



Corporate Level Strategy

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Focus Questions

- What is corporate strategy? Why is it important?
- What are the advantages and disadvantages of single and dominate business strategies compared to higher levels of diversification.
- What are 3 reasons firms choose to diversify?
- How do firms share activities and transfer core competencies to obtain economies of scope?



What is corporate strategy?
Why is it important?

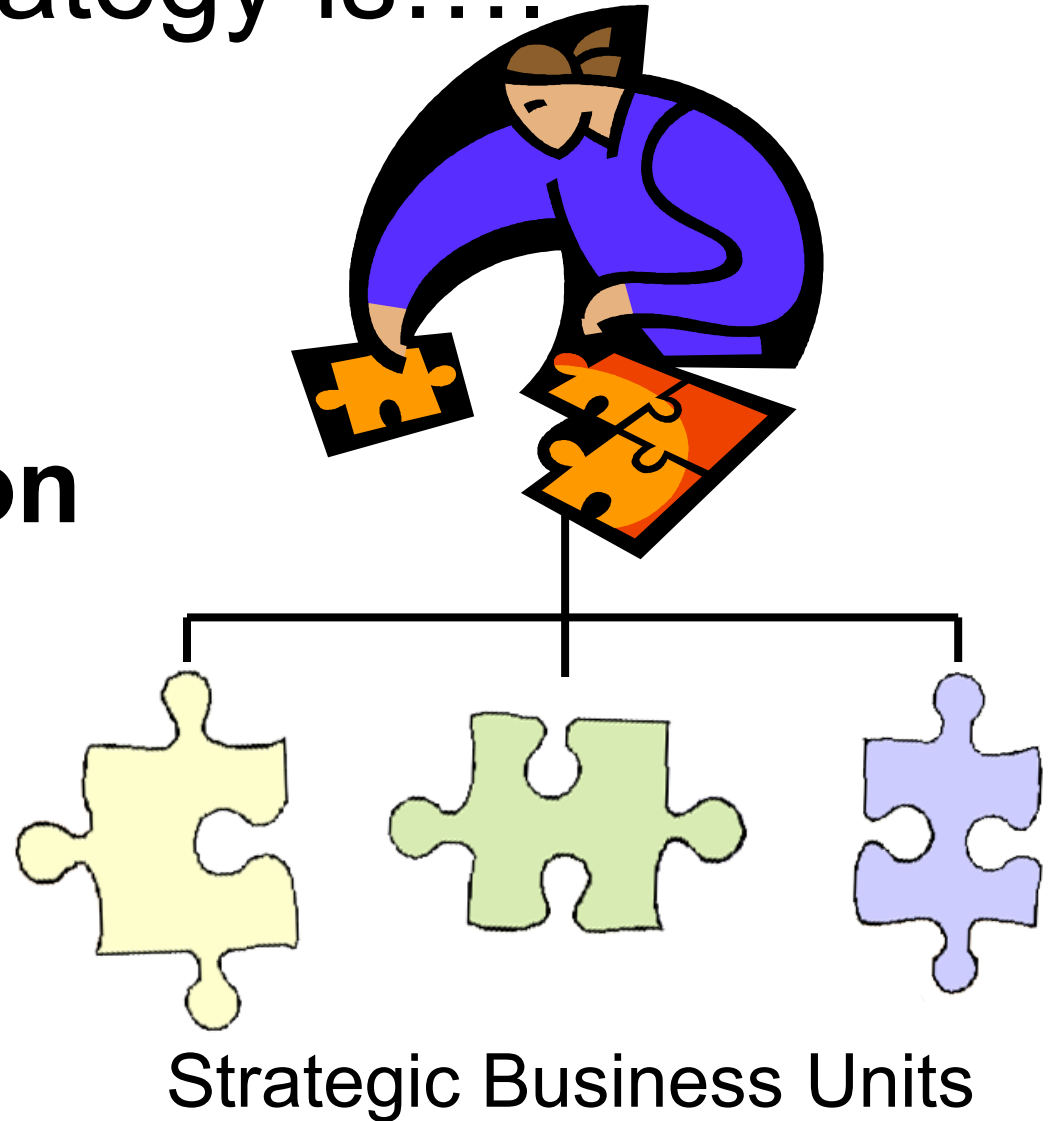
What is a corporate strategy?

“an **action taken** (by a firm)
to gain a **competitive advantage**
through the **selection and management**
of a **mix of businesses**
competing in **several industries**
or **product markets**”

Source: Hanson, Dowling, Hitt, Ireland & Hoskisson (2005)

Corporate strategy is.....

Diversification



Two Questions to ask....

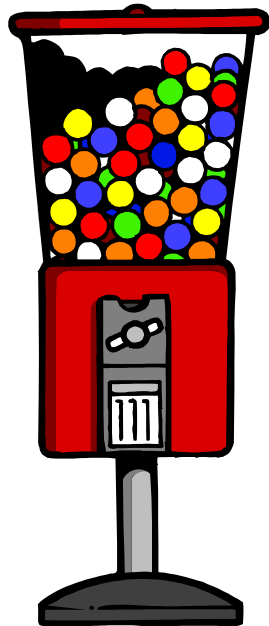
What businesses
should we
be in?



How
should these be
managed?

What businesses should we be in?

- Broadly scope – Disney

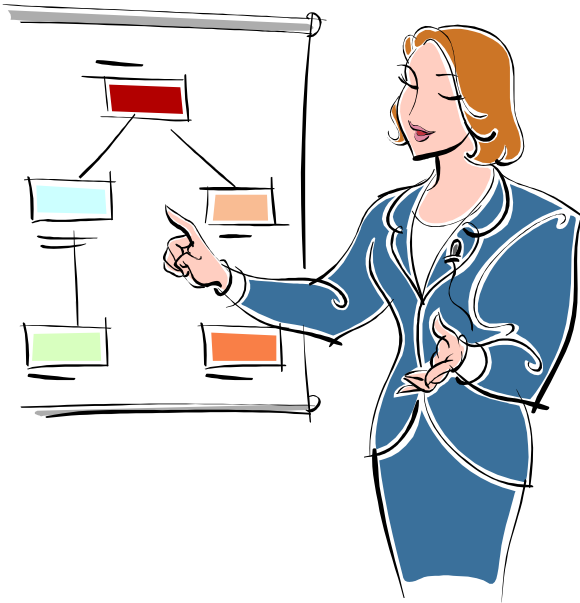
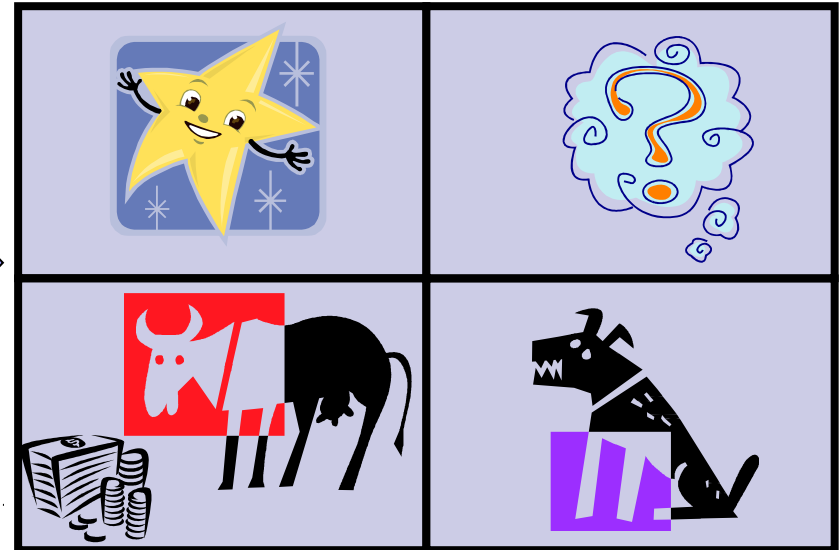


- Narrow scope - Wrigley

How should these be managed?

Portfolio

- BCG Matrix
- GE Matrix

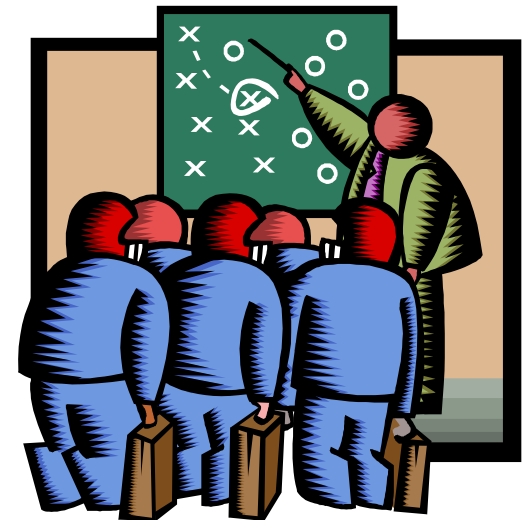


- ## Value based planning
- Net present value

So, what makes a good strategy?

A well formed corporate strategy should incorporate the following components

- The overall scope and mission of the organisation
- Company goals and objectives
- A source of competitive advantage
- A development strategy for the future



So, what makes a good strategy?

A well formed corporate strategy should incorporate the following components.

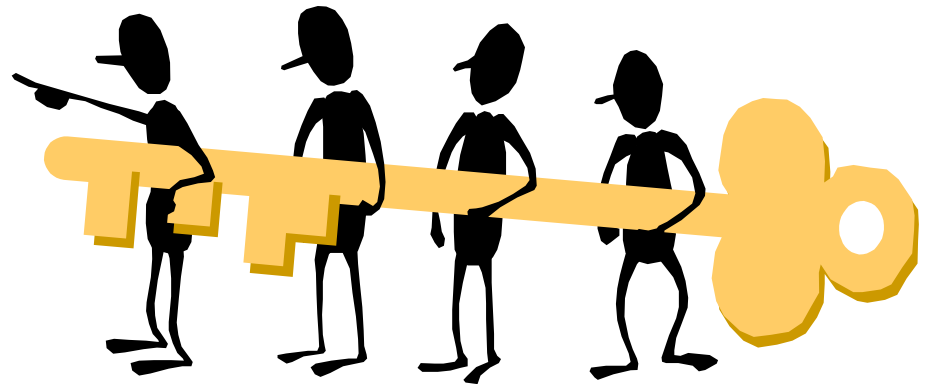
- The allocation of corporate resources across the firms businesses
- A search for synergy via sharing corporate resources, competencies or programs



Why is it important?

- A good corporate strategy creates **Synergy** and **adds value** to all businesses

The value of the business will be greater with the implementation of the strategy than without it.

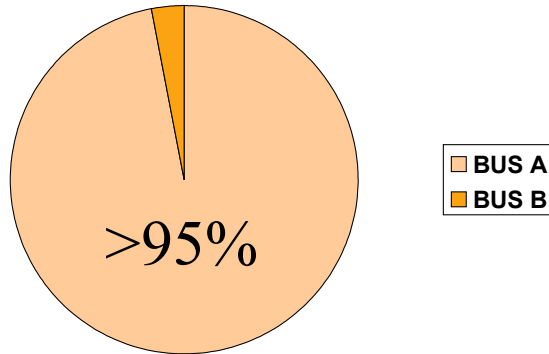




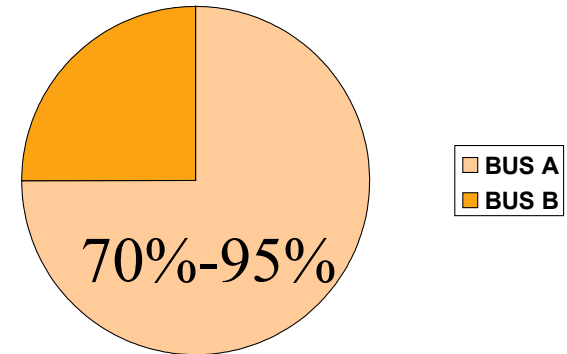
Advantages and disadvantages of single and dominate businesses

Levels of diversification

Low

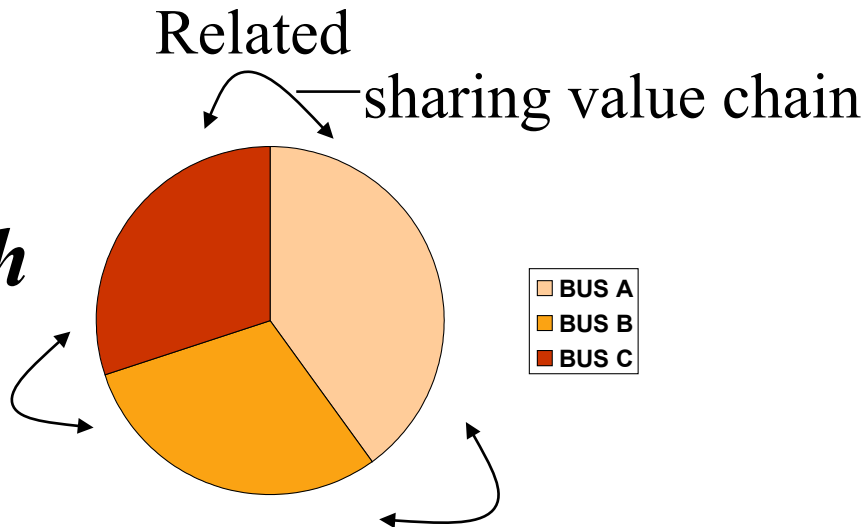


Single Business

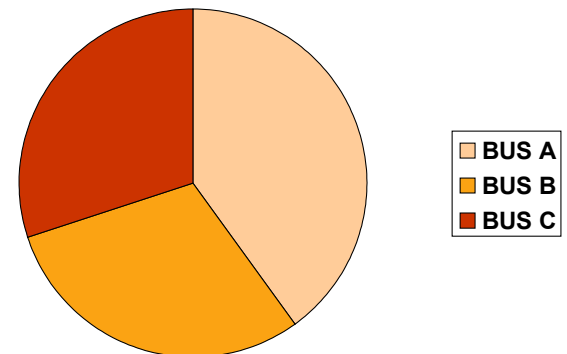


Dominant Business

High



Unrelated





Advantages of single/dominate businesses

- Master one business
- Less resource strain
- Lack of ambiguity
- Often found to be a profitable strategy (depending on the industry)



Disadvantages of single/dominate businesses

- Problematic if industry unstable
- Product obsolescence
- Difficult to grow in matures industry
- Changes in the industry can be difficult to deal with
- Cash flow



3 reasons firms choose to diversify

Good Reasons to diversify

- **Value creation by economies of scope**

- **Financial economies**

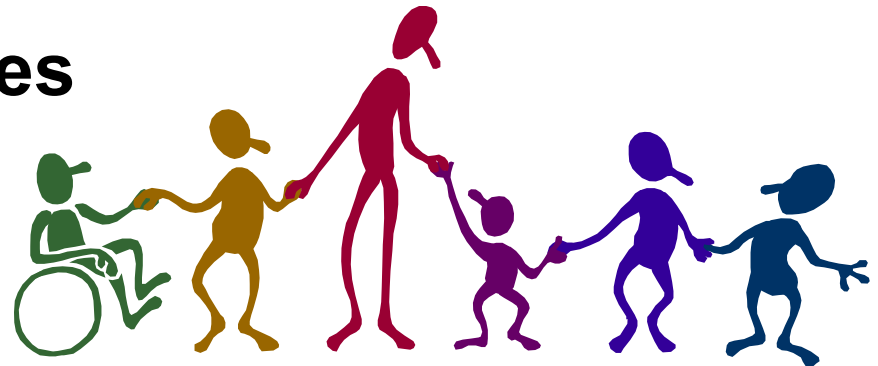
- Different risk profiles**

- Restructuring**

- **Market power**

- Multipoint competition**

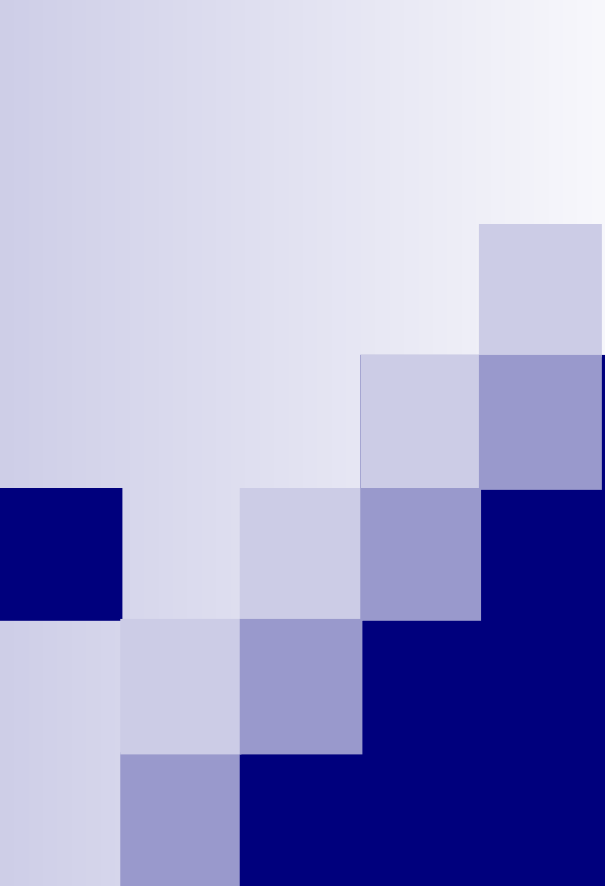
- Vertical integration**



Other reasons to diversify

- Government policy
- Performance problems
- Uncertainties about future cash flows
- Managerial motives



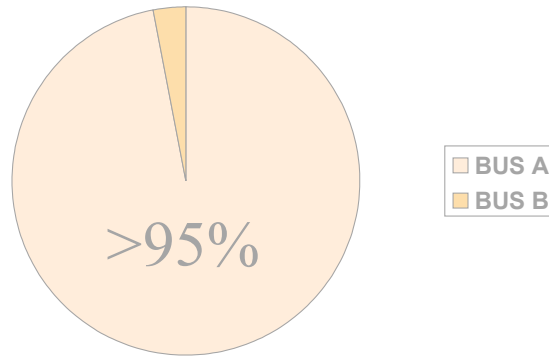


How do firms share activities and transfer core competencies to obtain economies of scope?

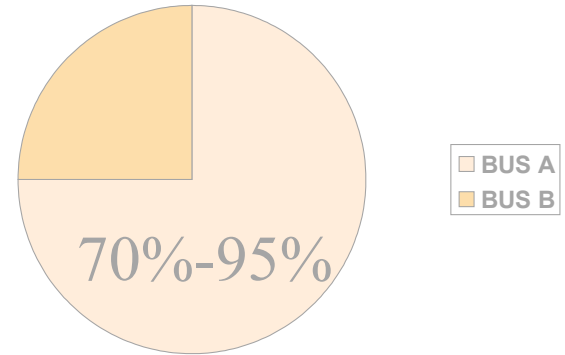
While pursuing a related diversification strategy?

Levels of diversification

Low



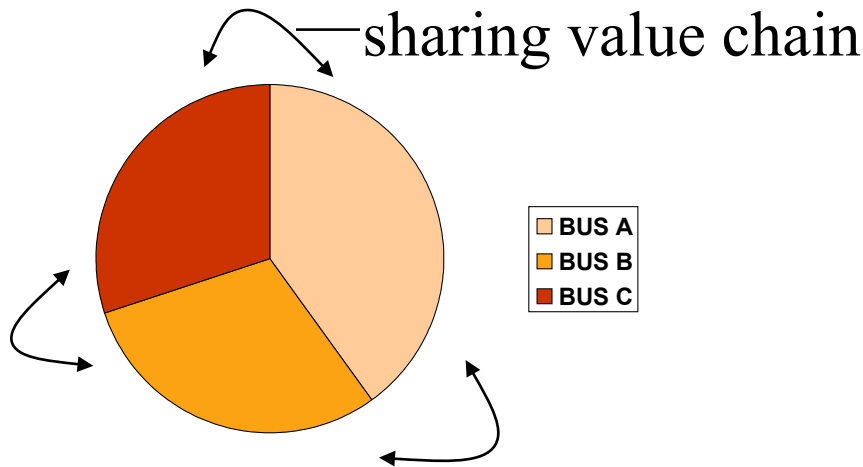
Single Business



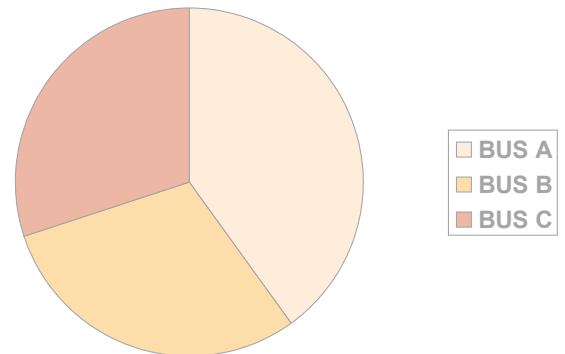
Dominant Business

Related

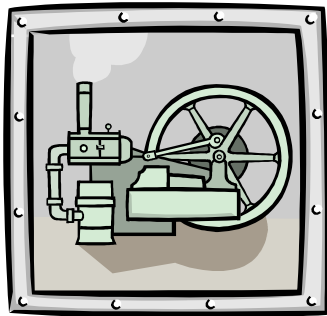
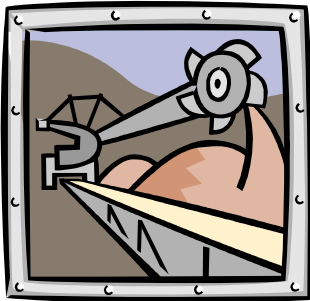
High



Unrelated



Sharing is caring....



- *Operational relatedness*

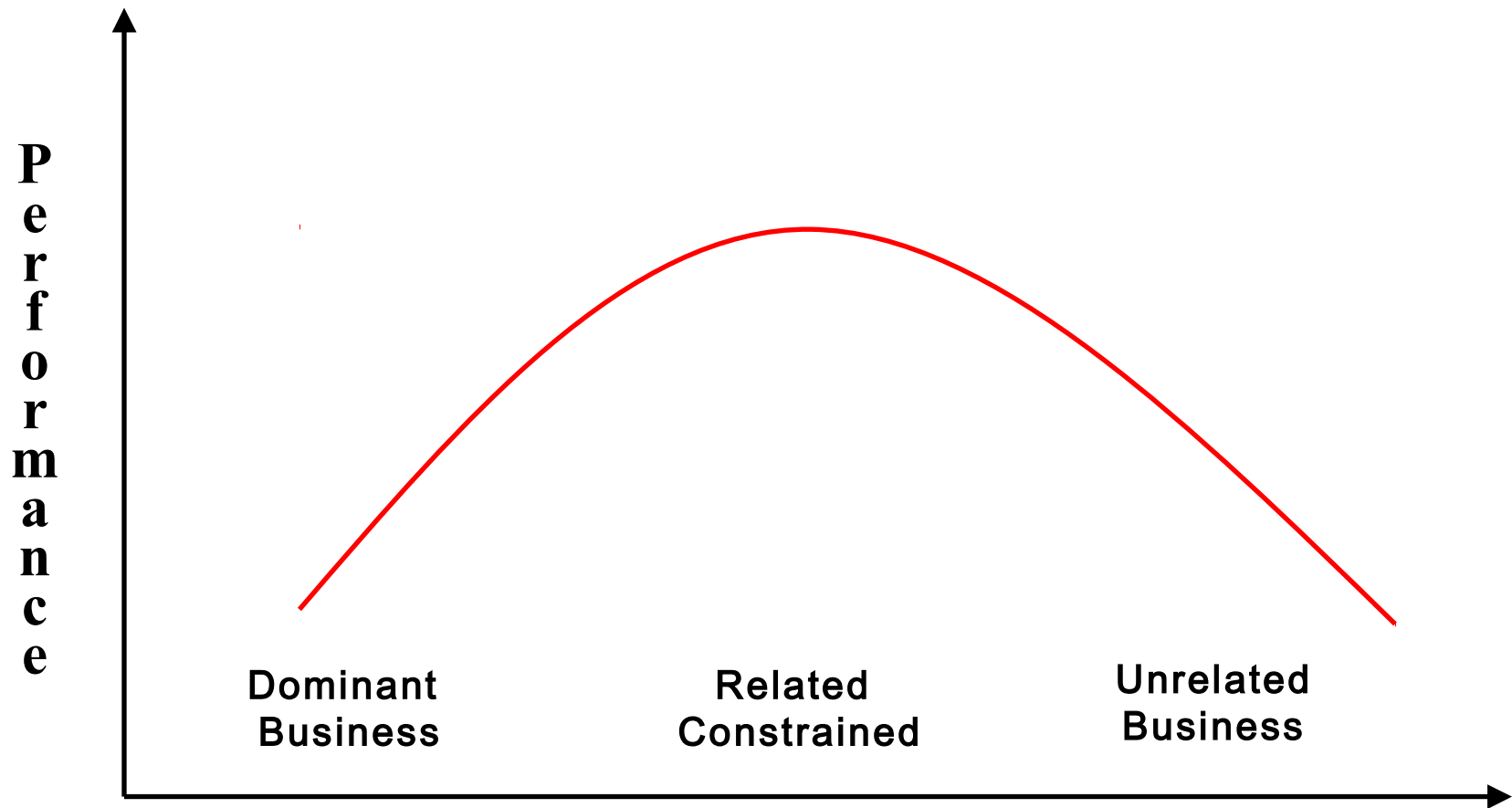
- Sharing activities, plant and assets

- *Corporate relatedness*

- Sharing Knowledge



Link between relatedness and performance

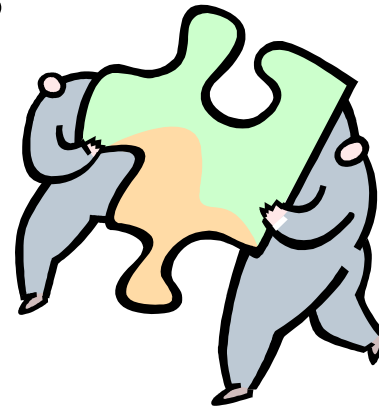




In summary

What I said....

- Corporate strategy is about diversification
 - How - Ask 2 questions
 - Why - Create synergy & value

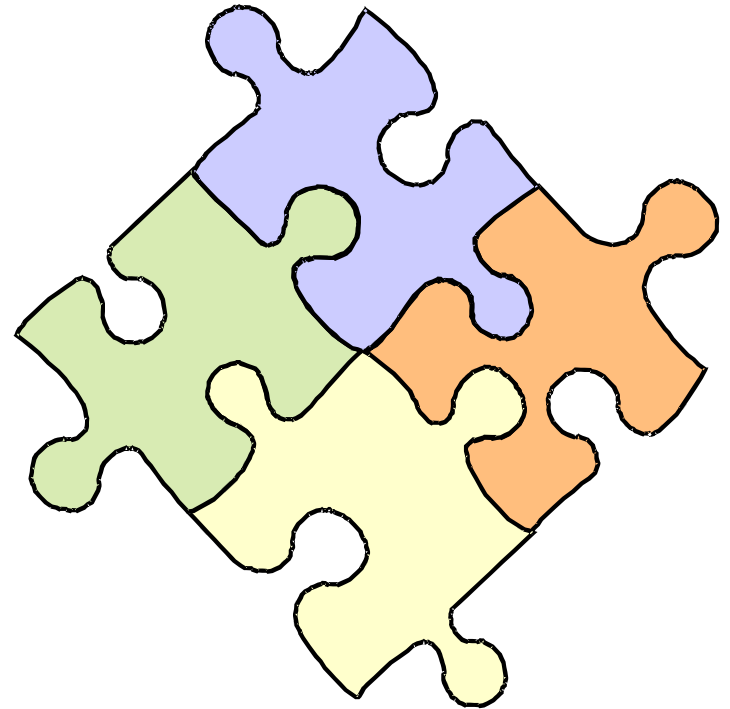


- Advantages & Disadvantages



What I said....

- 3 reasons to diversify
 - Economies of scope
 - Financial economies
 - Market power
- Shared activities
 - Operational relatedness
 - Corporate relatedness





Any questions?