

UNIVERSIDAD DE LA RIOJA

FACULTY OF BUSINESS MANAGEMENT

DEGREE IN BUSINESS MANAGEMENT

PROGRAMME

STRATEGIC BUSINESS MANAGEMENT I

(Code 2071016)

YEAR 4 – TERM 1

CORE SUBJECT OF 4.5 CREDITS

(Theoretical classes - 3 credits. In-class practicals – 1.5 credits.

Computer in-class practicals – 0 credits.

Teacher:

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Department of Economics and Business Management

GENERAL OBJECTIVES OF THE SUBJECT

The subject “Strategic Management I” is imparted as a core subject in the fourth year (first semester) of the degree in Business Management and Administration. The topics imparted in this subject are complemented by those included in “Strategic Management II” (also a core subject in the 2nd semester of the fourth year), and both must be considered as part of a complete year. The overall objective of same is the study companies and corporate management from a globalising perspective, i.e. by studying the company as a whole, without special emphasis on any of its functional areas (production, marketing, finance...), which are studied in other disciplines.

Once students have completed “Strategic Management I and II”, they will be expected to be able to understand the meaning and role of strategy within the scope of strategic management, to diagnose the internal and external reality of the company, identifying its strengths and weaknesses, evaluate possible opportunities and threats arising from the environment in which the company competes, or identify the different elements that may become sources of competitive advantage in the long term and which enable sufficient participation in profits, at least to cover the resources used at their capital cost.

Students will also be expected to be able to understand the importance of the on-going adaptation of strategy to the changing conditions of the scenario in which the company operates in order to preserve or generate potential competitive advantages, to determine the company’s capacity to exert an influence on its environment, to analyze the situation of the sector/s of activity in which the company operates, and to identify the different options open to the company for moving into new areas of business.

The content of “Strategic Management I” is structured into two parts: the first part aims to provide the basis for the development of the other topics; and the second focuses on the problem of definition and description of the sectorial environment to then study the competitive dynamics and the relationship of the structural conditions of the industry and the strategic behaviour developed by the companies with the corresponding results. This section is developed using tools, models and concepts provided by industrial economics.

METHODOLOGY AND WORK PLAN

The structure of the programme and the achievement of the established learning objectives will require students to work continually during the course on the following activities:

- Attendance at classes.
- Reading and study of published notes and bibliographic material indicated in each topic: basic bibliography. In order to get the most out of the classes it is essential that students first read the notes on each chapter before listening to the explanation of each specific topic in class. They should also follow this up with more detailed reading after each topic has been explained and while completing the exercises.
- Preparation of a schematic summary of the main theoretical arguments covered in each topic.
- Individual or group preparation of the sets of exercises, questions and applications proposed in each topic.
- Reading of newspapers and analysis of articles relating to the subject, following the scheme for resolving exercises proposed for the performance of the practicals.

- Active participation in presentations and discussions during both theoretical and practical classes.
- Consultation of doubts and difficulties arising during the study of the different subjects.

Additional bibliographic and reading material will be available to students who wish to expand their knowledge of the topics imparted in this subject.

ASSESSMENT SYSTEM

Assessment of work performed during the year

In order to encourage students to work continually during the course, the final mark will take into account their course work. The maximum score for course work will be 2 points; this will be added to the mark obtained in the final examination for the subject. However, in order for this assessment to be taken into account, certain minimum requirements must be fulfilled. These consist of the following:

- the obtainment of a minimum mark of 4 in the final examination;
- attendance at a minimum of 75% of the theoretical and practical class hours (an attendance control sheet will be handed out in class to monitor attendance);
- attendance at all the sessions in which the proposed exercises are presented (unless they are unable to attend for justified and duly accredited reasons);
- and the delivery of a schematic summary per topic of the main theoretical arguments addressed in this subject.

Exercise presentation sessions:

A set of exercises will be proposed for each topic. These must be completed individually or in groups (we recommended the latter option). Completion of these exercises is optional and they do not have to be presented in writing. In each session the students may be asked about the exercises corresponding to that day. In at least one presentation session the students will be asked to answer in writing a series of questions relating to the topic and the proposed exercises. The mark obtained in this test will be the basis for the overall course mark (maximum 2 points). Students who decide to present these optional exercises orally in class and discuss them will be awarded a separate mark, which may be half a point and which will be added to the mark obtained in the written test/s.

The scheme for resolving these exercises is as follows:

- Theoretical outline that enables the question presented to be addressed.
- Reasoned application of the theory to the proposed exercise.
- Resolution of the problem or, where appropriate, critical analysis of the solution contributed by the exercise itself.
- Conclusions

Final Examination

The final examination may comprise numerical exercises, questions and/or short texts in which students are asked to explain and apply in a reasoned manner the concepts studied

during the course. Unless indicated otherwise, the questions will be corrected on the basis of the resolution of exercises as proposed above for the completion of the practicals.

PROGRAMME

PART I. FUNDAMENTALS OF STRATEGIC MANAGEMENT

Topic 1.- Strategy and Strategic Management

OBJECTIVES: This first topic is devoted mainly to revising the knowledge acquired previously, examining certain specific questions in greater depth. Thus it focuses on describing the concept of strategy, which is the core topic of the course. The presentation will follow the evolution of this concept, from the representation of an idea or management philosophy to its translation into a detailed guide on how to understand the strategy adopted by a specific company.

- 1.1.- The development of the analysis of business strategy
 - 1.1.1.- Academic training in general management
 - 1.1.2.- Games strategy and theory.
 - 1.1.3.- Strategic competence.
 - 1.1.4.- The basic focus on resources and the focus of dynamic capacities.
- 1.2.- Elements of strategy.
- 1.3.- Types of strategies: Levels of strategy.
 - 1.3.1.- Games strategy and theory.
 - 1.3.2.- Business strategy
 - 1.3.3.- The concept of the “strategic business unit”.
- 1.4.- Strategic management
 - 1.4.1.- Strategic planning

BASIC BIBLIOGRAPHY: - Grant, R. (1996). Chapter 1

- Navas, J.E. and Guerras, L.A. (1998). Chapter 1

- Salas, V. (1990). Chapter 2

ADDITIONAL BIBLIOPGRAPHY: - Ansoff (1976). Chapters 6 y 7

- Menguzzato, M. and Renau, J.J. (1991)

- Porter, M. (1988).

RECOMMENDED READING REFERENCES: - Cuervo, A. (1999)

- Kay, J. (1994). Chapter 1

Topic 2.- Scope of analysis of strategy

OBJECTIVES: The aim of this topic is to define the context in which business strategy will be analysed. It establishes the need to ensure that the strategy is coherent with the values and objectives of the company, its environment, resources and capacities, and organisation, without forgetting the necessary adjustments between the different levels of strategy. An important component of this topic is devoted to the justification

and analysis of the search for profit as an overriding objective of the company. For this purpose reference is made to the economic business model, identifying its limitations. The concepts of income/revenues and economic value of the company are also introduced. Finally, the topic will briefly touch upon the different types of income according to their origin and an initial presentation will also be made of the main contributions of strategic thought to the understanding of the differences in business results.

2.1.- A framework for analysing business strategy

2.1.1.-Strategic fit.

2.2.- Strategy as a search for profit

2.2.1.- The economic business model and its limitations.

2.2.2.- Economic value of the company.

2.2.3.- Extensions of the solution of maximisation of economic value.

2.3.- Competitive strategies and obtainment of income.

2.3.1.- Definition and types of income.

2.4.- Strategic thought and business income.

BASIC BIBLIOGRAPHY: - Grant, R. (1996). Chapter 2

- Salas, V. (1990). Chapter 1

ADDITIONAL BIBLIOPGRAPHY: - Barney, J. (1997). Chapter 2

- Navas, J.E. and Guerras, L.A. (1998). Chapter 2

- Peteraf, M.A. (1993)

- Winter, S.G. (1995)

RECOMMENDED READING REFERENCES: - Kay, J. (1994). Chapter 13

PART II. ANALYSIS OF THE COMPETITIVE DYNAMICS OF INDUSTRY

Topic 3.- Analysis of the sectorial environment

OBJECTIVES: Topic 3 returns to the problem of the analysis of the company's environment covered in previous courses, in order to study in greater depth the problem of defining the limits of the sector in which the company operates and its utility from the strategic analysis standpoint. The concepts of "barriers to mobility" and "strategic groups" are introduced in order to divide the analysis of business profit according to the different opportunities offered at the level of industry, strategic group and company management. Finally, we will introduce the analysis of industrial rivalry, which will be developed in subsequent topics, using Porter's competitive nucleus model.

3.1.- General environment and specific environment.

3.2.- Definition of industrial sector: conceptual problems.

3.3.- Strategic groups and barriers to mobility.

3.4.- Methodology for analysing industry.

3.4.1.- Structure-Conduct-Results Model

3.5.- Analysis of industrial rivalry: Porter's competitive nucleus

3.5.1.- Limitations of Porter's Five Forces Model

BASIC BIBLIOGRAPHY: - Barney, J. (1997). Chapter 3

- Grant, R. (1996). Chapters 3 and 4

- Navas, J.E. and Guerras, L.A. (1998). Chapters 3 and 4.
- Salas, V. (1990). Chapter 3
- Ventura (1994). Introduction.

ADDITIONAL BIBLIOGRAPHY: - Porter, M. (1980). Chapters 1 and 2

RECOMMENDED READING REFERENCES: - Juarez, C. A. (2000)

- Kay, J. (1994). Chapter 18

Topic 4.- Thinking strategically: games strategy and theory

OBJECTIVES: Establish the methodological bases required to develop the following topics. Games theory deals with the formal study of situations in which agents must take decisions aware of the consequences that these will have for other agents and vice versa. In imperfect competition scenarios, corporate profits depend not only on the decisions of the company itself but also on the decisions of other companies. Games theory enables us to model situations in which these interdependencies generate conflicts between companies participating or intending to participate in a market.

- 4.1. Concept and elements of a game
- 4.2. Representation of games
 - 4.2.1. Normal form
 - 4.2.2. Extensive form
- 4.3. Types of games
 - 4.3.1. Types of games according to strategies
 - 4.3.2. Types of games and communication
- 4.4. Concepts of equilibrium
- 4.5. Repeated games

BASIC BIBLIOGRAPHY: - Rasmusen, E. (1989)

- Schotter, A.R. (1996)

ADDITIONAL BIBLIOGRAPHY: - Ghemawat, P. (1997)

- Gibbons (1993)
- Tirole (1990). Chapter 11
- Ventura (1994). Chapter 3

RECOMMENDED READING REFERENCES: - Ricart, J. (1994)

- Kay, J. (1994), Chapter 3.

Topic 5.- Structure and results in the industry

OBJECTIVES: Topic 5 focuses on the analysis of the structure of industry and specifically its horizontal configuration, leaving aspects relating to vertical configuration to “Strategic Business Management II”, which covers vertical integration. The horizontal configuration of industry refers to three aspects: number of companies; differences in size and specialisation; and competition and cooperation relationships between companies. This configuration is determined mainly by the characteristics of productive technology, market size and the intensity of preferences; these aspects will be studied in greater depth in part one of “Strategic Business Management II.

- 5.1.- Structure of the industry: horizontal configuration

- 5.1.1.- Number of companies and differences in size
- 5.1.2.- Degree of concentration
- 5.1.3.- Types of industrial structures
- 5.2.- Market structure and competition
 - 5.2.1.- Perfect competition, monopolies and monopolistic competition
 - 5.2.2.- Imperfect competition: Cournot's model
 - 5.2.3.- Imperfect competition: Bertrand's model
 - 5.2.4.- Differences between the models of Cournot and Bertrand
 - 5.2.5.- Competition in prices with differentiated products
 - 5.2.6.- Cooperative solutions: collusion

BASIC BIBLIOGRAPHY: - Besanko, D., Dranove, D., Shanley, M. (2000), Chapter 7.
 - Salas, V. (1990). Chapter 7

ADDITIONAL BIBLIOGRAPHY: - Segura, Julio (1993) Chapter 5
 - Tirole, J. (1990) Cap. 5

- Ventura (1994). Chapter 1 and 3

RECOMMENDED READING REFERENCES: - Kay, J. (1994). Chapter 14

- Ghemawat, P. et al (2000): "La Guerra de las Colas Continúa: Coca Versus Pepsi en los Años 90", in *La Estrategia en el Panorama del Negocio*. Pearson Educación, México.

Topic 6.- Strategic commitment

OBJECTIVES: When strategic commitments become effective they may change the expectations of competitors, prompting them to alter their behaviour in a manner that is beneficial for the company making the strategic commitment. However, the irreversible nature of these strategic commitments introduces a risk factor that must be taken into account. Companies that take on these commitments must compare the profits that they may obtain from being able to foresee or alter the behaviour of their rivals with the loss of flexibility that these commitments entail. The aim of this topic is to present the economic arguments to be considered when evaluating the suitability of a strategic commitment.

- 6.1.- Strategic importance of the commitment
- 6.2.- Competition and strategic commitment
- 6.3.- Commitment vs. flexibility
- 6.4.- A framework for analysing commitments

BASIC BIBLIOGRAPHY: - Besanko, D., Dranove, D., Shanley, M. (2000), Chapter 8.

ADDITIONAL BIBLIOGRAPHY: - Ghemawat, P. (2000), Chapter 5.

- Ghemawat, P. (1991)

RECOMMENDED READING REFERENCES: - Ghemawat, P. and del Sol, P. (2000)

Topic 7.- Dynamic aspects of rivalry in prices

OBJECTIVES: This topic follows on from the contents of topic 5 and moves on to consider a series of analytical models and schemes that can help us to achieve a better understanding of why companies compete

in the way they do. In order to make this analysis more realistic, we will treat price competition as a dynamic process. This assumes that the decisions adopted by a company at a given moment in time affect the future behaviour of both its competitors and the company itself. This topic also studies competition in variables other than price, namely competition in terms of product quality.

7.1.- Dynamic price rivalry

7.2.- Market structure and sustainability of cooperation in prices.

7.3.- Practices that favour price cooperation

7.4.- Competition in quality

BASIC BIBLIOGRAPHY: - Besanko, D., Dranove, D., Shanley, M. (2000), Chapter 9.

ADDITIONAL BIBLIOGRAPHY: - Tirole, J. (1990)

Topic 8.- Market entry and withdrawal

OBJECTIVES: This chapter aims to show the importance of the entry and withdrawal from many markets; it will describe the structural factors (beyond the control of companies operating in the market) that affect entry and withdrawal decisions, and will make reference to different strategies that can be adopted by companies in order to reduce the threat of entry and encourage the withdrawal of rivals.

8.1.- Entry and exit decisions: basic concepts

8.2.- Structural barriers to entry

8.3.- Strategies to discourage entry

8.3.1.- Limit price

8.3.2.- Predatory prices

8.3.3.- Excess capacity

8.4.- Barriers to withdrawal

8.5.- Strategies to promote withdrawal

BASIC BIBLIOGRAPHY: - Besanko, D., Dranove, D., Shanley, M. (2000), Chapter 10.

ADDITIONAL BIBLIOGRAPHY: - Segura, Julio (1993). Chapter 7

- Tirole, J. (1990). Chapters 8 y 9

- Ventura (1994). Chapters 2 y 3

RECOMMENDED READING REFERENCES: - Kay, J. (1994). Chapter 8

BASIC BIBLIOGRAPHY

Although no published manual matches the content of the course exactly, the following texts cover some of the contents of the topics:

- Besanko, D., Dranove, D., Shanley, M. (1996): *Economics of Strategy*, John Willey & Sons, Nueva York.
- Grant, Robert M. (1996): *Dirección Estratégica*, Civitas, Madrid.
- Navas, J.E. y Guerras, L.A. (1998): *La Dirección Estratégica de la Empresa*, 2ª ed., Cívitas, Madrid.
- Salas, V. (1990): *Competencia Estratégica*. GORE, Zaragoza.

ADDITIONAL BIBLIOGRAPHY

There are also other texts that can be used complementarily. The most useful publications are the following:

- Ansoff (1965): *Corporate Strategy*. McGraw-Hill, Nueva York. Versión en español, *La Estrategia de la Empresa*. Eunsa, Pamplona, 1976.
- Bueno, E. (1996c): *Dirección Estratégica de la Empresa*, Pirámide, Madrid.
- Dess, G.G. y Lumpkin G.T. (2003): *Dirección estratégica*, McGraw Hill, Madrid.
- Dixit, A. K. y Nalebuff, B. J. (1991): "*Thinking Strategicaly. The Competitive Edge in Business, Politics and Everyday Life*". Versión en español "*Pensar Estratégicamente. Un Arma Decisiva en los Negocios, la Política y la Vida Diaria*". Antoni Bosch, Barcelona, 1992
- Ghemawat, P. (1991): *Commitment. The Dynamic of Strategy*. Free Press, New York.
- Ghemawat, P. (1997): *Games Businesses Play: Cases and Models*. MIT Press, Cambridge.
- Ghemawat, P. y colaboradores (2000): *La Estrategia en el Panorama del Negocio*. Pearson Educación, México.
- Gibbons, R. (1993): *Un primer curso de teoría de juegos*. Antoni Bosch, Barcelona
- Johnson, G. y Scholes, K. (2000): *Dirección Estratégica, 5ª ed.*, Prentice Hall, Madrid.
- Menguzzato, M. y Renau, J.J. (1991): *La Dirección Estratégica de la Empresa: un enfoque innovador del management*. Ariel, Barcelona
- Peteraf, M.A. (1993) "The Cornestone of Competitive Advantage: A Resource-Based View" *Strategic Management Journal*, vol.14, 179-191.
- Porter, M. (1980): *Competitive Strategy. the Free Press, Nueva York*. versión en español, *Estrategia Competitiva*, CECSA, Méjico. Chapters 1 y 2
- Porter, M. (1988): "De las ventajas competitivas a la estrategia empresarial", *Harvard Deusto Business Review*, 1er. trimestre, 99-121.
- Rasmusen, E. (1989): *Juegos e Información: Una Introducción a la Teoría de Juegos* Fondo de Cultura Económica, México, 1996.
- Schotter, A.R. (1996). "Teoría de los juegos y herramientas del análisis estratégico en los negocios", en *Microeconomía. Un enfoque moderno*, CECSA, Chapter 7, 227-272.
- Segura, J. (1993): *Teoría de la Economía Industrial*. Civitas, Madrid.
- Strategor (1995): *Estrategia, Estructura, Decisión. Identidad. Política General de Empresa*. MASSON, Barcelona
- Thompson, Jr., A. y Strickland III, A. J. *Administración Estratégica, 11ª ed.* McGraw Hill, México.
- Tirole, J. (1990): *La Teoría de la Organización Industrial*. Ariel, Barcelona.
- Ventura, J. (1994): *Análisis Competitivo de la Empresa: un enfoque estratégico*, Civitas, Madrid

- Winter, S.G. (1995): "Four Rs of Profitability: Rents, Resources, Routines and Replication". en C.A. Montgomery (Ed.), *Resource-Based and the Evolutionary Theories of the Firm*. Kluwer Academic, Boston.

Recommended reading references:

- Cuervo, A. (1999): "La Dirección Estratégica de la Empresa", *Papeles de Economía Española*, 78-79, 34-55
- Ghemawat, P. y del Sol, P. (2000): "¿Compromiso o flexibilidad?" *Harvard Deusto Business Review*, 94, 14-26
- Juárez, C. A. (2000): "La Industria Farmacéutica", En Navas, J.E. y Guerras, L.A. (Eds.), *Casos de Dirección Estratégica de la Empresa*. Civitas, Madrid.
- Kay, J. (1994): *Fundamentos del Éxito Empresarial*, Ariel, Barcelona.
- Oster, S. M. (1994): *Modern Competitive Analysis*, Oxford University Press, Nueva York
- Ricart, J. (1994): "Estrategia: como aplicar la teoría de juegos", *Harvard Deusto Business Review*, 64, 88-97

RECOMMENDATIONS AND SUGGESTIONS ON PREVIOUS AND SUBSEQUENT SUBJECTS

The application in strategic analysis of tools, models and concepts provided by industrial economics make it particularly recommendable for students to have passed the subject "Microeconomics" beforehand.

In the subjects "Business Economics" and "Business Management and Control" in the Degree in Business Administration and in the subject "Business Administration" in the Diploma in Business Studies, introductory contents corresponding to "Strategic Business Management" are imparted. It will therefore be assumed that students have already acquired knowledge about these contents, although in some cases these contents will be revised briefly to remind students about the concepts. Students are recommended to quickly read through these subjects before starting the course.

The subjects offered in the area of business organisation in strategic management is complemented by the contents of the compulsory subject "Organisational Business Design" covering the implementation of strategy as well as the optional subjects "Technology and Innovation Management" and "Business Development", which will enable students to acquire more in-depth knowledge of two particularly relevant subjects that are only studied on an introductory basis in the core subjects "Strategic Business Development I" and "II".