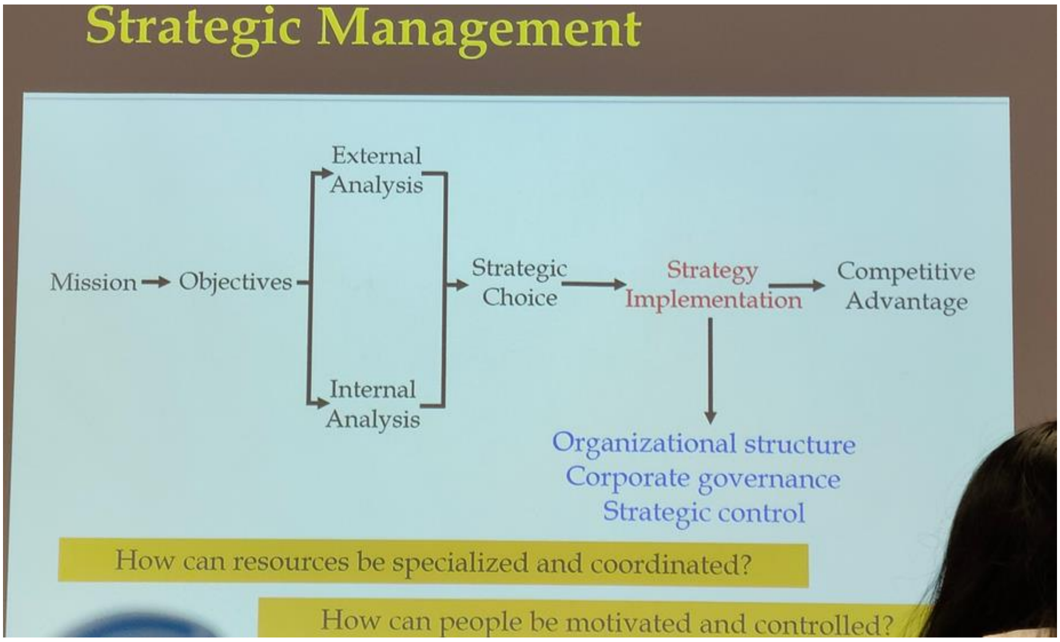
MM4311 Course Review Sheet Course: Strategic Management (MM4311)

Course Review Sheet Dr. Shuping Li

This Note is built upon "Course Review Sheet by S Li.", available at:
https://www.studocu.com/hk/document/%E9%A6%99%E6%B8%AF%E7%90%86%E5%B7%A5%E5%A4%A7%E5%AD%B8/strategic-management/mm4311-course-review-sheet/5398458

Spring 2019 The guideline does not provide clues on the questions to be tested in the Exam. Rather, it aims to help you reflect on the course content and learn.



1. What Is Strategy

- Definitions
  - Strategy
  - Competitive advantage
  - Sustainable competitive advantage
- What is strategy
  - Value proposition
  - The criteria for evaluating the effectiveness of a strategy
- What is not strategy
  - Mission
  - Vision
  - Goal Tactics
  - Operational effectiveness
  - Internal organizational arrangements
- Strategic planning process
  - Two stages: Strategy formulation and implementation
    - 6 steps of planning
- Deliberate v. emergent strategy making
  - Characteristics of emergent strategy making

        - Communicated upwards
        - Unplanned pattern of decision
        - Adaptation and continuous learning

2. External Analysis

- Definitions Industry
    - Segment
    - Switching cost
    - Brand loyalty
- Five forces analysis: determinants of each force
    - Rivalry among Established Companies
        - Demand condition
        - Industry competitive structure
        - Product differentiation
        - Cost conditions
        - Exit barriers
    - Entry by Potential Competitors
        - Economies of scale
        - Absolute CA
        - Brand loyalty Switching costs
        - Government Regulations
    - Bargaining Power of Buyers
        - Distribution of buyers
        - Switching cost
    - Bargaining Power of Suppliers
        - Distribution of suppliers
        - Switching cost of buyers
        - Substitutes
    - Threat of Substitutes
        - Brand loyalty
        - Switching costs
        - Technology development
- How to use five forces model correctly
    - Evaluate the structure of an industry, not the strategy of a firm
    - Predict the average industry profitability, not the profitability of a single firm in the industry
    - Look at impact of all the forces in totality
- Firm strategies to counter the five forces
    - Alter the forces which are driving down industry profitability
        - Play loyalty cards
        - Increase switching costs
        - Backward/forward integration
        - Establish standards

        - Industry consolidation (e.g., M&A)
        - Self-cannibalization
    - Blue ocean strategy
        - Create a new market by looking at non-customers

3. Internal analysis

- Definitions
    - Resources, capabilities, and distinctive competencies
    - Tangible v. intangible resources
        - examples
- VRINE: criteria for resource advantages
    - Valuable (Whether resource valuable, e.g., HR in normal vs. in crisis)
    - Rare
    - Inimitable (copy, be: cost of imitation, causal ambiguity, social complexity)
    - Non-substitutable
    - Exploitable (exploit full potential of resource and capability, leadership issue)
- Competency trap (so specialized that loses sight of market realities, miss the trend)
    - Examples
- Value chain management
    - Primary activities
        - R&D s
        - Production
        - Marketing and sales
        - Customer services
    - Support activities (company infrastructure)
        - Information system
        - Materials management
        - Human Resources

4. Business Strategies

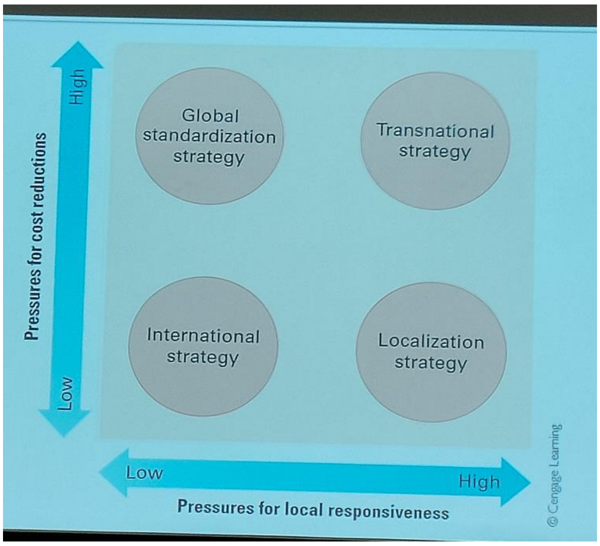
- Definitions
    - Consumer surplus (V-P) (determine CA), producer surplus (P-C)
- Four types of generic business strategies
    - The two dimensions that distinguish the strategies
        - Competitive scope: V, C
        - Strategic position
    - Broad cost
        - Definition and examples
        - Conditions for this strategy to be variable
        - How can a firm achieve cost leadership (e.g., economies of scale, learning effects (tech complex, promote knowledge sharing), value chain management (main value chain activities, allocate cost, identify cost

driver and cost reduction))?
        - Challenges: cost advantage diminish, easy imitate, can be erode by new technology
    - Broad differentiation
        - Definition and examples
        - How can a firm achieve differentiation leadership?
        - Best-cost strategy & blue ocean strategy
    - Focused cost
        - Definition and examples
        - Dimensions: Geographical, lifestyle, homographic,
    - Focused differentiation
        - Definition and examples

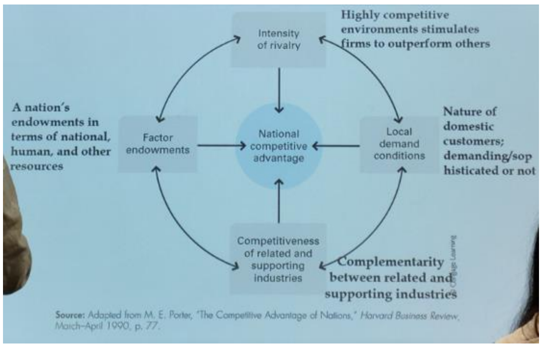
5. Corporate strategies

- Horizontal integration- definition & example
- Vertical integration - definition & example
- Levels of diversification
    - Related
        - what is it/why do it
    - Unrelated
        - what is it/why do it
- Diversification and firm performance
    - Why does diversification destroy firm value?
- Which motives of diversification are more likely to improve firm competitiveness?
    - Reduce managerial employment risk-explain?
    - Growth-explain?
    - Risk spreading-explain?
    - Market power-explain?
    - Economies of scope-explain?
- Entry modes:what are the three types?
    - Alliances
        - Joint venture
    - Challenges to value creation in strategic alliances
        - adverse selection-definition & example
        - moral hazard-definition & example
        - holdup-definition & example
- Merger and Acquisitions (M&A)
    - Challenges to value creation in M&A
        - adverse selection-definition & example
        - integration difficulty-definition & example
        - transaction cost-definition &example

6. **Global Strategies**

- Globalization and MNCs
  - Definitions
    - International trade
    - Foreign direct investment (FDI) (developing countries catching up by 2020)
      - Intl trade: trading industries, global industries
      - FDI: Global industries (automobile oil semiconductor), multidomestic industries (investment banking hotels consulting)
      - Sheltered industries (roadwork, railway)
  - MNC: multinational corporations: do business in 2+ national markets, substantial FDI, intl corporation
  - What does globalization mean to strategic management?
    - 1900-39: euro MNCs decentralized federations, self-sufficient national subsidiaries
    - 1945-70: American MNCs coordinated federations
    - 1970-80: Japan MNC as centralized hub, home base originated global strategy
  - What brings from going global
    - Avoid competition in the home country, Access new customers, increase production volume (economies of scale & scope), diversify business risk (e.g., Toyota Honda), location economies (e.g., cheap labor), learning from global subsidiaries (learning effect)
- Success in global markets: Four global strategies
  - The two dimensions that distinguish global strategies
    - Pressures for cost reductions, Pressure for local responsiveness
  - Four types (global standardization strategy, localization strategy, transnational, international); firm examples
    - 

    - Intl strategy (e.g., Microsoft, apple, starbucks)
      - Standatdized products uniformly priced at a premium
      - Companies have a strong market power, products serves universal needs
    - Global standardization (e.g., Lenovo)
      - Standardized products sold at cheap prices worldwide (low-cost strategy)
      - Serve universal demand, Economy of scale / location is possible
    - Globalization strategy (e.g., ketchup)
      - Products customized to different countries at a price premium (differentiation strategy)

        - Consumer tastes and preferences differ across nations, and cost pressure is not very strong
    - Transnational strategy (best-cost strategy on a global scale. E.g., Kitkat)
        - Cheap and differentiated products across different countries
        - Some products are available globally while others are available only in selected countries
        - Consumer tasted and preferences differ across nations, and cost pressure is also strong (a risk)
- Success in global markets: Porter's National Competitive Advantage model   (diamond diagram)
    - Factor endowments in terms of
    - Intensity of rivalry (-> better chance of survival)
    - Local demand conditions (-> better chance of survival)
    - Competitiveness of related and supporting industries
    - 

    - Key factor: Home-country advantages, closest comptitors, "Host-country" attractiveness
    - What is it?
        - Factor endowments-definition, example
        - Demand conditions-definition, example
        - Intensity of rivalry-definition, example
        - Related and supporting industry -definition, example
    - Which country to enter:
        - Firm/industry factors
        - Geographic proximity
        - Economic proximity (GDP)
        - Institutional differences (regulatory, cognitive, normative (**cultural values**))
            - Hofstede's Cultural Dimensions geert-hofstede.com/united-states.html
                - Power distance (PDI, acceptance of power hierarchy)
                - Individualism-collectivism (IDV)
                - Masculinity-femininity (MAS)
                - Uncertainty avoidance (UAI)
- Entry modes (in global markets: build borrow buy)
    - The five (six) common modes and their definitions
    - (extent of investment risk and degree of ownership and control: from low to high)
        - Exporting: manuf the product in a centralized location and ship it to other national markets (intel)
        - Licensing: charge a licensing fee for granting a firm the rights to produce its product (Coca Cola)
        - Franchising: the right to use its brand name, products, and process (KFC, Subway, Hilton)
        - Strategic alliance
        - Joint venture: create new entity and jointly participate

        - Wholly-owned subsidiary: owns 100% by greenfield investment (greenfield venture) (KFC)
    - Risks and benefits associated with the entry modes
        - Balancing investment and control

7. Strategic Implementation

- Organizational structure
    - Grouping Tasks, Functions, and Divisions
        - Functional structure - advantages and disadvantages
        - Multidivisional (M-form) structure-advantages and disadvantages
    - Allocating Authority and Responsibility (Hierarchy)
        - Tall v. flat structures-advantages and disadvantages
        - Tall: long chain of command, expensive, risk of communication problems (e.g., McDonald's)
        - Flat (e.g., tech company, startups): busy manager, greater interaction, more autonomy
- Corporate governance
    - Principal-agent relations
        - One party (principal) delegates decision-making authority or control over resources to another (agent) Principals -> delegate to the agent, Agent -> perform task to the benefit to the principals
    - Agency problems
        - When do agency problems arise?
            - Divergence in interests: shareholder return vs. personal wealth
            - Information asymmetry (stakeholders don't perfectly know about CEO's work)
        - Forms of agency problems (e.g., on-the-job consumption, empire building (overinvestment, increase the size of the company beyond the optimal, for executives' personal benefit: increase income, power and control, diversify the employment risk), underinvestment in risk/short termism (reluctant in risky or long-term projects), executive entrenchment (hard to limit the powerful executive, overly paid executive))
    - The three fundamental principles underlying corporate governance design?
        - Solution: Corporate Governance: Monitoring (reduce the info asymmetry), Incentive, Dismissal (remove & replace the CEO if none of these work)
    - Internal governance mechanisms
        - Ownership structure-how can it reduce agency problems?
            - Blockholders (large shareholders, >5%) have stronger incentive and capability of monitoring executives (rather than too diversed)
            - Active shareholders
            - Executive ownership: reduce the divergence of interests.
        - Board of Directors - how can it reduce agency problems?
            - Composed of: Insiders (work inside the firm), Outsiders (independent of the firm, e.g., academis, gov officials), Affiliates (not involved with operations but have a relation with the firm)
            - Monitoring & Incentive & Dismissal (fundamental)
            - Advice
            - Network: bring social capital (e.g., former employees)
            - Challenges: Puppet boards, Board interlock, Lack of diversity & vifilance, Unguaranteed independence, Limit board memberships, Board homogeneity (same race, gender), Board

        accountability (who to monitor board), Limited attention.
    - Executive compensation-how can it reduce agency problems?
        - Short-term: salary, cash bonus, perks
        - Long-term: **stock grants**, **stock options** (right to purchase company stock at a predetermined price at some point in the future ~10 years), pension
  - External governance mechanisms
    - Securities regulators: ask to disclose key info on a regular basis
    - 3rd party watcher: Securities analyst, watchdogs, auditors
    - Market for corporate control
    - Executive market
  - Low level employees
    - Piecework plans (pay by amount of work / working hours)
    - Commission systems (being paid by a percentage of price of transaction / value created)
    - Bonis plans (Cash / extra point bonus)
    - Promotions (Tenure system)
- Strategic control system
  - Strategic control
    - Definition and steps
    - Three types of strategic control (output control, behavior control, personal control)-examples?
    - Control mechanism: output / behavioral (subjective matter, Operating budgets, rules, procedures, standard: inputs, conversion activities) / personal control (intangible e.g., innovation. Shape the desirable behaviors and outcomes. E.g., evaluation by conversation & meeting)