) – [HBS – 9-712-452]

Questions for the class discussion:

1. Do Bananas and/or Demonstrate – each as a standalone firm – have a competitive advantage? If so, what are the respective sources? How easy is it to replicate? How sustainable is it? What is each company's optimal standalone strategy?
2. Should Bananas and/or Demonstrate be (completely) integrated? How would their respective culture and source of competitive advantage affect the evaluation of the merger decision?

Optional Reading:

"New Evidence and Perspectives on Mergers", Andrade, G., M. Mitchell & E. Stafford, Journal of Economic Perspectives, 15:2, 103-120, 2001

Comment: *The defining survey on M&A. Easy to understand and surprisingly little outdated. The stylised facts on M&A have barely changed since this study was published.*

Summer School

Credit Transfer: If you are hoping to earn credit by taking this course, please ensure that you confirm it is eligible for credit transfer well in advance of the start date. Please discuss this directly with your home institution or Study Abroad Advisor.

As a guide, our LSE Summer School courses are typically eligible for three or four credits within the US system and 7.5 ECTS in Europe. Different institutions and countries can, and will, vary. You will receive a digital transcript and a printed certificate following your successful completion of the course in order to make arrangements for transfer of credit.

If you have any queries, please direct them to summer.school@lse.ac.uk