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# CORPORATE STRATEGY

# **A Resource-Based Approach**

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# CORPORATE STRATEGY

**A Resource-Based Approach** 



# Dedication



For Jill, William, Emma, and Charlotte

and

For Bjørn and Nils

# PREFACE

Historically, the strategy field has been broken into two discrete fields of study: business level strategy, focusing on competitive advantage within an industry, and corporate level strategy, focusing on the overall plan for managing a diversified firm. Pedagogically and intellectually, this book is an attempt to bridge the schism between these two levels of analysis, and present a unified treatment of the sources of superior economic performance.

As its subtitle suggests, the book analyzes strategy in terms of a "Resource-based approach." At the heart of this view is the idea that *corporate* as well as competitive advantage is based on the unique resources of a firm, and the way those resources are deployed in particular competitive settings. The choice of firm boundaries, and the organizational mechanisms that bring strategy to fruition are also essential, and are examined in similar depth.

The view of strategy presented here is dynamic. The presentation traces the growth and development of firms, beginning with single-line businesses and gradually reaching to large diversified and vertically integrated firms. This progression reinforces the inextricable link between corporate and business strategy, thus deepening the traditional understanding of both. It also demonstrates that corporate advantage is usually realized at the business level, through the enhanced performance of individual business units.

The book is founded upon established research traditions. In particular, a number of insights are drawn from two distinct bodies of research: the resource-based view of the firm, which has gained prominence in the field of strategic management; and organizational economics, in particular transactions cost analysis and agency theory. Both of these theoretical traditions have made a substantial contribution to the arguments advanced here.

Also included in the book is a substantial amount of material that is not available elsewhere. Most importantly, it introduces a unique approach to corporate strategy that the authors have developed over many years of research, teaching, and consulting on the topic. Ideas such as the "Zone of Value Creation," linking industry and competitive analysis with the resource-based view of the firm, and the "Corporate Strategy Triangle," a unique framework for the assessment of corporate advantage, are new intellectual developments that are deeply woven into the central thesis of the text.

This book is an outgrowth of a corporate strategy course we developed and have taught at the Harvard Business School for the past five years. The course has attracted a wide range of students, including those who intend to be consultants, investment bankers, or stock analysts, as well as those who will run family businesses, or look to long-term careers as general managers in major industrial or consumer goods firms. This diversity testifies to the fundamental nature of the ideas and to the range of companies and settings to which they apply. In addition, in executive programs, the ideas have also been well received by seasoned managers whose primary objectives are to acquire useful, pragmatic management tools.

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# The Text

The book contains 8 chapters of text, and 3 supplemental appendices on related topics. Each chapter is designed to be a discrete intellectual module and is divided into two sections—Principles and Practice. The Principles sections introduce each topic by describing the relevant theory and supporting empirical research. In the Practice sections, these insights are then incorporated into pragmatic frameworks and tools that can be applied to case studies and strategic analyses.

Chapter 1 begins with a brief introduction to corporate strategy and introduces the "Corporate Strategy Triangle," as the basic organizing framework. The subsequent chapters then address each element of the framework in depth. As the text proceeds, the material cumulates to an overall picture of how to design and implement an effective corporate strategy.

Chapter 2 provides the essential theory about resources and how assets and capabilities earn economic rents. The argument is made that superior performance at the business *and* corporate level is ultimately due to the skillful deployment of competitively superior and scarce resources. The critical step of matching a firm's resources with its competitive environment is illustrated in the "Zone of Value Creation."

Chapter 3 addresses a firm's optimal scope in a given industry and how its pattern of resource deployment can shift over time. The chapter examines forces inside and outside the firm that can cause it to broaden or narrow its scope in order to compete successfully within its industry. Economies of scale and scope are examined in detail, and evaluated against the activities in a firm's value chain.

Chapter 4 addresses the deployment of resources across industries, and the economic rationale for diversified firms. While highly diversified firms have long been considered a class unto themselves, this discussion shows that they, in fact, share much in common with other firms. Most notably, the laws governing performance in diversified firms are not unique, but part of a much more general phenomenon relating to the value of a firm's resources and the attractiveness of the markets in which it competes.

Up to this point, the book has proceeded as if a firm's boundaries are wholly determined by its environmental opportunities and available resources. Chapter 5 complicates this picture by asking not *whether* a particular activity should be performed, but *where* it should be performed—inside the corporate hierarchy or through some form of market exchange. Arguments from agency theory and transaction cost analysis introduce fundamental questions that challenge the primacy of the organizational hierarchy and demonstrate the need to consider a range of alternatives before committing to this choice. Here the issues are primarily illustrated in the context of vertically integrated firms.

Chapter 6 addresses the implementation of strategy, and the structures, systems, and processes that allow a hierarchy to function and a strategy to be fully realized. Many failures of corporate strategy are due not to bad ideas, but to poor implementation. This chapter addresses this predicament by linking the organizational design of a firm to the critical elements of its strategy. Special emphasis is given to the role of the corporate office in controlling the activities of divisions, and sharing resources and coordinating the activities across businesses.

Chapter 7 shifts from a focus on individual elements to a broader examination of how the Corporate Strategy Triangle works as a complete and integrated system. Key points from earlier chapters are synthesized, and criteria and methods for the overall evaluation of a corporate strategy are introduced.

Management texts often assume that senior managers are both able and willing to craft corporate strategies that increase the value of a firm. However, recent upheavals in corporate governance reveal that this is not always the case. Chapter 8 discusses the evidence of this phenomenon, and presents several theories that explain why corporate managers do not always act in the interests of shareholders. The chapter concludes with a discussion of the responsibilities that accompany the privilege of formulating and implementing corporate strategy, and the structural forces that have emerged to discipline errant corporate behavior.

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# Acknowledgments

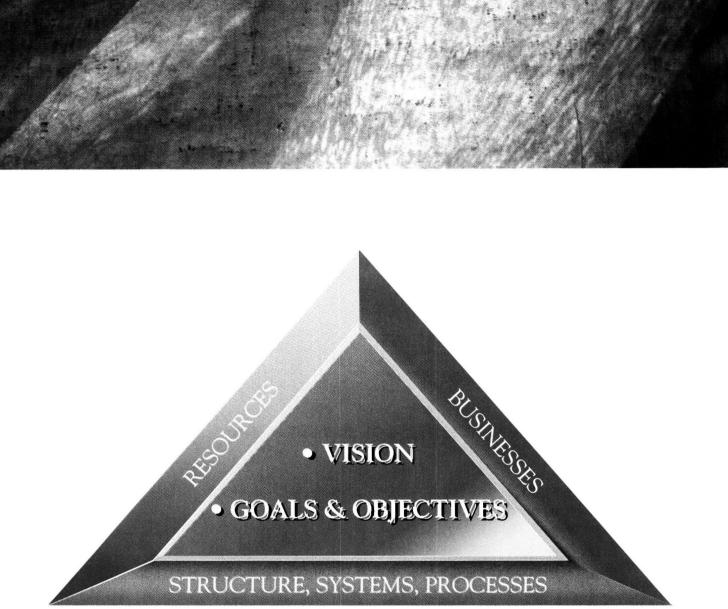
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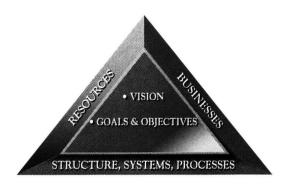
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