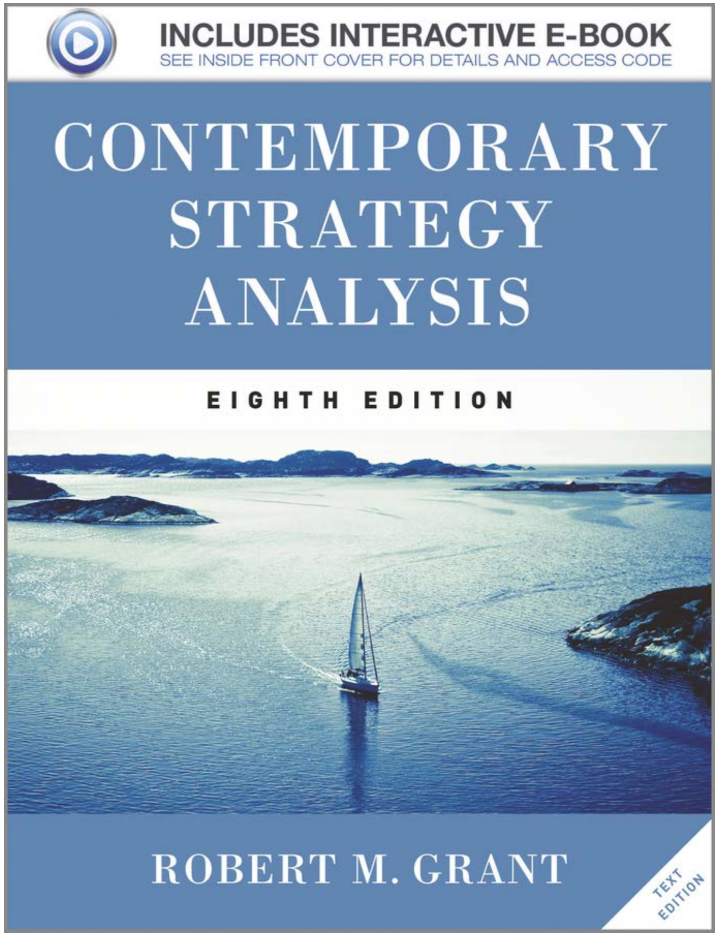
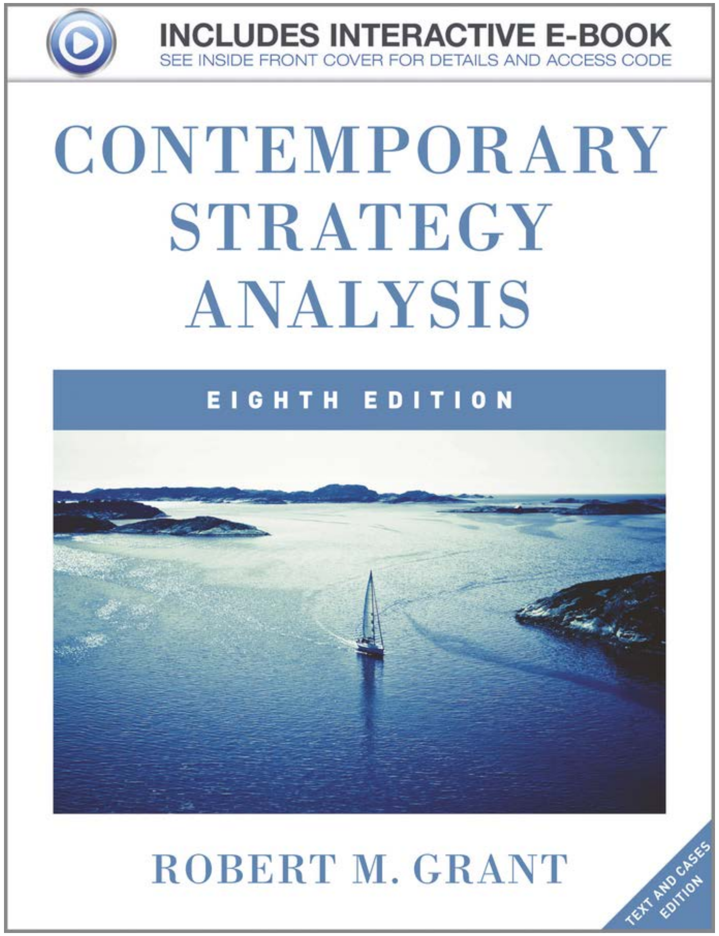
Case Study: Tata Group quest for Diversification

- Considering the informations at your disposal, first analyse history and Tata Group evolution over the years. A brief summary.

- Then, show which Diversification Strategy has been adopted by their CEO to achieve such business and financial results.





Chapter 14

Implementing Corporate Strategy: Managing the Multibusiness Firm

Implementing Corporate Strategy: Outline

- The role of corporate management
- Managing the corporate portfolio
- Managing individual businesses
- Managing change in the multibusiness corporation
- Governance of multibusiness corporations

The Role of Corporate Management

How does corporate management add value to its individual business?

- Managing the overall corporate portfolio, including acquisitions, divestments, and resource allocation
- Managing each individual business
- Managing linkages among businesses
- Managing change

The Role of General Electric in Developing Techniques of Corporate Strategy

Corporate planning innovations

Late **1960's**: GE encounters problems of direction, coordination, control, and profitability

Corporate planning innovations include:

Portfolio Planning	Matrix frameworks for evaluating business unit performance, formulating business strategies, and allocating resources
Strategic Business Units	GE organizes its strategic planning system around SBUs. An SBU is a business that comprises a strategically-distinct group of closely-related products
PIMS	A database which quantifies the impact of strategy on performance. Used to appraise SBU performance and guide business strategy formulation

Portfolio Planning Models: Use in Strategy Formulation

Allocating resources

Indicating both the investment requirements of different businesses and their likely returns

Formulating business-unit strategy

A generic strategy recommendations ("build", "hold", or "harvest")

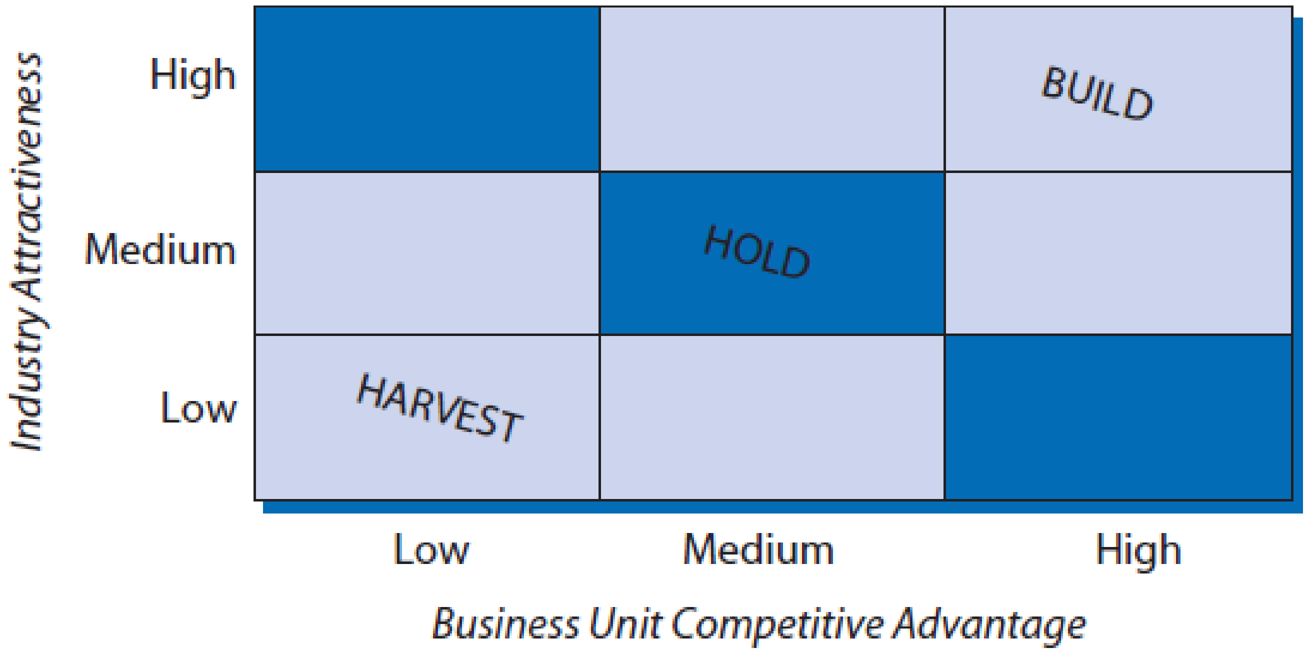
Setting performance targets

Indicating likely performance outcomes in terms of cash flow and ROI

Portfolio balance

Monitoring portfolio in order to achieve corporate goals such as a balanced cash flow by combining mature and growing businesses

Portfolio Planning Models: The GE/McKinsey Matrix



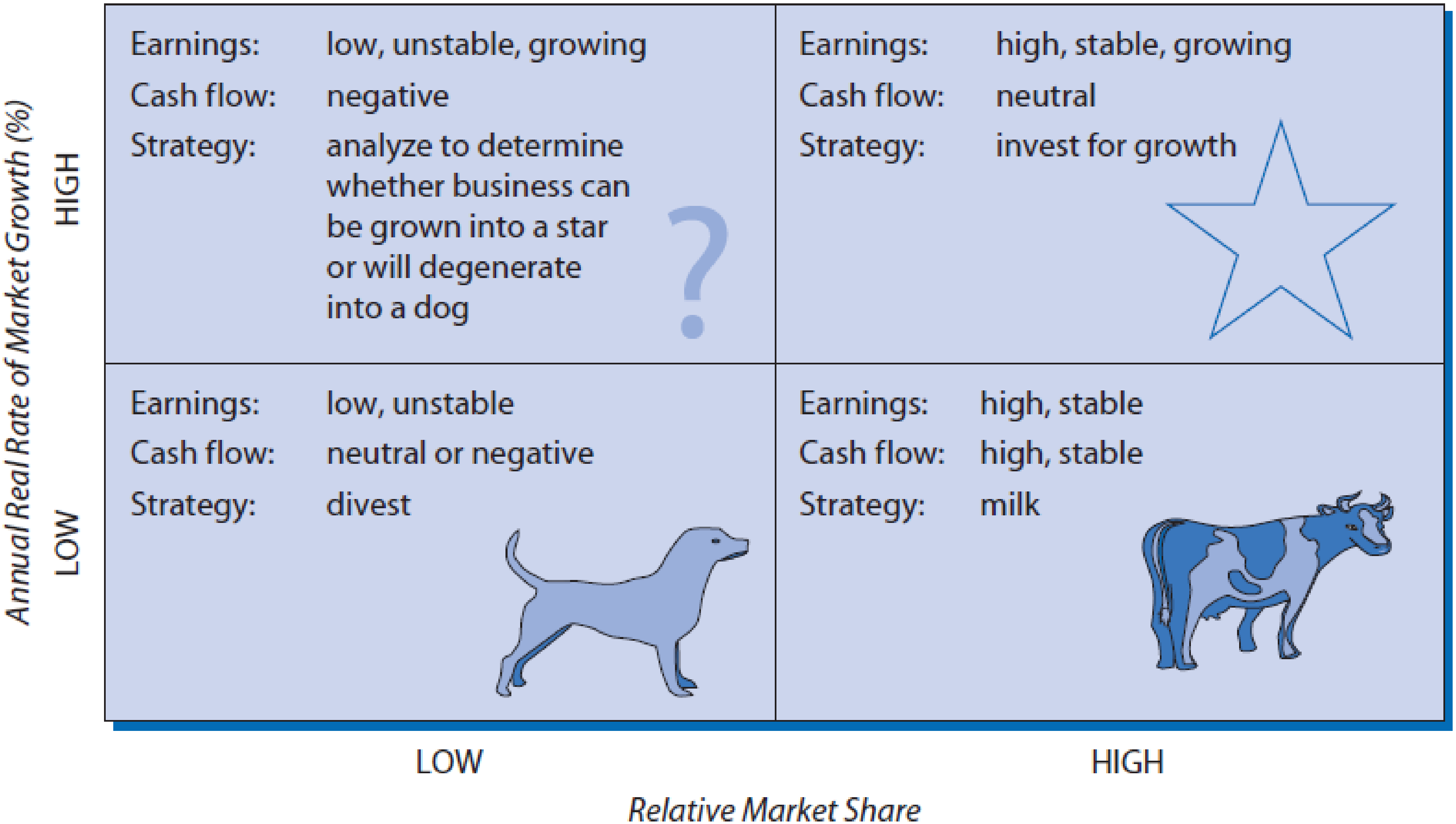
Industry Attractiveness Criteria

- Market size and growth
- Industry profitability

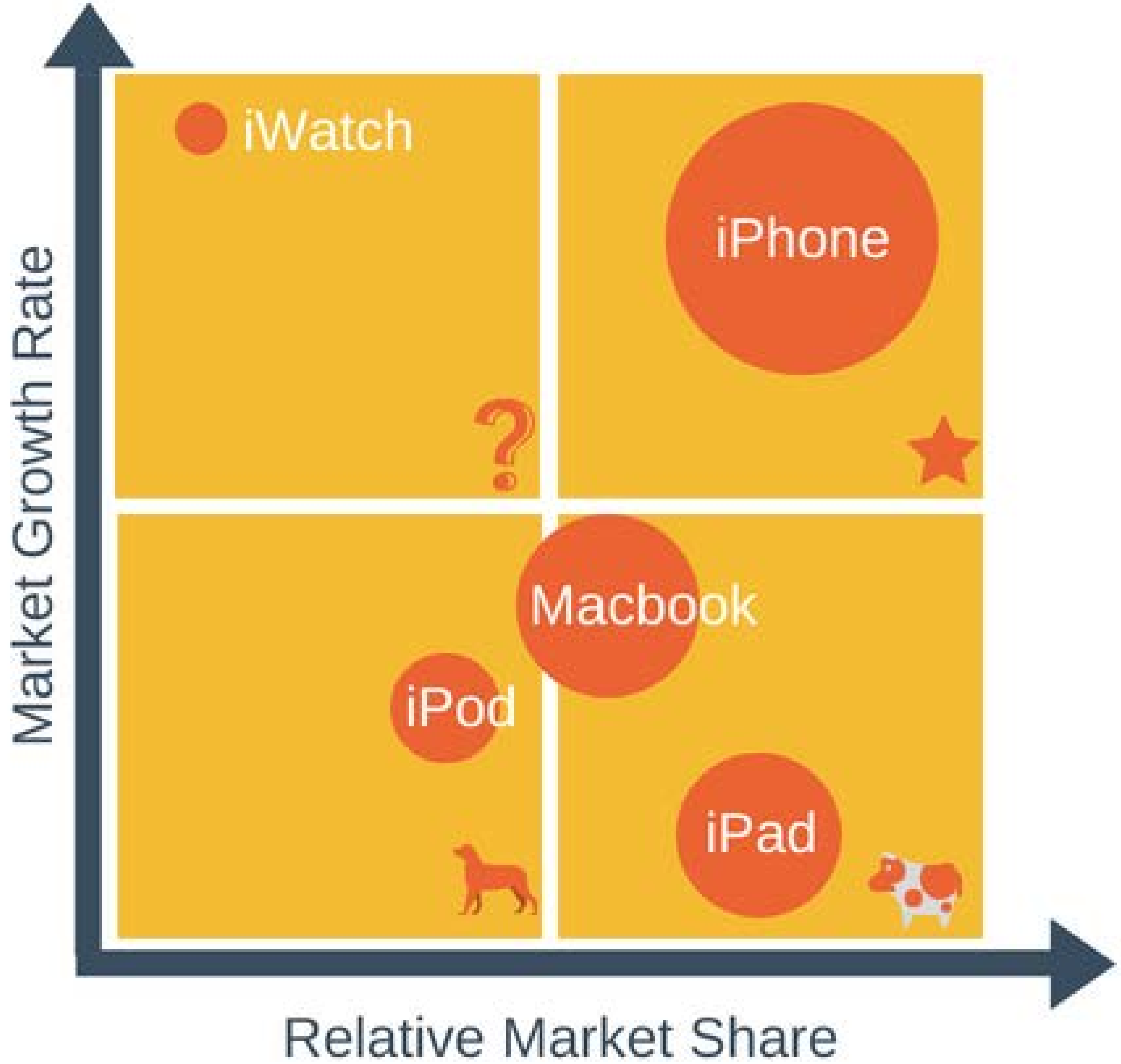
Business Unit Position

- Market share (local and global)
- Competitive advantage

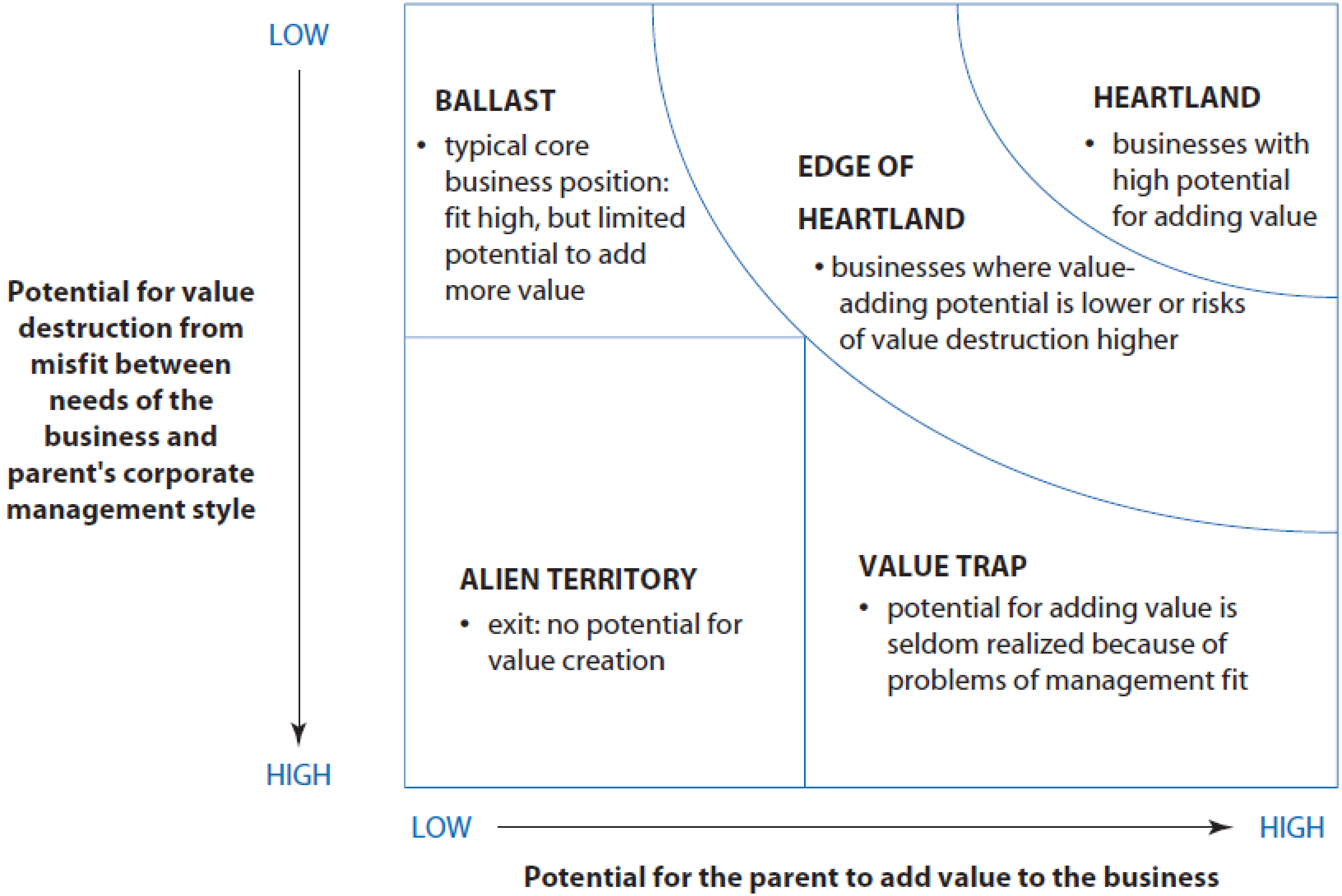
Portfolio Planning Models: The BCG Growth-Share Matrix



BCG Matrix: Apple's Portfolio



Ashridge Portfolio Display:
The Potential for Parenting Advantage



Do Portfolio Planning Models Help Corporate Strategy Formulation?

ADVANTAGES

- **Simplicity**: Quick and easy to prepare
- **Big picture:** Permits one page representation of the corporate portfolio and strategic positioning of each business
- **Analytically versatile:** Applicable to businesses, products, countries, distribution channels
- **Can be augmented:** A useful point of departure for more sophisticated analysis

DISADVANTAGES

- **Simplicity**: Oversimplifies the factors determining industry attractiveness and competitive advantage
- **Ambiguous**: The position of a business depends critically upon how a market is defined
- **Ignores synergy**: The analysis takes no account of any interdependencies between businesses

Managing Linkages Across Businesses

- Value from exploiting linkages within the multi business firm result mainly from exploiting resource and capability:

At Corporate level
Shared corporate services

At Business level
Sharing resources, transferring skills

- At Business level Porter identifies **two type** of synergy:

Transferring skills	Sharing activities
Creating value from sharing skills requires that same capabilities are applicable to different businesses	This must include mainly intangible resources as brand and technology; but also physical like plants and buildings

Managing Individual Businesses Within the Multibusiness Firm

Two basic approaches

INPUT CONTROL

Monitoring & approving business level decisions

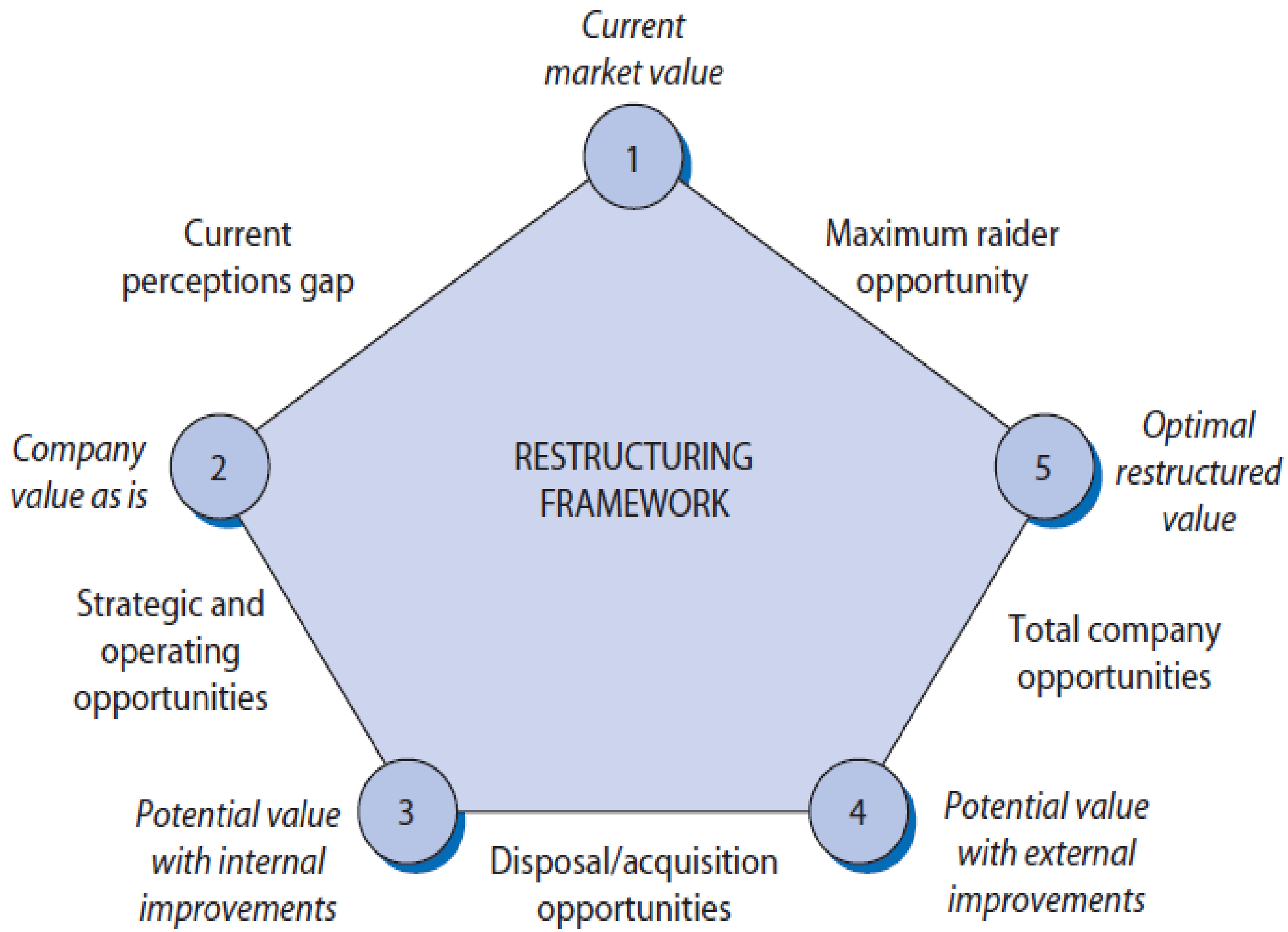
Primarily through strategic planning system and capital expenditure approval system

OUTPUT CONTROL

Setting performance targets and monitoring their achievement

Primarily through performance management system, including operating budgets, scorecards, milestones, and HR appraisals

The McKinsey Pentagon for Corporate Restructuring



Performing Management & Financial Control

Multibusiness companies have a **dual planning process**:

01 ***StrategicPlanning***
Medium and long term

Strategic plan is a basis for:

- Operating budget
- Capital expenditure budget
- Annual performance plans
- Strategic milestones

Financial Control **02**
Short - term

Balance between strategic and financial control varies by firm and sector

Different Corporate Management Styles

	Strategic planning	Financial control
Business strategy formulation	Businesses and corporate HQ jointly formulate strategy The HQ coordinates strategies of businesses	Strategy formulated at business unit level Corporate HQ largely reactive, offering little coordination
Controlling performance	Primarily strategic goals with medium- to long-term horizon	Financial budgets set annual targets for ROI and other financial variables with monthly and quarterly monitoring
Advantages	Effective for exploiting (a) linkages among businesses, (b) innovation, (c) long-term competitive positioning	Business unit autonomy supports initiative, responsiveness, efficiency, and development of business leaders
Disadvantages	Loss of divisional autonomy and initiative Conducive to unitary strategic view Tendency to persist with failing strategies	Short-term focus discourages innovation and long-term development Limited sharing of resources and capabilities among businesses
Style suited to	Companies with few closely related businesses Works best in highly competitive, technology-intensive sectors where investment projects are large and long term	Highly diversified companies with low relatedness among businesses Works best in mature, low-tech sectors where investment projects are relatively small and short term

Source: Based on M. Goold and A. Campbell, *Strategies and Styles* (Oxford: Blackwell Publishing, 1987) with permission of John Wiley & Sons, Ltd.

Corporate Governance

Which are rights of shareholders?

To transfer shares, access company information, elect directors, share in the profits of the firm, vote on key strategic decisions

Which are responsibilities of Company Boards?

To act in the best interests of the company and its shareholders

To oversee strategy, budgets, management performance, etc.

What could go wrong?

Failure by boards to prevent managers pursuing their interests rather than those of shareholders (e.g. excessive compensation)

Failure of the board to take account of social/national interest

CEOs compensation compared to value created for shareholders (2013)

Rank	CEO	Company	Direct compensation 2013 ($m)	Shareholder return in excess of return on S&P 500 (2010–2013)
1	Larry Ellison	Oracle	76.9	−12%
2	Leslie Moonves	CBS	65.4	+351%
3	Michael Fries	Liberty Global	45.5	+147%
4	Richard C. Adkerson	Freeport-McMoRan	38.9	−66%
5	Phillipe Dauman	Viacom	36.8	+101%
6	Robert A. Iger	Walt Disney	33.4	+53%
7	Jeffrey L. Bewkes	Time Warner	32.6	+51%
8	Mark Bertolini	Aetna	31.4	+36%
9	Fabrizio Freda	Estée Lauder	30.9	+46%
10	Jeffrey Immelt	General Electric	28.2	−2%

Source: Hay Group, Financial Times.