

MHR 808
Managing the Diversified Firm
Professor Michael J. Leiblein
Fisher College of Business
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Class: T & Th. 1:30 to 3:30 p.m. Gerlach 305
T & Th. 6:00 to 8:00 p.m. Gerlach 355

Office Hours: T & Th: 4:30 p.m. to 5:40 p.m.
or by appointment

The objective of this course is to develop an understanding of how corporate strategy may lead to the creation and persistence of competitive advantage. In contrast to the core strategy course, which is designed to address how firms develop competitive advantage in a single market through the exploitation of unique market positions, this course will analyze how advantage can be created through the configuration and coordination of activities across multiple markets. Specifically, we will examine how firms may develop competitive advantage through vertical integration, outsourcing, and joint ventures as well as through related and unrelated diversification.

There are a number of reasons why a student should be interested in corporate strategy. Nearly all large- and many medium-sized firms operate in multiple markets and are therefore implementing some kind of corporate strategy. These firms have undergone enormous change in the last thirty years. The merger and acquisition booms of the sixties and eighties extended the scope of many existing corporations. New forms of organization, such as the LBO partnerships of the eighties, provoked a debate about the efficacy of corporate hierarchies. More recently, capital market pressures have forced many organizations to reassess their portfolio of businesses, level of overhead, and the way they coordinate and control their business activities. In response to these pressures a variety of new institutional arrangements, such as joint ventures, strategic alliances, and virtual firms, have come into prominence. Regardless of your chosen career path, it is likely that at some point you will either work for, help to establish, or compete with a firm implementing some kind of corporate strategy.

Drawing from recently developed concepts in strategic management, industrial organization, and organizational economics this course will describe the skills that managers must command to create economic value through corporate strategy. These skills include the ability to apply analytical tools to assess industry structure and competitors' strategies, the ability to assess the optimal scope and boundaries of the firm, and the ability to design administrative structures, systems, and processes that facilitate the development and deployment of corporate resources. Ultimately, the course is designed to provide analytical frameworks and tools that will sharpen your ability in three primary areas:

1. **The Vertical Scope of the Corporation:** It is not always desirable for a firm to own all of the resources that support its strategy. In this section we will examine how value is created in the value chain and how the degree of ownership within the chain influences the distribution of economic gains.
2. **Diversification and the Horizontal Scope of the Corporation:** In this module we will consider how the corporate office may create economic value. Emphasis will be placed on understanding how the administrative structure of the corporation influences the allocation of resources across the portfolio of businesses and ultimately affects corporate value.
3. **Managing in a Virtual Environment:** The final module will the conditions under which managers should forego the extreme "make" or "buy" governance alternatives and utilize joint ventures, franchises, or other institutional arrangements. In this section we will pay particular attention to the unique benefits and challenges associated with different organizational forms and pay particular attention to the different incentive and monitoring mechanisms that are required for each of these arrangements.

2004 CORPORATE STRATEGY COURSE OUTLINE

Date	Topic	Reading	Case
Introduction: Review of Theoretical Concepts			
T. 3/30	Science / Intro to Strat / Courtney	• Christensen & Raynor, 2003	
Th. 4/1	Creating Value: Industry Transformation	• Porter & Rivkin, 2000	• Nintendo
T. 4/6	Creating Value: Leveraging Capabilities	• Collis & Montgomery, 1995	• Matching Dell
Th. 4/8	Creating Value Under Uncertainty	• Luehrman, 1998; Leiblein / Reuer, 2001 (not in packet)	• Nucor
T. 4/13	Capturing Value	• McGahan, 1999	• Baseball Strike
The Vertical Scope of the Business			
Th. 4/15	Intro to Firm Boundaries	• Barney, 1999; Chesbrough & Teece, 1996	
T. 4/20	Capabilities & Hazards		• Crown Equipment
Th. 4/22	Coordination & Standards		• BMG Entertainment
T. 4/27	Organization Under Uncertainty		• Nucleon
Creating Value in the Multi-Business Corporation			
Th. 4/29	Intro to Corporate Strategy (and review)	• Collis, 1995; Markides, 1997	
T. 5/4	Strategic Planning		• Portfolio Planning at Ciba Geigy
Th. 5/6	Unrelated Diversification		• Tyco International (A)
T. 5/11	Product Diversification		• Newell: Corporate Strategy
Th. 5/13	Geographic Diversification		• ITT Automotive: Global Strategy
T. 5/18	Diversification & value appropriation		• CCS/ Carnoud Metalbox
Corporate Strategy in Practice			
Th. 5/20	Intro to Alliances (and review)	• Bleeke & Ernst, 1995	
T. 5/25	Alliance Fundamentals		• Millenium Pharmaceuticals
Th. 5/27	JVs in Uncertain Environments		• Genzyme / Geltex Pharmaceutical Joint Venture
T. 6/1	Corporate integration		• Sharp Corporation: Technology Strategy
Th. 6/3	Summary & Wrap-Up		
FINAL	Time and Date TBA. Scheduled for week of June 7 through June 10.		

COURSE REQUIREMENTS AND GRADING

Required Materials:

- Case Packet (available at Cop-ez).

Popular Textbooks in Business & Corporate Strategy:

- There is no required textbook, but you might find the following books to be useful references:
 1. Barney, Jay B., 2002. *Gaining and Sustaining Competitive Advantage*, Reading, MA: Addison-Wesley Publishing, 2nd edition (ISBN # 0-130-30794-7).
 2. Besanko, David, David Dranove, and Mark Shanley, 1999. *Economics of Strategy*, John Wiley & Sons, 2nd edition (ISBN # 0471254541)
 3. Collis, David J. and Cynthia A. Montgomery, 1997. *Corporate Strategy: Resources and the Scope of the Firm*, McGraw Hill/Irwin, 1st edition (ISBN # 0072895438)
 4. Ghemawat, Pankaj, 2000. *Strategy and the Business Landscape*, Reading, MA: Addison-Wesley Publishing, 1st edition (ISBN # 0201357291).
 5. Grant, Robert M., 2002. *Contemporary Strategic Analysis*. Blackwell Publishers, 4th edition (ISBN # 0631231366).

Instructional Procedure:

There are many good ways of teaching. This course will be taught through the case method. The case method has been successfully used in training students and managers since the early part of this century. The primary goal of the case method is to develop in the participant the ability to effectively reason when dealing with specific problems through the use of relevant theory and the careful acquisition of case facts and opinions. The heart of the case method is the use of problems and opportunities to discover and fix in one's mind productive ways of thinking, feeling and doing.

Each case presented in this class provides a written account of a situation that raises problems that the protagonist(s) in the situation must solve. The cases generally contain background information on the objective of the activity, the people involved, and a series of events and administrative difficulties that confront the responsible executive. The problem may or may not be clearly defined. Frequently, a significant part of the executive's job will be to determine and define the business problem.

The aim of the case is to present the facts that were known or available to the executive in the case situation and which formed the basis for his or her analysis and decision. The decision is typically not described in the case; rather the development of decisive course of action is left to the participant. If a decision is indicated in the case, the discussion often focuses upon an analysis of the validity of the decision.

In order for the in-class discussion to be effective, you must prepare carefully before class and actively participate during class. The well-prepared student comes to class with a written outline identifying the primary challenge facing the case protagonist(s), a critical assessment of the situation, and a persuasive argument supporting a recommended course of action. A persuasive argument implies having completed the appropriate financial, analytical, and qualitative analyses necessary to support a recommendation. Having a written outline is important because it forces you to draw together various aspects of the case and to synthesize a distinct position on each of the discussion questions. Moreover, the process of writing one's response to these questions imposes a level of specificity and clarity to one's analysis that may otherwise be absent. A written outline also provides a foundation for concise, thorough, and specific in-class comments that improve the learning experience for everyone.

The assigned readings for each session (and within each module) are intended to provide conceptual material that will help you analyse the case selected for that session. You should identify the primary conceptual points highlighted in the assigned reading and use those points to form a structured opinion concerning the issues in the case. I strongly encourage you to form small groups to discuss the case prior to

class, even if you are not writing up that particular case. This gives you the opportunity to sharpen your opinions, try out your ideas on others in a more informal setting, and see new perspectives before the full session. I have noted additional supplementary readings in the syllabus and will post citations on my website for those interested in learning about any of the concepts introduced in the course in greater depth.

In class, you should be ready to communicate your recommended alternatives and to defend your analysis against the criticism of other members of the class by describing the analyses you performed, the conclusions you have reached, and any implementation guidelines you have developed in evaluating the alternatives. Although the discussion may lead to a decision accepted by a majority of the class members, the discussion is not necessarily intended to culminate in any one approved solution. Typically, students will relate the case problem to problems he or she has encountered in his or her own experience. The student's view of the case may be prejudiced by their experience. Thus, in the discussion itself, the individual participant may find that the opinions of other members of the group differ sharply from their own. One individual may learn, through the comments of others, that they have overlooked certain salient points. Another may find that he or she has weighed one factor more heavily than other class members. This interaction of presenting and defending conflicting points of view causes individual students to reconsider the view they had of the case before the discussion commenced, develop a clearer perception of the problems, recognition of the many and often conflicting interpretations of facts and events, and a greater awareness of the complexities within which management decisions are reached.

My role as a case method instructor is different than in the conventional lecture method of instruction. In many respects, I am an equal member of the discussion group, with the added task of stimulating, guiding, and summarizing the discussion. My role will be to bring challenging questions before the group and to familiarize you with the theories and tools of the strategy field that are useful in addressing these issues. In class, I will act as a moderator and occasionally as a devil's advocate as the discussion moves forward to make sure that key issues are brought up in the discussion. I will also expand on our readings in the form of mini-lectures at the beginning or end of class to deepen your knowledge of individual tools or frameworks.

Attendance:

The primary source of your learning in this course will take place in the classroom as you and your colleagues share your insights and engage each other in debate on alternatives or appropriate courses of action for the firms in the case. Although the assigned readings provide background material, attending class is essential, and is necessary for a satisfactory grade on the contribution component of the final grade.

Honor Code:

Students enrolled in the course are expected to adhere to the Fisher College honor code. In this particular class the honor code asks that students agree: (1) not to discuss a case or receive notes on a case that has not yet been discussed in class with students who have taken the class previously (either in another section or in a prior year) and (2) that all written case assignments reflect your individual effort only. Thus, while you are encouraged to discuss the readings and cases with others in preparing for class, the case write-ups should contain only your individual analysis and work. Please feel free to ask for clarification of any 'gray' areas.

Evaluation:

The grading plan describes the relative importance attached to each of the individual activities used to assign a course grade. Your **course grade** will reflect your performance in terms of **(1) contribution (35%), (2) three one - to two-page case analyses (30%), and (3) either a final exam or course project (35%)**. Details on each of the grade components are provided below.

Class Contribution (35% of Grade):

Class contribution is one of the best and most reliable ways that students can demonstrate their understanding of the ideas and models presented in class, as well as their ability to apply them to real business situations. In-depth case preparation and active class contribution are also excellent ways to prepare for the final project. This is “your course” in the fullest sense—what each person takes away from the course is a direct function of the effort that they and the rest of the group put forth in the debate.

While my preference is to rely on voluntary contribution, I may call upon you at any time, whether to open the case discussion with a summary of the key issues, to discuss the required readings, or to answer a specific question on a case. If for some reason you are not prepared for the discussion, please signal this by placing your name card FACE DOWN. If your name card is not up, I will assume you are unprepared and make a note of that for your class contribution grade.

The class contribution grade is composed of two components: (1) overall evaluation by the professor and (2) overall peer evaluation. These components are discussed below.

Overall Professor Evaluation. For each class session, I will have a list of five to seven questions that help to identify the issues underlying the discussed business problem or issue. These questions may or may not correspond to the study questions that are provided for the day. I will call on students to answer each of these questions. After each class, I will take notes on students’ contributions to the class session.

The following criteria will be used to judge in-class performance. Effective class contribution entails providing good answers to case questions. Good answers to case questions indicate that you are actively listening to others and are providing comments relevant to the ongoing discussion. Relevant comments add to our understanding of the underlying conceptual material, challenge and clarify the ideas expressed by others, integrate material from past classes or other courses, and show evidence of analysis rather than mere opinion or “gut feeling.” Excellent responses demonstrate that the student has thought deeply about the case and can develop creative and innovative insights through this analytic effort. *Excellent answers to core case analysis questions can be the basis of class discussion for 30 minutes or more.* Effective class contribution does not entail faking answers, monopolizing “air time,” ignoring the contributions of others, or repeating case facts without analysis.

Naturally, the data in a given case will be incomplete. Thus, an answer such as “the protagonist needs more data” or “the firm needs to do such and such analysis” is not particularly helpful, even if it may be true. In part, the intent of case analysis is to provide you with the opportunity to make complex decisions with limited information and to sort through data that is available to a decision-maker, some of which may be superfluous. In preparing cases, the following guidelines regarding case data may be helpful: (1) recognize that the data in a case are invariably incomplete, (2) do not overlook the data that are available, (3) if an essential piece of data is missing, make reasonable and explicit assumptions, and (4) believe the facts and data in a case, but be suspicious of stated opinions. You are not required to get data from other sources for analyze cases in this class.

Overall Peer Evaluation. Attached to your syllabus is a *Peer Class Contribution Evaluation Form*. Each student will be asked to list on this form **up to four people** in the class who, in their opinion, demonstrated excellent class contribution throughout the quarter. Students may not list themselves on this form. Although student evaluations will be kept confidential, for accounting purposes, each student will need to sign their *Peer Class Contribution Evaluation Form*. The *Peer Class Contribution Evaluation Form* must be returned to the Professor no later than the end of class on **Thursday, May 27**. Students who fail to turn this form in on time will not receive the highest class-contribution grade.

Position Papers (30% of Grade)

In order to help students focus on the goal of excellent class preparation and to improve everyone's classroom experience, students are required to submit *three* individual position papers during the course of the quarter. Submissions should be typed, single-spaced, and are limited to two pages in length. Additional figures, calculations, or spreadsheets may be attached that do not count toward the page constraint. Please do not include a cover page with these papers. The position papers may be presented in paragraph or bullet-form as long as the submission fully summarizes the logic underlying a student's analysis of the focal issue. The study questions available for position paper analysis appear in a subsequent session of the syllabus and are highlighted and marked by asterisks (***)�. Although you should answer all of the questions when preparing for a case, the position paper should focus only on a question with an asterisk.

Each of the *three* position papers is due by 8:00 am the morning of the appropriate class. You are free to select the cases that interest you the most to write up in your position papers. Please select these cases from among the following list: Crown Equipment, BMG Entertainment, Newell Corporate Strategy, CCS/ Carnoud Metalbox, Millenium Pharmaceuticals, Genzyme / Geltex. Case analyses that are not turned in, not turned in on time, or turned in by other students will receive a grade of zero. You can only write up one position paper per case. Unless the University closes down, there will be no exceptions to this rule, so please plan accordingly.

In grading the position papers, I am not looking for one "right answer." Rather, my goal is to create an incentive for you to think through the question in depth, choose and apply a particular set of theoretical tools and frameworks, and to develop a consistent and logical argument that supports your position. Sometimes it is easy to grasp the basic ideas underlying a tool or theory, but more difficult to actually apply the ideas to a case. Thus, good position papers will indicate why the chosen theoretical tool is appropriate, describe the assumptions and logic underlying the chosen tool, and correctly apply the tool.

Consistent with the objective of encouraging excellent class preparation, the position papers will be graded according to a simple system of 'check,' 'check-plus,' and 'check-minus.' My assumption is that most papers will receive a grade of 'check' indicating that the work has satisfied the criteria listed above and that the subsequent class discussion will be of high quality. In exceptional cases, a check plus grade will be awarded when the case preparation work, as demonstrated in the write-up, is extraordinary. A check minus grade will be given when the write-up is less than the norm for that evening's session. The point equivalents for each write-up are ten points for check-plus, eight points for check, and six points for check-minus.

Final Exam (35% of Grade)

The Nature and Purpose of the Final Exam. There is a final exam in this class. The final exam will focus on evaluating the ability of students to understand and apply the concepts and models presented in class lectures and in the readings. This exam will consist of a limited number of Wall Street Journal articles. Students will be asked to analyze two or three of these articles using concepts and models presented in class lectures or the text. Three or four questions will be associated with each article. Students can use these questions to organize their analysis of an article, or they can develop their own approach to analysis. The final exam is open book and open note. An example final exam question is included below.

Final Exam Evaluation Criteria. The following criteria are used to evaluate final exam questions:

Excellent exam answers demonstrate both a student's understanding of the theories and models discussed in class and in the readings as well as a student's ability to apply these theories and models to generate insights about real business situations facing firms.

Good exam answers demonstrate either that a student understands the theories and models *or* that a student can generate insights about a real business situation facing firms, but not both.

Poor exam answers demonstrate neither a student's understanding of the theories and models nor a student's ability to generate insights about real business situations facing firms.

Final Project Alternative

As an alternative to the final exam, students may prepare a final project for the course. The final project will be a 20 page (double-spaced) written report that examines the implementation of corporate strategy. There are two basic project types. The first involves choosing an impending or existing acquisition, merger, alliance, or outsourcing decision and making the best possible case for an organizational form that is different from the structure that was actually implemented. For example, in place of the acquisition of Time-Warner by AOL a team could argue for a looser alliance. The second project type involves identifying and developing a case for a potential acquisition, merger, alliance, or outsourcing decision. I have left the project guidelines intentionally broad in order to allow you to study in depth a particular strategy of interest or firm with which you are familiar. To choose this alternative, ideally you would have access to a company since you will need to get detailed, potentially proprietary data. You may complete the final project either individually or as part of a small group. In order to go forward with this alternative to the final exam, you must prepare a two-page written proposal that details the specifics of what you wish to accomplish. You should submit this proposal no later than the fourth session of the course. Shortly thereafter, we will meet outside of class to discuss and refine your proposal, which becomes the "contract" for your final project. The goal of providing you this alternative is for you to be able to pursue your interests, to apply the course concepts in a meaningful way, and to better understand the merits and challenges of various corporate strategies.

Grade Appeals:

Grades on exams and assignments are intended to reflect the overall quality of performance of the student. You may appeal your grade on a particular case analysis or the final project if you think the assigned grade does not reflect the quality of your performance. To appeal a grade, submit a clear written explanation describing why you believe the assigned grade is inappropriate within one week after your work is returned. I will carefully consider all such appeals. I will not re-grade an individual question or portion of an assignment; rather I will re-grade the entire assignment. As a result, the final grade for the re-graded assignment may be greater than, less than, or equal to the original grade.

EXAMPLE FINAL EXAM QUESTION

Analyze the following article (33 points). You may use the following questions to organize your analysis.

Fisher, L. "A Powerhouse of Technology Decides to Split into 2 Units", *New York Times*, March 3, 1999.

1. In your view, is Hewlett Packard's decision to split its computer, printer, and scanner business from its electronic test equipment and medical technology business appropriate? Why or why not?
2. Suppose that Hewlett-Packard spins off its computer, printer, and scanner business. Is HP without the computer, printer, & scanner business employing a different corporate strategy than HP with the computer, printer, & scanner business? If yes, what are the economies of scope that HP is attempting to leverage with each structure? If you don't believe there is a difference between the strategies, why not?
3. The article suggests that Hewlett-Packard believes that its financial difficulties are largely tied to "the confusion of having too many businesses under one roof". In a separate article, HP indicated that they entertained the idea of creating a third business unit by splitting off its printer business. How can HP create value by minimizing the number of businesses it has under one roof? If 'confusion' is truly the problem, why not also split-off the printer business?

March 3, 1999

A Powerhouse of Technology Decides to Split Into 2 Units: An Effort to Compete in a More Focused Way

By LAWRENCE M. FISHER

SAN FRANCISCO -- Responding to the ever-shifting fortunes of high-technology industries, the Hewlett-Packard Company, the cornerstone of California's Silicon Valley, announced Tuesday that it would split into two independent companies, one focusing on computers, printers and scanners, the other on electronic test equipment and medical technology products. Wall Street greeted the move enthusiastically, sending Hewlett-Packard shares up \$2.75 to close at \$68.625 on the New York Stock Exchange. Analysts said the split would allow Hewlett-Packard's computer and imaging businesses to compete more effectively with more focused companies that have lower cost structures, like the Dell Computer Corporation, Sun Microsystems Inc. and Lexmark International Group.

Although Hewlett-Packard's reputation was built on the quality of its test and measurement equipment -- not to mention its legendary founding in the iconic Palo Alto garage 60 years ago -- that business has been marked by higher overhead and slower growth than the company had realized in computers, printers and scanners. "The company has been in too many businesses," said Steven Milunovich, an analyst with Merrill Lynch. "H.P. has actually done surprisingly well through the years with a diversified business, but the time has come for this kind of step. I think it should be a shareholder-enriching event."

Hewlett-Packard has struggled to meet its own or analysts' estimates of revenue growth, although it beat earnings estimates in the most recent quarter through rigorous cost-cutting. Test and measurement, which also includes medical products like ultrasound, patient monitoring devices and heart defibrillators, had averaged better than 10 percent revenue growth over the last decade, but in the most recent fiscal year, growth dropped to 1 percent, because of the Asian economic crisis and a slowdown in the semiconductor business. "We still have quite a collection of businesses under one roof, which have become increasingly divergent in terms of their business models, the way they go to market, and the customers they serve," Lewis E. Platt, Hewlett-Packard's chairman, president and chief executive officer, said in a telephone interview.

After the split, the computer and imaging company will continue to be known as the Hewlett-Packard Company, while a new name will be chosen for the measurement company. Hewlett-Packard plans a public offering of 15 percent of the measurement company's outstanding shares by year-end, which would be the largest initial public offering in Silicon Valley history. The measurement business, including chemical-analysis and medical businesses, represented \$7.6 billion

of Hewlett-Packard's total revenue of \$47.1 billion in the 1998 fiscal year. "The focus we get from being separate will help our outbound message," Platt said. "What can you say about a company like H.P.?" In contrast, he said, Sun Microsystems, a major competitor in large network server computers, "is out there with just one message." "The complexity and confusion of having all these businesses under one roof outweigh the synergy of having them all together," he said. Platt, 58, said he would remain chief executive until Hewlett-Packard's separation was completed. That is expected to take 12 to 18 months. A search for a successor is under way.

Aside from the printer business, where Hewlett-Packard has a commanding market share, the company has struggled to own any particular market segment the way Sun is identified with the Internet, Dell with personal computers or I.B.M. with large enterprise systems. Analysts say that while Hewlett-Packard has credible offerings in all of those markets, it has lacked a coherent strategy to address any one of them. What is not clear is whether spinning off test and measurement will change that picture, they said. "I actually think test and measurement is the crown jewel," said James Moore, chief executive of Geopartners Research in Cambridge, Mass. "Test and measurement is where the technology tends to be, where a lot of the talent tends to be. The problem is on the PC side. It was a great mistake for them to plunge so heavily into PC's. They and Compaq got into a price war, and what neither company understood was that Dell was hitting them in a blind spot."

Dell has grabbed market share from Compaq Computer and Hewlett-Packard with a combination of a direct sales model, which eliminates the overhead of dealers and distributors, and custom configuration, which allows it to sell machines at higher average prices. Even so, Platt said the companies' business models were actually coming closer together. "Dell's out now very aggressively recruiting dealers and distributors to help them serve customers who prefer to be served that way," he said. "While we started out with very different multitier strategies, we are converging." At \$10.2 billion, revenues in Hewlett-Packard's computer business increased 3 percent over last year; in contrast Dell grew sales by 38 percent in the same period. At the same time, revenue from the measurement organization declined 11 percent, with test and measurement down 14 percent, chemical-analysis up 8 percent, and medical-products down 13 percent. Platt said one quarter's results did not drive the decision to split the company, but he conceded that they might have been a factor. "If we'd had quite a wonderful year, maybe there would have been less urgency," he said.

Edward W. Barnholt, Hewlett-Packard's executive vice president and general manager of the measurement organization, has been named chief executive of the new company. "We'll work very hard to be an \$8 billion start-up that will compete very effectively with companies of all sizes," Barnholt said. Whatever name is eventually chosen for the new company, he said, it will likely reflect the legacy of Hewlett-Packard. "We certainly want to build on the heritage of H.P.," he said. "We don't want to leave that equity behind."

ABOUT YOUR INSTRUCTOR

Michael J. Leiblein is an Assistant Professor in the area of Strategic Management. Michael received his Ph.D. in Strategic Management from Purdue University as well as an M.B.A. and B.S. in Electrical Engineering from Rensselaer Polytechnic Institute. Prior to his doctoral studies, Michael worked as a consultant for Andersen Consulting (now Accenture) and as a systems engineer for Johnson Controls. Professor Leiblein has led courses and seminars on business and corporate strategy in the M.B.A., Ph.D., and executive programs at the University of South Carolina and the Ohio State University. In 2000 and 2002, the Ohio State University evening MBA students named him outstanding core course instructor. He has consulted in the United States and Europe for a wide variety of organizations and associations.

Professor Leiblein's research focuses on the relationship between organizational form and firm performance and innovation in technology-intensive industries. His work has been published in academic journals such as the *Strategic Management Journal*, the *Academy of Management Journal*, the *Journal of Management*, the *Journal of Business Venturing*, and the *Journal of Industrial Economics*. His research on Real Options was profiled in the *Financial Times* of London. Michael's academic papers have been recognized with several awards including the 1994 Glueck Best Paper Award from the Business Policy and Strategy division of the Academy of Management and an honorable mention for the 1995 Best Paper Award from the Technology and Innovation Management division of the Academy of Management. His dissertation research on the adoption of new technologies in the U.S. semiconductor industry was recognized by the Academy of Management as one of the best dissertations in the field of strategic management (1997 Free Press Award). He currently serves on the editorial boards for the *Strategic Management Journal* and the *Journal of Management*.

In his free time, Michael enjoys hiking and sightseeing through the American Southwest.

CLASS ASSIGNMENTS

<u>Session 1.</u>	Introduction to Course
Reading:	<ul style="list-style-type: none"> • Christensen & Raynor, 2003. Why Hard-Nosed Executives Should Care About Management Theory," <i>Harvard Business Review</i>, 81(5): 67-74.
Case:	<ul style="list-style-type: none"> • None.
Supplementary Reading:	<ul style="list-style-type: none"> • Barney, Jay B. 2002. Chapters 1 & 2.
<i>Discussion Questions:</i>	<ol style="list-style-type: none"> 1. How would you identify (describe) a good managerial theory? How would you discriminate between managerial prescription and managerial theory?
<i>Reviewing Core Strategy:</i>	<ol style="list-style-type: none"> 2. Think back to a firm that you know well. How would you define this firm's strategy? How does this organization create value (i.e., Monopoly rents, Ricardian (resource-based) rents, or Schumpetarian (innovation) rents? What logic underlies the markets in which it competes? Do you believe its value proposition is sustainable? 3. How do you define performance in this group or organization? How would an economic definition of performance affect the behavior of your organization? Does your firm focus on backward looking (i.e., ROIC) or forward looking measures (i.e., Market to Book value)? Why?
<u>Session 2.</u>	Creating Value through Industry Transformation
Reading:	<ul style="list-style-type: none"> • Porter & Rivkin, HBS Note 2000.
Case:	<ul style="list-style-type: none"> • Nintendo (INSEAD # 398-030-1) • http://www.nintendo.com
Supplementary Reading:	<ul style="list-style-type: none"> • Kim, W. Chan and Renee Mauborgne (1999), "Creating New Market Space," <i>Harvard Business Review</i>, 77, 1, 83-93. • Kim, W. Chan and Renee Mauborgne (2000), "Knowing a Winning Business Idea ...," <i>Harvard Business Review</i>, 78, 5, 129-138. • MacMillan, Ian C. and Rita Gunther McGrath (1997), "Discovering New Points of Differentiation," <i>Harvard Business Review</i>, 75, 4, 133-145.
<i>Case: Nintendo</i>	<ol style="list-style-type: none"> 1. What is your assessment of industry conditions at the time Nintendo entered the home video-game industry? 2. What was Nintendo's strategy in the home video game industry? How did it differ from others (e.g., in terms of basic assumptions, strategic focus, customer focus, assets and capabilities, and product/service mix)? 3. How did competitors react? How did Nintendo respond to these competitor reactions?
<u>Session 3.</u>	Creating Value by Building and Leveraging Capabilities
Reading:	<ul style="list-style-type: none"> • Collis & Montgomery, HBR 1995.
Case:	<ul style="list-style-type: none"> • Matching Dell (HBS # 9-799-158).
Supplementary Reading:	<ul style="list-style-type: none"> • Barney, Jay B. 2002. Chapter 5.
<i>Case: Matching Dell</i>	<ol style="list-style-type: none"> 1. How and why did the personal computer industry evolve into this situation? 2. Why has Dell been so successful? 3. Prior to the recent efforts by competitors to match Dell (1997-1998), how big was Dell's competitive advantage? Which activities are the primary drivers of this advantage? <ul style="list-style-type: none"> • Hint: Compare the wedge that Dell drives between consumers' willingness to pay and the costs it incurs to provide those products with the wedge generated by a Compaq / reseller team. 4. How effective have competitors been in responding to the challenge posed by Dell's advantage? Who has done the worst job of responding to Dell?

Session 4,	Creating Value under Uncertainty
Reading:	<ul style="list-style-type: none"> • Luehrman, "Investment opportunities as real options: Getting started on the numbers", <u>Harvard Business Review</u>, July-Aug. 1998: 51-67. • Reuer & Leiblein, 2000. Real options: Caveat Emptor, <u>Financial Times</u> (London). May 9, 2000. (to be handed out).
Case:	<ul style="list-style-type: none"> • Nucor at a Crossroads. (HBS # 9-793-039 rev 1 / 20 / 98). • http://www.nucor.com
Supplementary Reading:	<ul style="list-style-type: none"> • Luehrman, T. Strategy as a portfolio of real options, <u>Harvard Business Review</u>, Vol. 76: 5(Sept.-Oct).

Reading:

1. Why are traditional DCF techniques such as NPV limited?
2. What types of options are associated with firms' investments?

Case: Nucor at a Crossroads

1. Why has Nucor performed so well in the past?
2. How attractive are the economies of thin slab casting? Does Nucor have VRIO capabilities to offset these uncertainties?
3. Considering the above, how should Nucor think about the uncertainties surrounding thin-slab casting?

Session 5,	Capturing Value
Reading:	<ul style="list-style-type: none"> • McGahan, 1999. Sustaining Superior Profits: Customer & Supplier Relationships, <u>Harvard Business School Note</u>
Case:	<ul style="list-style-type: none"> • The Baseball Strike (HBS # 9-796-059) • http://www.majorleaguebaseball.com
Supplementary Reading:	<ul style="list-style-type: none"> • None

Reading:

1. How do holdup problems, and problems associated with the use of the market more generally, manifest themselves in your industry? How would you relate the notions of "specific assets" to the notion of "core competencies?"

Case: The Baseball Strike

1. Was the value created by Major League Baseball increasing or decreasing up until the time of the strike?
2. How did changes in the structure of transactions between owners and players affect the division of value? What was the impact of free agency?
3. Was there anything the players or owners could have done to prevent the strike?

<u>Session 6,</u>	Introduction to a theory of the firm
Reading:	<ul style="list-style-type: none"> • Barney, Jay B. 1999. How a firm's capabilities affect boundary decisions. <u>Sloan Management Review</u>, Spring: 137-146. • Chesbrough, H. W., & Teece, D. J. 1996. When is virtual virtuous? Organizing for innovation. <u>Harvard Business Review</u>, 74: 65-73.
Case:	<ul style="list-style-type: none"> • None
Supplementary Reading:	<ul style="list-style-type: none"> • Stuckey, J. and D. White. 1993. When and when not to vertically integrate, <u>Sloan Management Review</u>, Vol. 34:3(Summer), pp. 71-84. • Quinn, J.B. and F. Hilmer. 1995. Strategic outsourcing, <u>Sloan Management Review</u>, Vol. 35:4(Summer), pp. 43-56. • Leiblein, M.J. and D. Miller. 2003. Leiblein, M.J. and D. J. Miller. 2003. "An empirical examination of transaction- and firm-level influences on the vertical boundaries of the firm," <u>Strategic Management Journal</u>, Vol. 24, pp. 839-859.
<i>Reading:</i>	<ol style="list-style-type: none"> 1. Think back to a firm that you know well. Which activities does this firm perform in-house? Why? More generally, when should a firm integrate? How does the integration decision influence a firm's performance and subsequent business opportunities? 2. What factors drive the decision to integrate or de-integrate? How do expectations regarding the future influence these decisions? 3. How does a firm's decision to integrate or to outsource influence its subsequent capability base and strategic options?

<u>Session 7,</u>	Balancing Capabilities and Hazards
Reading:	<ul style="list-style-type: none"> • None
Case:	<ul style="list-style-type: none"> • Crown Equipment Corporation: Design Services (HBS # 9-910-031). • http://www.crown.com
Supplementary Reading:	<ul style="list-style-type: none"> •
<i>Case: Crown Equipment Corporation</i>	
1.	What has been Crown's competitive strategy? What role has design played in supporting this strategy?
2.	Why has Crown's 30- year relationship with RichardsonSmith (RS) been so successful? How might this relationship change under the RS' new ownership?
3.	How would you characterize Crown's distinctive competencies?
4.	***How would you advise Tom Bidwell regarding the vertical integration of their design activities? Why?

<u>Session 8,</u>	Coordination and Standards
Reading:	<ul style="list-style-type: none"> • None.
Case:	<ul style="list-style-type: none"> • BMG Entertainment (HBS # 9-701-003)
Supplementary Reading:	<ul style="list-style-type: none"> • None.
<i>Case: BMG Entertainment.</i>	
1.	Why have a handful of major record companies dominated the music industry through most of the last century?
2.	How does the advent of the internet change the structure and economics of the music industry? Will major record companies continue to dominate the business?
3.	Does BMG's approach to the internet make sense?
4.	*** What should Zelnick and Conroy do? Should BMG integrate? Should they continue to work with a wide array of technology partners?

<u>Session 9,</u>	Organization Under Uncertainty
Reading:	<ul style="list-style-type: none"> • None.
Case:	<ul style="list-style-type: none"> • Nucleon, Inc. (HBS # 9-692-041).
Supplementary Reading:	<ul style="list-style-type: none"> • Christensen, Raynor, & Verlinden. 2001. "Skate to where the money will be," <i>Harvard Business Review</i>, 79(10): 72-81.

Case: Nucleon, Inc.

1. What are your recommendations regarding the manufacturing of CRP-1 for Phase I and Phase II clinical trials? What are your recommendations regarding manufacturing for Phase III clinical trials and commercialization? Why?
 - Hint: What are Nucleon's expected profits for CRP-1? How do these profits and the resulting market hazards vary with the form of organization Nucleon chooses at the various stages?
2. How would you justify your recommendation to would-be investors in the company?
3. What is your recommendation regarding Nucleon's long-term manufacturing strategy? What should the company look like in 10 years (e.g., an R&D boutique, an R&D boutique with pilot scale manufacturing capabilities, or an integrated manufacturing enterprise?).

<u>Session 10,</u>	Creating Value in the Multi-Business Firm
Reading:	<ul style="list-style-type: none"> • Collis, D. The Scope of the Corporation. HBS Note. • Markides, 1997. To diversify or not to diversify? <i>Harvard Business Review</i>, Vol. 75:6 (Nov/Dec), pp. 93-100.
Case:	<ul style="list-style-type: none"> • None.
Supplementary Reading:	<ul style="list-style-type: none"> • Collis, David J. and Cynthia Montgomery. 1998. Creating Corporate Advantage. <i>Harvard Business Review</i>, Vol. 76:3(May/June), pp. 70-84. • Goold & Luchs, 1993. Why Diversify? Four Decades of Management Thinking, <i>Academy of Management Executive</i>, 7(3), pp. 7-25. • Porter, M. 1987. From competitive advantage to corporate strategy. <i>Harvard Business Review</i>, Vol. 65:3 (May/June), pp. 43. • Campbell, Alexander and Michael Goold. 1995. Corporate Strategy: The quest for parenting advantage. <i>Harvard Business Review</i>, Vol. 73:2 (Mar/Apr), pp. 120-133. • Goold, Michael and Alexander Campbell. 1998. Desperately seeking synergy. <i>Harvard Business Review</i>, Vol. 76:5(Sept./Oct), pp. 131-145.

Reading:

1. Why do firms diversify? What are the most salient risks of diversification? How can these risks be avoided?
2. Compare the perspectives put forth in Porter's 5 Forces and Barney's RBV models of business competition with the logic for corporate competition put forth in today's readings. How is corporate strategy distinct from business-level strategy?

<u>Session 11,</u>	Historical approaches to corporate strategy.
Reading:	
Case:	<ul style="list-style-type: none"> • Portfolio Planning at Ciba-Geigy (HBS # 795-040). • http://www.cibasc.com/default.asp

Case: Portfolio Planning at Ciba-Geigy and the Newport Investment Proposal.

1. Should Ciba make the Newport investment? Which option?
2. How does the portfolio planning help / inhibit good decision making in this case?

<u>Session 12.</u>	Unrelated Diversification
Reading:	<ul style="list-style-type: none"> • None.
Case:	<ul style="list-style-type: none"> • Tyco International (A) (HBS # 9-798-061). • http://www.tyco.com
Supplementary Reading:	<ul style="list-style-type: none"> • Khanna & Palepu, 1999. The Right Way to Restructure Conglomerates in Emerging Markets; <u>Harvard Business Review</u>, Vol. 77:4(Jul/Aug.), pp. 125-135 • Khanna & Palepu, 1997. Why focused strategies may be wrong for emerging markets, <u>Harvard Business Review</u>, Vol. 75:4(Jul/Aug), pp 41-49.

Case: Tyco International

1. Is Tyco 'one of the worst performing firms in the S&P 500' as stated by CII or is Tyco a 'first rate company' as argued by Robert Monks of Lens, Inc. What logic or evidence supports your conclusion?
2. If CII is right, how come this firm hasn't been broken up? If Mr. Monks is right, what are the sources of economic value created by Tyco? Are these advantages sustainable?
3. Can you identify any evidence that would have suggested Tyco's legal troubles in 2002?

<u>Session 13.</u>	Product Related Diversification
Reading:	<ul style="list-style-type: none"> • None.
Case:	<ul style="list-style-type: none"> • Newell: Corporate Strategy (HBS # 9-799-139)
Supplementary Reading:	<ul style="list-style-type: none"> • http://www imap com

Case: Newell Company:

1. Does Newell have a successful corporate strategy? Why or why not?
2. What are Newell's "core" resources? Are these resources appropriately leveraged? How?
3. What challenges faced the company in the late 1990's?
4. *** In this context, does the acquisition of Calphalon make sense? Rubbermaid?

<u>Session 14.</u>	Geographic Related Diversification
Reading:	<ul style="list-style-type: none"> • None
Case:	<ul style="list-style-type: none"> • ITT Automotive: Global Manufacturing Strategy (HBS # 9-695-0002).
Supplementary Reading:	<ul style="list-style-type: none"> • None

Case: ITT Automotive

1. What are the implications for both cost and flexibility of automation? Do you agree with the assertion made by one of the managers in the case: "If you automate, you stagnate?"
2. What are your recommendations regarding the issues of automation and standardizing process technology across all plants? How do the various options fit into the broader corporate strategy of ITT Automotive? Support your answers.

<u>Session 15.</u>	Diversification & Value Appropriation
Reading:	<ul style="list-style-type: none"> • None
Case:	<ul style="list-style-type: none"> • Crown, Cork & Seal / Carnoud Metalbox. (HBS # 9-296-019; Rev 12/16/97). • http://www.crowncork.com
Supplementary Reading:	<ul style="list-style-type: none"> • None

Case: Crown, Cork & Seal / Carnoud Metalbox

1. How has CC&S' strategy changed since Avery took over for Connelly?
2. Has Avery's strategy added economic value to CC&S?
3. Is the acquisition of Carnoud Metalbox (CMB) consistent with CC&S' strategy?
4. ***What price should CC&S pay for CMB? Why?

<u>Session 16.</u>	Introduction to Strategic Alliances
Reading:	<ul style="list-style-type: none"> • Bleeke, J. and D. Ernst. 1995. Is your strategic alliance really a sale? <u>Harvard Business Review</u>, Vol. 73:1 (Jan/Feb), pp. 97-104.
Case:	
Supplementary Reading:	<ul style="list-style-type: none"> • http://www.alliancerevolution.com • Hamel, G. and Y. Doz. 1989. Collaborate with your competitors and win. <u>Harvard Business Review</u>, Vol. 67:1 (Jan/Feb), pp. 133-139.
<i>Reading:</i>	
1.	How do you define the term alliance? How do alliances differ from market or hierarchical transactions?
2.	Is the adjective 'strategic' appropriate for alliances? If so, why? If not, why not?
3.	Under what economic conditions is it appropriate to utilize an alliance? Why are alliances becoming more prevalent? Are alliances just another managerial fad?

<u>Session 17.</u>	Alliance Fundamentals
Reading:	
Case:	<ul style="list-style-type: none"> • Millenium Pharmaceuticals, Inc. (A) (HBS # 9600-038)
<i>Case: Millenium Pharmaceuticals</i>	
1.	How has Millennium competed since it was founded? How has it managed its rapid growth?
2.	What has been Millennium's alliance strategy? How has it differed from other biotechnology firms? How could Millennium do this?
3.	***As CEO Marc Levin, would you pursue the Lundberg alliance? Why or why not?

<u>Session 18.</u>	Estimating the Benefits of an Alliance
Reading:	<ul style="list-style-type: none"> • None.
Case:	<ul style="list-style-type: none"> • Genzyme / Geltex Pharmaceutical Joint Venture • www.genzyme.com/welcome.htm and www.geltex.com
<i>Case: Genzyme / Geltex JV</i>	
1.	Why is Genzyme engaged in joint venture negotiations with Geltex? How does a joint venture compare to other possible forms of corporate affiliations such as acquisition and supplier-customer relationships?
2.	What is the maximum that Genzyme should be willing to pay for its interest in the joint venture? Hint: See exhibits 3 & 4. On what assumptions is this calculation based?
3.	What are the key assumptions driving the ventures' value?
4.	***What should Greg Phelps recommend?

<u>Session 19.</u>	Achieving Coordination
Reading:	
Case:	<ul style="list-style-type: none"> • Sharp Corporation: Technology Strategy. HBS # 9-793-064. Rev 4/3/95.
Supplementary Reading:	<ul style="list-style-type: none"> • Eisenhardt, K. and C. Galunic. 2000. Coevolving. <u>Harvard Business Review</u>, Vol. 78:1 (Jan/Feb), pp. 91-102.
Study Questions:	
<i>Case: Sharp Corporation: Technology Strategy</i>	
1.	Why has Sharp been so successful for so long?
2.	Is Sharp today an end products or a components company?
3.	How is Sharp able to coordinate and integrate activities across the corporation?

<u>Session 20.</u>	Summary and Wrap-Up
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PEER CLASS CONTRIBUTION EVALUATION FORM

This form is due on the next to last day of class.

Name: _____

In my evaluation, the following four individuals have most significantly contributed to class discussion.

1. _____

2. _____

3. _____

4. _____