

UNIVERSIDAD DE LA RIOJA

FACULTY OF BUSINESS MANAGEMENT

DEGREE IN BUSINESS MANAGEMENT

PROGRAMME

STRATEGIC BUSINESS MANAGEMENT II

(Code 2071017)

YEAR 4 – TERM 1

CORE SUBJECT OF 4.5 CREDITS

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

Teacher:

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CONTENT AND OBJECTIVES OF THE COURSE

The Strategic Management II course, imparted as a core topic in the 4th year (second term), is a continuation of Strategic Management I and develops knowledge acquired in that course. The first course begins establishes the basis on which the other topics are developed. The second part addresses the problem of defining and describing the context of the sector before studying in greater depth the dynamics of competition and the relationship between the structural conditions of the industry and the strategic behaviour displayed by companies through their results. This part has been developed using tools, models and concepts provided by industrial economics.

Strategic Business Management II is divided into two parts. The first block focuses on the strategic positioning of companies based on the recognition of the dynamic nature of their strategy, in line with the most recent developments in both academic fields and in actual business management. This requires an on-going review of strategy, always taking into account the actions of competitors and the evolution of a constantly changing environment. This part provides an introduction to the basic principles of economics so that students can learn about the concept of competitive advantage, the methods for detecting competitive advantage, the conditions that make this sustainable and the ways in which competitive advantage is achieved.

The second part of the course focuses on the strategic management of corporations operating in different businesses and/or markets. In recent decades, many companies have experimented accelerated growth in which their original businesses have gradually given way to new activities which may be both related and unrelated to their initial lines of business. In recent years, however, companies have started to concentrate their businesses once again around their core competencies. Students will study the characteristics of organisations resulting from the processes of diversification and specialisation, as well as the different options available for tackling growth, evaluating both the existing possibilities for introducing new products and penetrating new markets and the advantages and drawbacks of each alternative.

Objectives

Once the course has concluded, students will be expected to be able to: identify the different elements that may become sources of long-term competitive advantage which enable sufficient participation in profits, at least to remunerate resources at their capital cost; understand the importance of the continuous adaptation of strategy to the changing conditions of the market in order to conserve competitive advantages; and identify the different corporate options for penetrating new markets.

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 consist of multiple choice tests, numerical exercises, questions and/or short texts in which the student must explain and apply, using reasoned arguments, 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: ANALYSIS OF COMPETITIVE ADVANTAGE

Topic 1.- Internal analysis of the company: resources theory

OBJECTIVES: This topic offers a brief examination of the internal diagnosis of companies as an introduction to the study of competitive advantage, its sustainability and origins in this first part of the Strategic Business Management II course. With this objective in mind, it describes resources theory with references to the concepts of resources and capacities, types of resources and their valuation.

- 1.1.- Internal diagnosis of the company
- 1.2.- The value chain.
- 1.3.- Resources theory
 - 1.3.1.- Resources and capacities
 - 1.3.2.- Types of resources
 - 1.3.3.- Valuation of capacities: the role of benchmarking
 - 1.3.4.- Integration mechanisms: management and organisational routines

Basic bibliography - Grant, R. (1996). Chapter 5

- Navas, J.E. and Guerras, L.A. (1998). Chapters 6 y 7

Additional bibliography: - Fernández Rodríguez, Z y Suárez González, I. (1996)

- Ventura (1994). Chapter 12

Recommended reading references: - Lopez, J. (1996)

- Salas, V. (1996).

Topic 2.- Strategic positioning to achieve competitive advantage

OBJECTIVES: Develop a conceptual framework for characterising and analysing the strategic position of the company in an industry. This framework employs simple economic concepts that enable students to identify the conditions necessary to obtain competitive advantage in markets.

- 2.1.- Competitive advantage
- 2.2.- Competitive advantage and the creation of value: tools and core principles
 - 2.2.1.- Perceived profit and consumer surplus
 - 2.2.2.- Creation of value
- 2.3.- Strategic positioning: advantages in terms of cost and perceived profit
 - 2.3.1.- Economic logic of cost advantages
 - 2.3.2.- Economic logic of advantage in perceived benefit
 - 2.3.3.- Obtainment of profit and cost or perceived benefit advantages
 - 2.3.4.- Consequences of "staying in the middle"
- 2.4.- Selection of target markets and segmentation

Basic bibliography - Besanko, D., Dranove, D., Shanley, M. (2000), Chapter 12.

Additional bibliography: - Barney, J.B. (1997). Chapters 5, 6 and 7.

- Ghemawat, P. (2000)
- Oster, S. M. (1994). Chapter 7
- Strategor (1995). Chapter 2
- Ventura, J. (1994). Chapters 5, 6 and 7.

Recommended reading references: - Kay, J. (1994). Chapter 13
- Kay, J. (1994). Chapter 15

Topic 3.- Analysis of cost advantages

OBJECTIVES: This topic aims to analyse the characteristics of production technology and its consequences for costs incurred by companies. This analysis has two objectives: to identify the specific supply conditions of a sector and thus the elements that make them more attractive than others; and to analyse the possibilities for obtaining sustainable cost advantages.

- 3.1.- Introduction
- 3.2.- Economics of scale.
 - 3.2.1.- Methods for detecting the existence of economies of scale
 - 3.2.2.- Efficient scale
 - 3.2.3.- Degree of economies of scale and size selection
 - 3.2.4.- Sources of economies of scale at plant level
- 3.3.- Economics of experience.
 - 3.3.1.- Technical progress.
 - 3.3.2.- Learning through experience.
- 3.4.- Economics of scope.
 - 3.4.1.- Origin of economies of scope.
- 3.5.- Production economies in multiple plants.
- 3.6.- Management costs.

Basic bibliography - Salas (1990). Chapter 5

Additional bibliography: - Besanko, D., Dranove, D., Shanley, M. (1996). Chapter 2
- Grant, R. (1996). Chapter 7

Topic 4.- Analysis of advantage in differentiation

OBJECTIVES: This topic explains the origins of the function of demand and the factors determining greater or lower values of price elasticity for demand. In general terms, the price elasticity of demand largely depends on the characteristics of the preferences of potential customers, which in turn depend on the differentiation between products in the industry; and subsequent exposure shall distinguish between vertical, horizontal and informative differentiation. Like the previous topic, this one has two objectives: to analyse profit opportunities associated with a given sector and arising in this case on the side of demand; and to study the underlying requirements for value advantage and the opportunities for obtaining profits from competitive advantage.

- 4.1.- Function of demand and price elasticity
- 4.2.- Function of demand and consumer surplus
- 4.3.- Relevance of the price elasticity of demand
- 4.4.- The existence of product differentiation
 - 4.4.1.- Vertical differentiation
 - 4.4.1.- Horizontal differentiation
 - 4.4.1.- Informative differentiation

Basic bibliography - Salas (1990). Chapter 4

Additional bibliography: - Grant, R. (1996). Chapter 8
- Navas, J.E. and Guerras, L.A. (1998). Chapter 10

Recommended reading references: - Kay, J. (1994). Chapter 16

Topic 5.- Sustainability of competitive advantage

OBJECTIVES: This topic analyses the difficulties facing companies in different competitive scenarios when they have to sustain profits in time and compares these difficulties with persistence in business profits. This evidence is explained from the perspective of resources theory and specifically from the analysis of the conditions required for sustainable competitive advantage to be achieved.

- 5.1.- Difficulty in profit sustainability
- 5.2.- Sustainable competitive advantage
 - 5.2.1.- Analysis of competitive advantages from the standpoint of resources theory
 - 5.2.2.- Isolation mechanisms: obstacles to imitation
 - 5.2.3.- Isolation mechanisms: advantages of players who move first

Basic bibliography - Besanko, D., Dranove, D., Shanley, M. (2000). Chapter 13.

Additional bibliography: - Ghemawat, P. (2000)
- Peteraf, M.A. (1993)
- Ventura (1994). Chapter 12

Recommended reading references: - Kay, J. (1994). Chapter 11
- Kay, J. (1994). Chapter 12
- Ghemawat, P. (1987)

Topic 6.- Origins of competitive advantage: innovation, evolution and environment

OBJECTIVES: Previous topics explain how competitive advantage is determined by companies' capacities to exploit market opportunities and how the advantages of companies that move first or barriers to imitation help them to protect this advantage. However, it does not explain why certain companies are better or luckier when it comes to taking advantage of opportunities. This is the objective of this topic.

- 6.1.- Creative destruction
- 6.2.- Incentives for innovation
 - 6.2.1.- Unrecoverable costs
 - 6.2.2.- Replacement effect
 - 6.2.3.- Efficiency effect
- 6.3.- Competition in innovation
 - 6.3.1.- The patent race
 - 6.3.2.- Selection of technology
- 6.4.- Evolutionary economy and dynamic capacities
- 6.5.- The environment

Basic bibliography - Besanko, D., Dranove, D., Shanley, M. (2000), Chapter 14.

Additional bibliography: - Porter, M. (1991b)
- Porter (1999). Chapter 6
- Tirole (1990). Chap.10

Recommended reading references: - Kay, J. (1994). Chapter 7

PART II: CORPORATE STRATEGY

Topic 7.- The limits of companies: vertical integration and cooperation agreements

OBJECTIVES: The vertical limits of a company refer to the activities in the vertical chain performed by the company itself. The horizontal limits of a company refer to the amount and variety of products it produces. This topic analyses the vertical limits of companies and concludes with a study of both vertical and horizontal cooperation agreements.

- 7.1.- Produce or purchase
 - 7.1.1.- Reasons for purchasing
 - 7.1.2.- Costs of using the market
 - 7.1.3.- Technological change and the evolution of company limits
- 7.2.- Alternatives to vertical integration
- 7.3.- Cooperation agreements
 - 7.3.1.- Determining factors of the propensity to reach cooperation agreements
 - 7.3.2.- Nature and areas of application of cooperation agreements
 - 7.3.3.- Forms of cooperation

Basic bibliography - Besanko, D., Dranove, D., Shanley, M. (2000), Chapter 3
- Ventura, J. (1994). Chapter 9

Additional bibliography: - Besanko, D., Dranove, D., Shanley, M. (2000), Chaps. 4 and 5.
- Grant, R. (1996). Chapter 12
- Navas, J.E. and Guerras, L.A. (1998). Chapter 17
- Salas (1990). Chapter 6
- Ventura, J. (1994). Chapter 8

Recommended reading references: - Kay, J. (1994). Chapter 17
- Kay, J. (1994). Chapter 5

Topic 8.- Diversification management and managing diversified companies

OBJECTIVES: This topic focuses on diversification strategy. Companies can diversify in different ways, e.g. through the internal development of new business areas, joint ventures with other companies or the acquisition of companies in related or unrelated lines of business. But why do companies diversify their activities? In addition to proposing some answers to this question, the topic addresses certain issues relating to the management of diversified companies and analyses portfolio management models.

- 8.1.- The scope of diversification
- 8.2.- Reasons for diversification
 - 8.2.1.- Economies of scale and scope
 - 8.2.2.- Financial synergies
 - 8.2.3.- Transaction cost savings
 - 8.2.4.- Specific interests of management
- 8.3.- Strategic portfolio planning models
 - 8.3.1.- The GE/McKinsey matrix
 - 8.3.2.- The Boston Consulting Group matrix
- 8.4.- Corporate management systems and the role of central management

Basic bibliography - Besanko, D., Dranove, D., Shanley, M. (2000), Chapter 6.
- Grant (1996), Chap. 15.

Additional bibliography: - Grant (1996), Chap. 14
- Navas, J.E. and Guerras, L.A. (1998). Chapter 8 y 14
- Ventura (1994). Chapter 10

Recommended reading references: - Suárez González, I. (1999)

Topic 9.- Internationalisation strategy

OBJECTIVES: This topic examines the reasons why companies decide to internationalise their activities. It also analyses the problem of the globalisation of industry, the factors responsible for this process and the strategic alternatives available to companies. The final section focuses on strategies for penetrating foreign markets.

- 9.1.- Justification of the internationalisation of companies
 - 9.1.1.- Internal reasons
 - 9.1.2.- External reasons
- 9.2.- Global competition
 - 9.2.1.- Globalisation factors
 - 9.2.2.- Strategic alternatives in a global industry
- 9.3.- Strategies for penetrating foreign markets
 - 9.3.1.- Export strategy
 - 9.3.2.- Contractual systems
 - 9.3.3.- Direct investment abroad

Basic bibliography - Navas, J.E. and Guerras, L.A. (1998). Chapter 18 y 19
- Ventura (1994). Chapter 10

Additional bibliography: - Canals (1991)
- Canals (1994)
- Porter (1991a). Chapter 3

Recommended reading references: - Solberg, C.A. (1991)

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. (2003): *Economics of Strategy*, John Willey & Sons, Nueva York.
- Grant, Robert M. (2004): *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.
- Ventura, J. (1994): *Análisis Competitivo de la Empresa: un enfoque estratégico*, Civitas, Madrid

ADDITIONAL BIBLIOGRAPHY:

Other complementary texts may also be used in each chapter to complete, and in some cases further, students' knowledge of the content in the topic. The following available references may be particularly interesting:

- Barney, J.B. (1997): *Gaining and Sustaining Competitive Advantage*, Addison Wesley, Reading.
- Canals, J. (1991): *Competitividad Internacional y Estrategia de la Empresa*. Ariel Economía, Barcelona.
- Canals, J. (1994) *La Internacionalización de la Empresa*, Ed. McGraw Hill.
- Fernández, Z.; Suárez, I. (1996): "La estrategia de la empresa desde la perspectiva de recursos", *Revista Europea de Dirección y Economía de la Empresa*, vol. 5, n1 13, pp. 73-92.
- Ghemawat, P. (1987): "La Ventaja Competitiva ha de Ser Sostenible". *Harvard Deusto Business Review*, 2, 71-78
- Ghemawat, P. (2000): *La Estrategia en el Panorama del Negocio. Texto y Casos*. Prentice Hall, Madrid.
- Kay, J. (1994): *Fundamentos del Éxito Empresarial*, Ariel, Barcelona.
- Lopez, J. (1996): "Los recursos intangibles en la competitividad de las empresas. Un análisis desde la teoría de los recursos", *Economía Industrial*, nº 307, pp. 25-35.
- Oster, S. M. (1994): *Modern Competitive Analysis*, Oxford University Press, Nueva York
- Peteraf, M.A. (1993) "The Cornerstone of Competitive Advantage: A Resource-Based View" *Strategic Management Journal*, vol.14, 179-191.

- Porter, M. E. (1991a): *La Ventaja Competitiva de las Naciones*. Plaza & Janes, Esplugues de Llobregat
- Porter, M. E. (1991b): Towards a Dynamic Theory of Strategy, *Strategic Management Journal*, 12, 95-117.
- Porter, M. E. (1999): *Ser competitivos: nuevas aportaciones y conclusiones*. Deusto, Bilbao.
- Salas, V. (1996): “Economía y gestión de los activos intangibles”, *Economía Industrial*, nº 307, pp. 17-24.
- Solberg, C.A. (1991): "Respuesta al reto de la globalización. Sugerencia de un esquema para el análisis y la toma de decisiones". *Información Comercial Española*, Abril, 692.
- Strategor (1995): *Estrategia, Estructura, Decisión. Identidad. Política General de Empresa*. Masson, Barcelona
- Suárez González, I. (1999): “El análisis del crecimiento de la empresa desde la dirección estratégica”, *Papeles de Economía Española*, 78-100.
- Tirole, Jean (1990): *La Teoría de la Organización Industrial*. Barcelona: Ariel.

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”.