OVERVIEW

This course comprises two modules of critical importance to top management teams, separated by fall break. The first module deals with Corporate Strategy (how a multi-business corporation allocates resources and coordinates across its business lines to achieve the corporate goals); the second with Global Strategy (not only globalizing your own firm, but also competing and collaborating with global firms even if you choose to remain domestic).

Module 1. Corporate Strategy

This module takes the perspective of the CEO, or the top management team, of a multi-business corporation and asks the question: how can the corporation add value above what investors could enjoy by holding stock in each of the separate businesses? This is an important question because:

1) Over 60% of business assets are controlled by multi-business corporations,
2) Most single business firms ultimately become multi-business corporations to sustain growth as they exhaust opportunity in existing markets, and
3) Corporate strategy is not easy: on average multi-business corporations trade at a 20% discount relative to their breakup value.

At first thought you might imagine that corporate strategy merely stitches together a set of competitive strategies, but that poses a number of puzzles:

1) If corporate strategy is merely stitching together competitive strategies, we shouldn’t see multi-business firms, since investors would be better off holding a portfolio of stocks in the separate companies (better able to diversify, avoid corporate overhead cost, etc.). In fact, 55% of acquisitions are divested within seven years.
2) If firms pick activities with the highest NPV first, won’t they always be faced with lower quality opportunities as they expand?
3) How CAN headquarters add value beyond that of the equivalent stock portfolio?
4) Given that most headquarters actually decrease value:
   a. why do CEOs make the money what they do?
   b. Why aren’t more corporations forced to divest?
5) How do you measure a good corporate strategy? Market cap seems helpful, but market value is a composite of investor beliefs, each of whom should know less about the firm than its managers.
In sum, corporate strategy is very important, but is often done wrong, so the gains to GOOD corporate strategy are tremendous. This course will help us understand how to recognize good (and bad) corporate strategy, and how to formulate better strategies.

Following an introductory case session which highlights these puzzles, the module is organized around the major issues surrounding corporate strategy:

- WHEN to add/divest activities
- WHERE to add/divest activities
- WHAT mode of entry (alliance, acquisition or organic growth)
- HOW to add value in the context of multiparty competition
- HOW to configure the organization and its processes to capture that value

Module 2. Global Strategy

The intensity (and extent) of globalization, measured in terms of cross-border flows of goods and services, capital, information, and labor, increased significantly and quite steadily until the last few years. In the second part of the course, we will learn about the unique opportunities and challenges that firms face when doing business across borders, and the strategies that they can deploy:

- WHAT are the basic facts about globalization, both on the persistent differences across countries, and on the increasing integration among them?
- HOW does today’s global business environment underlie what we observe in business activities?
- HOW does our understanding of the environment-firm interactions help us formulate better strategies (both business and corporate) for global competition?

While acknowledging the importance of the general trend, we will pay particular attention to the characteristics of individual firms, echoing our discussion in the first half of the course.

STRUCTURE

Each class meeting comprises either a case discussion or exercise. Preparation of the day’s cases is essential, both for your grade, and to get the most out of the course.

Discussion questions for each case have been posted on Blackboard, the course’s web platform. A good way to prepare a case is to write out concise answers to each of the discussion questions. Additionally, I encourage you to talk with your study groups about the cases before class. Articulating your views about a particular business situation, and having these views challenged by your peers will complement and reinforce what you learn in the classroom. Adequate preparation is the only way to maximize what you can get out of this course.

To better facilitate in-class discussion, you are required to register for PollEverywhere before the first class. Details to follow.

TEXT/MATERIALS

Required: Digital course pack; Additional materials will be posted on Canvas before or after class.
GRADING AND ASSIGNMENTS

Class Participation (individual grade): I make notes each day after class on student participation. You should strive to contribute at least once per session, but there are only 80 minutes (some of which I consume), so the best strategy is to share your most insightful comment, leaving time for other students to contribute theirs.

- Laptops, cell phones, tablets and other electronic devices are not permitted during class unless specified by the instructor or recommended by a medical professional.
- To help students who are reluctant to participate, you will be given partial credit for answers to case questions posted to Poll Everywhere at the start of each session. Each session contributes 2.5% toward your total grade.
- Tardiness and leaving mid-session are disruptive to the class. Accordingly, they will be reflected in your participation grade.
- **Note that habitual absence is the only sure way to fail the class.** Absences will not only affect your participation grade, but reduce your overall grade regardless of your performance in other categories.

Case Write-ups (individual grade): During the term, you are required to compose one-page memos on two designated cases. Specific guidance on these memos will be provided on Canvas. These memos will not enable comprehensive responses to the study questions, but will rather provide an opportunity to identify your insights on the case and to specify your unique contributions to in-class discussion.

Final Project (group grade): This assignment consists of a final report (25 pages in length) and a short in class presentation (10 minutes) summarizing its main themes and findings. Detailed questions and requirements will be posted on Canvas. You are expected to meet the following deadlines for the project:

- Sept 10: Company choice and a one-paragraph proposal
- Sept 24: One-to-one meeting with the instructor to finalize your choice
- Oct 10: The corporate strategy part of the draft due
- Nov 26: The global strategy part of the draft due
- Dec 3 & 5: In class presentations
- Dec 12: Final report due for online submission

**Grading:**

- Class Participation (individual) 35%
- Case Write-ups (Individual) 25%
- In-class Presentation (group) 15%
- Final Report (group) 25%

**Other grading related policies:**

**Academic Honesty.** Be careful to cite the ideas and words of others. Any quote more than two sentences long should be accompanied by quotation marks and sources. Let me know any time you are in doubt.

**Grade Appeals.** In general, Olin does not permit grade appeals, without evidence of a mistake in grading (such as an entire page was overlooked). Because much of the content in assignments is
subjective, extreme care is taken to make sure all grading is done at the same time to ensure all qualitatively similar content obtains the same grade. When content is evaluated at a different time, there is no way to ensure that other students’ content has been treated comparably. Accordingly, all grade appeals must be in writing (as email attachment), and must clearly define the mistake that was made and provide evidence to support the claim. In any appeal, the entire assignment/exam is re-evaluated. Since errors in grading are normally distributed, you are as likely to have your grade lowered as to have it raised.

COURSE SCHEDULE

Class 1: Introduction to Corporate Strategy (August 27th)


1. In explaining GE’s ups and downs, what are the factors (both internal and external) that seem obvious to you? What are surprising?
2. Is this path inevitable, reflecting the trajectory of our economy, or is it the result of GE strategies?

Class 2: Scope of the Firm (August 29th)


Case: Alphabet Eyes New Frontiers (HBS case 717-418)
1. Why does Alphabet own widely different subsidiaries under the same corporate structure? What are the benefits and costs of this choice?
2. Why does Alphabet choose a decentralized structure for these subsidiaries? Under what circumstances is a decentralized structure the right choice?
3. Why does Alphabet keep due-class shares? How is it related to the strategies Alphabet is pursuing?

Class 3: Diversification (September 3rd)


Case: Danaher Corporation (HBS case 708-445)
1. What is behind Danaher’s success so far?
2. How far can Danaher Business Systems reach? Is there a limit to the range of businesses to which Danaher can create value?
3. Can the businesses themselves or private equity companies replicate the success of Danaher?
Class 4: Divestiture (September 5th)

Case: Danaher Corporation, 2007-2017 (HBS case 717-464)
1. What is the rationale behind Danaher’s decision to spin off a series of companies, after all the acquisitions before?
2. Is this about the change in overall business environment, or is it about the change in the company itself?

Class 5: Vertical Integration: Transaction Costs (September 10th)


Case: The Walt Disney Company and Pixar Inc.: To Acquire or Not to Acquire (HBS case 609-462)
1. Think about the value created by Disney and Pixar combined. Is it bigger when they are in an exclusive relationship, or when they are free to form other relationships?
2. If Disney and Pixar create more value in an exclusive relationship, can they do that with another exclusive contract, or do they have to share the common ownership through acquisition?
3. If Disney does acquire Pixar, how should Bob Iger organize and manage the combined entity?

Class 6: Vertical Integration: Industry Evolution (September 12th)

Case: Birds Eye and the U.K. Frozen Food Industry (HBS case 792-074)
1. Why did Birds Eye develop as a vertically integrated producer?
2. Why did specialized intermediaries emerge? Could Birds Eye have prevented it from happening?
3. Did a vertically integrated producer have an advantage in the 1980s? What should Birds Eye have done?

Class 7: Firm Scope and Bargaining Power (September 17th)


Videos: A Definition of Value https://vimeo.com/61143220
       How the Pie is Divided https://vimeo.com/61225993


First case write-up due at 5pm

Class 8: Geographic Expansion: Organizational Capabilities (September 19th)

Case: RoboTech: Storming into the U.S. Market (HBS case 5-918-502)
1. Do you think it was a good idea for Chen to diversify into medical robotics, given what she knew in 2009?
2. How would you evaluate RoboTech’s first three years in the U.S.? Would you have done anything differently?
3. What should Chen do with the proposed capital investments?

Class 9: Geographic Expansion: Multimarket Competition (September 24th)


Exercise Details will be posted on Canvas.

Class 10: Geographic Expansion: The Location Effect (September 26th)

Case: Emirates Airline: Connecting the Unconnected (HBS case 714-432)
   1. In an industry featuring low profitability, what explains Emirates’ success? Does Dubai play any role in it?
   2. What’s the strength of Dubai-based hub-and-spoke model? What’s the downside?
   3. Is Emirates’ success sustainable? Why or why not?

Class 11: Managing the Intangibles: R&D Portfolios (October 1st)

Case: Vertex Pharmaceuticals (A) (HBS case 9-604-101)
   1. Which portfolio option would you prefer? For projects that you are not going to develop, will you license out or keep as backup?
   2. What is the necessary information set for Boger to make the right decision?
   3. Is there a scientific approach to such decisions?

Class 12: Managing the Intangibles: Corporate Venture Capital (October 3rd)


Case: Intel Capital: The Berkeley Networks Investment (HBS case 9-600-069)
   1. Why did Intel invest in Berkeley Networks? Why did Berkeley Networks invite investment from Intel?
   2. How is Intel Capital different from regular venture capital?
   3. If you were an entrepreneur, would you approach Intel for funding? Why and why not?

Class 13: Beyond Product Competition: The Role of Platforms (October 8th)

1. Who is currently in the stronger position within the retail space, Amazon or Walmart? Why?
2. Why did Walmart struggle in the online business for so long? Should it ever have entered that business?
3. What should Walmart do going forwards?

Class 14: Practicing with current events (October 10th)

Module summary

Corporate strategy part of the paper draft due at 5pm

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<th>October 14-15</th>
<th>Fall Break</th>
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Class 13: Exchange rate exposure and firm competitiveness (October 17th)

Readings: “A Primer on Foreign Exchange Rates” (teaching note on Canvas)

1. Who gains and who loses from (a) a stronger dollar and (b) a weak real?
2. How do you think businesses should respond to (a) a stronger home currency, (b) a weaker home currency, and (c) currency volatility in currency crises?
3. Will cryptocurrencies change what we know about currency risks across countries?

Class 14: International Trade – Market and Non-market Forces (October 22nd)

Readings: “A Primer on International Trade” (teaching note on Canvas)
“There’s a reason your Columbia shirt has a tiny pocket near your waistline,” Marketplace, May 29, 2019.

1. What determines the geographical locations of an industry, or rather, the locations of various points on an industry’s value chain?
2. What are the arguments for government intervention in trade? How does it affect the competitiveness of firms operating domestically as well as internationally?
3. What do you think of the Bilateral Trade Agreements (BTAs) and regional Free Trade Areas (FTAs) as alternatives to the multilateral WTO?

Class 15: Distances across Countries (October 24th)

1. What are the relevant distances Uber should consider in its global operations?
2. How much distance is too much for a multinational company? How would your answer to this question vary depending on specific firm capabilities?

Class 16: Managing Differences: Adaptation (October 29th)


1. How should Amazon adapt in India? What should remain unchanged?
2. Is Amazon taking too much risk by investing in such a large scale? Why is Amazon taking this approach in India but not in other countries?

Class 17: Managing Differences: Aggregation (October 31st)

Case: Ingvar Kamprad and IKEA (HBS 9-390-132)
1. Why is the traditional furniture industry highly fragmented?
2. What are consumers looking for when they buy furniture? And how does your answer to this question determine the right globalization strategy for IKEA?
3. What are the major challenges faced by IKEA in its global expansion? How did it overcome these challenges?

Class 18: Managing Differences: Arbitrage (November 5th)

Case: The Abraaj Group: Making of a Global Private Equity Firm (F312-PDF-ENG)
1. Why is the Abraaj Group geographically dispersed but strategically focused on the growth markets?
2. What are the main challenges in balancing its global-local play?

Class 19: Organizing across Countries: Reassessing Synergy (November 7th)


Case: Santander's Acquisition of Abbey: Banking Across Borders (HBS case 707-485)
1. How would you characterize Santander’s globalization efforts before Abbey?
2. Why was Santander so keen to expand the retail banking business?
3. Was Abbey the right target? Was Santander the right buyer? Was acquisition the right approach to expand in this situation?
Class 20: Organizing across Countries: Global versus Multi-domestic (November 12th)

Simulation: Details to be posted on Canvas

Second case write-up due at 5pm.

Class 21: Organizing across Countries: The People Factor (November 14th)

Case: Levendary Café (HBS Brief Case 4357)
1. How would you assess Levendary Café’s entry into China?
2. What changes (if any) should Mia Foster make? What should she do about Louis Chen?
3. What should be done for Levendary Café’s future growth in China?

Class 22: The Visible Hand: Institutional Differences (November 19th)

Case: Busang: River of Gold (A) (HBS case 798-002) Busang: River of Gold (B) and (C) (798-003 and 004) will be distributed in class.
1. What are the most important rules for foreign investors in Indonesia’s mining sector? How are these rules made?
2. How can Bre-X leverage its Indonesian relationships?
3. How should David Welsh respond to Minister Sudjana’s announcement?

Class 23: The Visible Hand: State Capitalism (November 21st)

1. Should we think of government support as a type of competitive advantage? Why or why not?
2. What are the opportunities and challenges for multinational companies outside such systems?

Class 24: Taking Stock (November 26th)

Course summary; In-class Preparation for Final Projects

Global strategy part of the paper draft due at 5pm

November 27-29 Thanksgiving Break

Class 25 and 26: Final Team Presentations (December 3rd and 5th)

Final team paper due at 5pm, Thursday, December 12th