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

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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 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.

Late 1960’s: GE encounters problems of direction, coordination, control, and profitability.
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

- **Earnings:** low, unstable, growing
- **Cash flow:** negative
- **Strategy:** analyze to determine whether business can be grown into a star or will degenerate into a dog

- **Earnings:** high, stable, growing
- **Cash flow:** neutral
- **Strategy:** invest for growth

- **Earnings:** low, unstable
- **Cash flow:** neutral or negative
- **Strategy:** divest

- **Earnings:** high, stable
- **Cash flow:** high, stable
- **Strategy:** milk
BCG Matrix: Apple's Portfolio

Market Growth Rate

Relative Market Share

- iWatch
- iPhone
- Macbook
- iPod
- iPad
Ashridge Portfolio Display: The Potential for Parenting Advantage

- **Ballast**: Typical core business position; fit high, but limited potential to add more value.
- **Edge of Heartland**: Businesses where value-adding potential is lower or risks of value destruction higher.
- **Heartland**: Businesses with high potential for adding value.
- **Alien Territory**: Exit; no potential for value creation.
- **Value Trap**: Potential for adding value is seldom realized because of problems of management fit.

Potential for value destruction from misfit between needs of the business and parent's corporate management style.

Potential for the parent to add value to the business.
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**
  - Creating value from sharing skills requires that same capabilities are applicable to different businesses

  **Sharing activities**
  - 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

1. Current market value
2. Current perceptions gap
3. Potential value with internal improvements
4. Disposal/acquisition opportunities
5. Total company opportunities

Maximum raider opportunity
Optimal restructured value
Potential value with external improvements
Multibusiness companies have a **dual planning process**:

<table>
<thead>
<tr>
<th>01 Strategic Planning</th>
<th>02 Financial Control</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medium and long term</strong></td>
<td><strong>Short - term</strong></td>
</tr>
<tr>
<td>Strategic plan is a basis for:</td>
<td></td>
</tr>
<tr>
<td>➢ Operating budget</td>
<td>➢</td>
</tr>
<tr>
<td>➢ Capital expenditure budget</td>
<td>➢</td>
</tr>
<tr>
<td>➢ Annual performance plans</td>
<td>➢</td>
</tr>
<tr>
<td>➢ Strategic milestones</td>
<td>$</td>
</tr>
</tbody>
</table>

Balance between strategic and financial control varies by firm and sector
## Different Corporate Management Styles

<table>
<thead>
<tr>
<th>Strategic planning</th>
<th>Financial control</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business strategy formulation</strong></td>
<td>Businesses and corporate HQ jointly formulate strategy</td>
</tr>
<tr>
<td></td>
<td>The HQ coordinates strategies of businesses</td>
</tr>
<tr>
<td><strong>Controlling performance</strong></td>
<td>Primarily strategic goals with medium- to long-term horizon</td>
</tr>
<tr>
<td><strong>Advantages</strong></td>
<td>Effective for exploiting (a) linkages among businesses, (b) innovation, (c) long-term competitive positioning</td>
</tr>
<tr>
<td><strong>Disadvantages</strong></td>
<td>Loss of divisional autonomy and initiative</td>
</tr>
<tr>
<td></td>
<td>Conducive to unitary strategic view</td>
</tr>
<tr>
<td></td>
<td>Tendency to persist with failing strategies</td>
</tr>
<tr>
<td><strong>Style suited to</strong></td>
<td>Companies with few closely related businesses</td>
</tr>
<tr>
<td></td>
<td>Works best in highly competitive, technology-intensive sectors where investment projects are large and long term</td>
</tr>
</tbody>
</table>

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)

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

*Source: Hay Group, Financial Times.*