

- **Corporate-Level Strategy:** Is your current employer a single business firm or a diversified firm? If it is diversified, does it pursue related or unrelated diversification? Does its diversification provide you with career opportunities, especially lateral moves? What organizational policies are in place to either encourage or discourage you from moving from one business unit to another?
- **Core Competencies:** What do you see as your core competencies? How can you leverage them within your business unit as well as across other business units?
- **Sharing Infrastructures:** Identify what infrastructure activities and resources (e.g., information systems, legal) are available in the corporate office that are shared by various business units in the firm. How often do you take advantage of these shared resources? Identify ways in which you can enhance your performance by taking advantage of these shared infrastructure resources.
- **Diversification:** From your career perspective, what actions can you take to diversify your employment risk (e.g., doing coursework at a local university, obtaining professional certification such as a CPA, networking through professional affiliation, etc.)? In periods of retrenchment, such actions will provide you with a greater number of career options.

summary

A key challenge for today's managers is to create “synergy” when engaging in diversification activities. As we discussed in this chapter, corporate managers do not, in general, have a very good track record in creating value in such endeavors when it comes to mergers and acquisitions. Among the factors that serve to erode shareholder values are paying an excessive premium for the target firm, failing to integrate the activities of the newly acquired businesses into the corporate family, and undertaking diversification initiatives that are too easily imitated by the competition.

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We addressed two major types of corporate-level strategy: related and unrelated diversification. With *related diversification* the corporation strives to enter into areas in which key resources and capabilities of the corporation can be shared or leveraged. Synergies come from horizontal relationships between business units. Cost savings and enhanced revenues can be derived from two major sources. First, economies of scope can be achieved from the leveraging of core competencies and the sharing of activities. Second, market power can be attained from greater, or pooled, negotiating power and from vertical integration.

When firms undergo *unrelated diversification*, they enter product markets that are dissimilar to their present businesses. Thus, there is generally little opportunity to either leverage core competencies or share activities across business units. Here, synergies are created from vertical relationships between the corporate office and the individual business units. With unrelated diversification, the primary ways to create value are corporate restructuring and parenting, as well as the use of portfolio analysis techniques.

Corporations have three primary means of diversifying their product markets—mergers and acquisitions, joint ventures/strategic alliances, and internal development. There are key trade-offs associated with each of these. For example, mergers and acquisitions are typically the quickest means to enter new markets and provide the corporation with a high level of control over the acquired business. However, with the expensive premiums that often need to be paid to the shareholders of the target firm and the challenges associated with integrating acquisitions, they can also be quite expensive. Not surprisingly, many poorly performing acquisitions are subsequently divested. At times, however, divestitures can help firms refocus their efforts and

generate resources. Strategic alliances and joint ventures between two or more firms, on the other hand, may be a means of reducing risk since they involve the sharing and combining of resources. But such joint initiatives also provide a firm with less control (than it would have with an acquisition) since governance is shared between two independent entities. Also, there is a limit to the potential upside for each partner because returns must be shared as well. Finally, with internal development, a firm is able to capture all of the value from its initiatives (as opposed to sharing it with a merger or alliance partner). However, diversification by means of internal development can be very time-consuming—a disadvantage that becomes even more important in fast-paced competitive environments.

Finally, some managerial behaviors may serve to erode shareholder returns. Among these are “growth for growth's sake,” egotism, and antitakeover tactics. As we discussed, some of these issues—particularly antitakeover tactics—raise ethical considerations because the managers of the firm are not acting in the best interests of the shareholders.

SUMMARY REVIEW QUESTIONS

1. Discuss how managers can create value for their firm through diversification efforts.
2. What are some of the reasons that many diversification efforts fail to achieve desired outcomes?
3. How can companies benefit from related diversification? Unrelated diversification? What are some of the key concepts that can explain such success?
4. What are some of the important ways in which a firm can restructure a business?
5. Discuss some of the various means that firms can use to diversify. What are the pros and cons associated with each of these?
6. Discuss some of the actions that managers may engage in to erode shareholder value.

key terms

corporate-level strategy 182

diversification 183

related diversification 184

economies of scope 184

core competencies 185

sharing activities 186

market power 187

pooled negotiating power 187

vertical integration 188

transaction cost perspective 190

unrelated diversification 191

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growth for growth's sake 204

egotism 204

antitakeover tactics 205

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golden parachute 205

poison pill 205

application questions & exercises

1. What were some of the largest mergers and acquisitions over the last two years? What was the rationale for these actions? Do you think they will be successful? Explain.
2. Discuss some examples from business practice in which an executive's actions appear to be in his or her self-interest rather than the corporation's well-being.
3. Discuss some of the challenges that managers must overcome in making strategic alliances successful. What are some strategic alliances with which you are familiar? Were they successful or not? Explain.

4. Use the Internet and select a company that has recently undertaken diversification into new product markets. What do you feel were some of the reasons for this diversification (e.g., leveraging core competencies, sharing infrastructures)?

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experiential exercise

Time Warner (formerly AOL Time Warner) is a firm that follows a strategy of related diversification. Evaluate its success (or lack thereof) with regard to how well it has (1) built on core competencies, (2) shared infrastructures, and (3) increased market power. (Fill answers in table below.)

**Rationale for Related
Diversification**

Successful/Unsuccessful? Why?

1. Build on core competencies
2. Share infrastructures
3. Increase market power

ethics questions

1. In recent years there has been a rash of corporate downsizing and layoffs. Do you feel that such actions raise ethical considerations? Why or why not?
2. What are some of the ethical issues that arise when managers act in a manner that is counter to their firm's best interests? What are the long-term implications for both the firms and the managers themselves?

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