**Session 07 BUSA 7800 - Strategic Management Chapters 06 & 07**

Learning Outcomes

At the end of this session you should be able to:

* 1. Explain how firms can use unrelated diversification to achieve synergistic benefits through corporate restructuring, parenting and portfolio analysis.
  2. Compare the various means of engaging in diversification: mergers and acquisitions, strategic alliances and joint ventures and internal development.
  3. Explain how a real option can reduce the asymmetric information problem when acquiring another business.
  4. Describe several reasons for the failure of many diversification efforts.
  5. Describe several motivations for firms expanding into international markets.

**Chapter 6: Corporate-Level Strategy**

**I. Unrelated Diversification: Financial Synergies and Parenting**

What are the two sources of synergy with unrelated diversification?

1. Corporate Parenting and Restructuring
2. Portfolio Management

A. **Corporate Parenting and Restructuring**

*i. Parenting*

How can parent companies create value through management expertise?

*ii. Restructuring*

What types of companies are corporate offices trying to find?

What happens under asset restructuring?

How does capital restructuring work?

What typically occurs during management restructuring?

**B. Portfolio Management**

When is corporate portfolio analysis used?

What is the purpose of the Boston Consulting group (BCG) matrix?

How is the matrix put together?

What are the strategic implications of each category in the BCG matrix?

1. *Cash cow*

1. *Dogs*
2. *Question Marks*
3. *Stars*

What are a few of the major drawbacks of the portfolio model?

**C. Caveat: Is Risk Reduction a Viable Goal of Diversification?**

Compare the shareholders ability to diversify with the manager's ability to diversify.

What is the benefit of producing another product to smooth out seasonal sales fluctuation?

**II. The Means to Achieve Diversification**

* 1. **Mergers and Acquisition (M&A)**

What's the difference between a merger and an acquisition?

*i. Motivations*

What are the motivations that firms have to acquire another firm?

* 1. *Speed*
  2. *Gaining valuable resources*
  3. *Scale to respond to external pressures*
  4. *Synergy*
  5. *Entering New Markets*

*ii. Limitations*

Why do buyers frequently pay premiums (overpay) to acquire a business?

How can a manager's ego get in the way of an acquisition?

How can cultural issues be a limitation to a successful M&A?

**B. Strategic Alliances and Joint Ventures**

How does a strategic alliance work?

What are the pros and cons of a strategic alliance?

When are alliances likely to be longer lasting?

What are some of the common causes for alliances to fail?

What is the danger of relying on alliances for essential resources and capabilities?

What makes a joint venture different than a typical strategic alliance?

Why would firms set up a joint venture?

What is internal development?

What are the pros and cons of internal development?

**III. Real Options Analysis: A Useful Tool**

How does a real option work?

How does the real option reduce the asymmetric information problem when it comes to acquiring a business?

**IV. How Managerial Motives Can Erode Value Creation**

1. **Growth for Growth's Sake**

Why would a CEO choose to grow for growth's sake?

**B. Egotism**

How can a healthy ego be a double-edged sword for CEOs?

**C. Anti-takeover Tactics**

How does an unfriendly or hostile takeover occur?

How does a *poison pill* work?

How does having a staggered board slowdown the ability of an aggressor from taking over the board?

**Next Session:**

* Mid-term Exam
* Chapter 7 – International Strategy: Creating Value in Global Markets