The Power of Strategic Integration

How can multibusiness corporations exploit the opportunities that take full advantage of their capabilities and their potential to pursue new strategies?
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5. Role of Top Management

Sources
1. Why do multibusiness companies need to develop a capability for complex strategic integration?

- **Strategic imperative to maximize the profitable growth of business through new strategy-making capabilities**

- **Focus on operational efficiencies in the past by integrating business activities and extension of existing strategies by combining resources from various business units**

- **Maximum-strategic-opportunity set: firms’ opportunities to take the fullest advantage of their capabilities and potential to develop new strategies**

- **Complex strategic integration ➔ discovery and creation of new business opportunities by combining resources from multiple units within the firm to extend the corporate strategy in new directions**
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Sources
2. Five Forms of Strategic Integration

Conceptual framework with two dimensions affecting the five forms of strategic integration: scope and reach

**Scope**
- Pursuing a new business opportunity requires the collaboration of existing business units within the corporate strategy
- Core strategy

**Reach**
- Developing a new business opportunity requests modifying the existing corporate strategy
- New strategies
## 2. Five Forms of Strategic Integration

<table>
<thead>
<tr>
<th>Overambitious</th>
<th>Minimal</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Maximum scope and reach: no trade-offs between the two dimensions</td>
<td>• Perceived limits on scope and reach</td>
</tr>
<tr>
<td></td>
<td>• Traditional strategy-making approaches based on capital-investment</td>
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<td></td>
<td>and portfolio-planning decisions</td>
</tr>
</tbody>
</table>
## 2. Five Forms of Strategic Integration

<table>
<thead>
<tr>
<th>Scope-driven</th>
<th>Reach-driven</th>
<th>COMPLEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Maximum scope</td>
<td>• Maximum reach</td>
<td>• Maximum-strategic-opportunity set</td>
</tr>
<tr>
<td>• Perceived limit on reach</td>
<td>• Perceived limit on scope</td>
<td>➔ maximum scope and reach</td>
</tr>
</tbody>
</table>

taking both external and internal constraints’ realities into account
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Sources
3.1. Tension between Reinforcing the Core and Redirecting Strategy

Reinforcement ➔ moving vigorously and rapidly along a given strategic trajectory

Redirection ➔ shifting the strategic trajectory, usually in anticipation of or in response to major discontinuities

Importance to find the right balance between reinforcement and redirection

Tougher trade-offs between reinforcement and redirection for multibusiness firms developing more-limited forms of strategic integration
3.1. Tension between Reinforcing the Core and Redirecting Strategy

Scope-driven strategic integration:

- Strongly centralized companies emphasizing the interdependencies among their various businesses
- Reinforcement of the strategic thrust of the firm’s core business
- Capitalization on deepening competence and market share gain through the continuous concerted action of multiple business units
- Quick mobilization of resources across multiple business units
- Giving up opportunities that could stretch resources too thin
- Strong top-management intervention
- Difficulties to go to a reach-driven strategic integration and redirection for companies traditionally emphasizing scope and reinforcement
3.1. Tension between Reinforcing the Core and Redirecting Strategy

Reach-driven strategic integration:

- Strongly decentralized firms traditionally emphasizing corporate entrepreneurshi and organic diversification around core competencies
- Profitable growth reached through redirecting the strategy
- Peripheral competencies become more central to the company’s evolution owing to discontinuities
- Technical or market signals linked with discontinuities hard to detect for corporate managers → involvement of middle and senior managers
- Key integration challenge for firms traditionally emphasizing reach and redirection = comfort with scope-driven strategic integration and reinforcement
3.2. Managing Resource Scarcity and Mobility

- Tangible resources’ scarcity ➔ zero-sum game
- Availability of intangible resources ➔ positive-sum game
- Different mobility among resources
- Interdependent joint projects across units
- Importance of the role of top-level leadership
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Sources
How can company leaders create a corporate context that facilitates Complex Strategic Integration as an ongoing institutionalized process rather than as an infrequent occurrence depending on the efforts of some senior managers?
4. Building a Complex-Strategic-Integration Capability

CSI Capability

CSI Context
- Organizational structure
- Managerial control systems
- Managerial incentives

CSI Skills
- Cognitive skills
- Political skills
- Entrepreneurial skills
4.1. CSI Context

Organizational structure:

- Framework for assessing the interdependencies resulting from complex-strategic-integration initiatives

- Repertoire of organizational-design options to increase the firm’s entrepreneurial capability

- New information generated by evolving CSI efforts ➔ re-evaluation of previous assessments and reconsideration of existing structural arrangements

- Setting up integrators: senior executives or a corporate staff unit stimulating operational units to pursue complex strategic integration

- Dual responsibilities for senior executives:
  - Major functional or business activities
  - New-business development based on complex strategic integration
4.1. CSI Context

Managerial control systems:

- **Diagnostic control systems**
  - Cooperation, if registration of cross-unit contributions
  - Most focus on individual business-unit performance

- **Belief systems**
  - Behavioral norms that support cooperation and reciprocity
  - Difficulty to develop cooperation and reciprocity within the framework of complex strategic integration

- **Boundary-setting control systems**
  - Identify major risks
  - Dynamic boundaries necessary for complex strategic integration*

- **Interactive control systems**
  - Help top management to point out the importance of complex strategic integration
4.1. CSI Context

Managerial incentives:

- Developing and maintaining incentives that encourage managers to carry through CSI initiatives
- Incentives consistent with structural arrangements and control systems
- Conflicting incentives
- Managers’ difficulty “to look beyond the borders of their own business” → single-business-unit performance
4.2. CSI Skills

Cognitive skills:

• Finding new strategies bringing together activities and projects located in different parts of the organization

• Capacity for recognizing good strategies

• Important role of executive development ➔ “learning by doing”

• Ability to decide when to exit businesses
4.2. CSI Skills

Political skills:

• Reconfiguring the flow of firm resources through cross-unit projects
• Redefining unit boundaries and individual business-unit charters
• Developing a consistent corporate context to encourage cooperation among units
• Lobbying for changes in the company’s structural and strategic contexts:
  • Obtaining support from top management and peers for CSI initiatives
  • Executing partnerships with peers
  • Building common ground and shared vision
  • Managing conflicts between business units
  • Finding solutions that meet the interests of various business units
4.2. CSI Skills

Entrepreneurial skills

- Detecting profitable business opportunities
- Attracting the necessary corporate resources
- Transforming a project from a small venture to an opportunity for major corporate renewal
- Determining the strategic context for major initiatives
- Convincing top management to allocate enough resources
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5. Role of Top Management

- Developing a strategy-making process that can balance the challenges arising from exploiting existing and new opportunities at the same time ➔ CSI capability
- Pursuing a corporate strategy that facilitates exploring and exploiting the maximum feasible strategic opportunities
- Promoting executives on the basis of their demonstrated CSI achievements
- Developing a CSI corporate context and CSI skills
- Strongly supporting complex strategic integration and its crucial role in the company’s future
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**Ansoff Matrix (modified)**

- **PRESENT**
  - MARKET DEVELOPMENT
    - Backward
    - Forward
    - Horizontal
    - Conglomerate
  - MARKET CHOICE
    - Penetration
    - Consolidation
    - Withdrawal

- **NEW**
  - DIVERSIFICATION
    - NEW (N)
    - MARKETS (M)
    - PRODUCT DEVELOPMENT

**Company’s strategic options**

Chloé Lehmann
### Ansoff matrix – Cadbury Schweppes’ complex strategy (2000)

<table>
<thead>
<tr>
<th>PRESENT</th>
<th>PRODUCTS</th>
<th>NEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Move of Cadbury Schweppes into Poland in the 1990s</td>
<td>• Limited diversification strategy</td>
<td>• Cadbury’s success in launching new products ➔ around 60% of new product launches in the industry over the 1990s came from Cadbury</td>
</tr>
<tr>
<td>• Partial withdrawal from the beverage market by selling its non-US soft drinks business to Coca-Cola in 1999</td>
<td>• Acquisition in 1990 of Basset and Trebor in the sugar confectionery sector</td>
<td>• Great success of the Cadbury’s Fuse chocolate bar</td>
</tr>
<tr>
<td>• Consolidation in the “chocolate block” sector</td>
<td>• Acquisition of Allan Candy of Canada in 1995</td>
<td>• Introduction of Cadbury’s Miniature Heroes in September 1999, as a strategic move to counteract rival Mars’ Celebrations</td>
</tr>
<tr>
<td>• In 1998, increase in its marketing expenditures in the “chocolate block” sector by 6%, and use of promotional tools</td>
<td>• Acquisition in 1997 of a leading US sugar confectionery distributor: Jaret International Inc.</td>
<td>• Launch in 1995 of the fruit juice soft drink Oasis: ➔ 70% market share gain 18 months after its launch</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➔ Withdrawal of Coca-Cola’s Fruitopia from the UK market</td>
</tr>
</tbody>
</table>
Sources


- http://www.ecofine.com/strategy/What%20is%20SM.htm


Thank you very much for your attention

Any questions?