Economics and corporate strategy

Economics and corporate strategy

C. J. SUTTON

Sheffield City Polytechnic

CAMBRIDGE UNIVERSITY PRESS

Cambridge
London New York New Rochelle
Melbourne Sydney

CAMBRIDGE UNIVERSITY PRESS
Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press
The Edinburgh Building, Cambridge CB2 8RU, UK

Published in the United States of America by Cambridge University Press, New York

www.cambridge.org
Information on this title: www.cambridge.org/9780521226691

First published 1980
Re-issued in this digitally printed version 2008

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication data

Sutton, Clive Julian.

Economics and corporate strategy.

Includes bibliographical references.

1. Corporate planning – Economic aspects. I. Title.
HD30.28.S92 1979 658.4′01 79-4198

ISBN 978-0-521-22669-1 hardback
ISBN 978-0-521-29610-6 paperback

Contents

Illustrations

Preface

This is a book about corporate strategy written for industrial economists. It is intended for students who have already completed an introductory course in economics, and who, therefore, have some familiarity with the conventional theory of the firm. They may also be acquainted with some of the modern revisions to the conventional theory, although such knowledge can probably be treated as an optional extra.

Corporate strategy is concerned with long-term decision taking. It reflects the firm's need to prepare for an uncertain future in an uncertain environment, which may be subject to almost continual change. By contrast, formal economic analysis often concentrates on equilibrium conditions in a world with little or no uncertainty, and, although equilibrium analysis is a powerful tool, it sometimes seems to be far removed from the world of the corporate strategist. Indeed, in casual conversation I have often heard businessmen explaining why they had to reject an "economic" solution for "strategic" reasons. In reality this conflict is more apparent than real, but the appearance is both misleading and unfortunate: misleading, because it ignores the deep insights into strategic behavior which can be developed from the analytical and empirical work of many economists, and unfortunate, because it simultaneously denies the potential usefulness of those insights. I hope that this book may help to dispel some of this misunderstanding by synthesizing a fairly broad range of economic and management literature and relating the economic analysis directly to its strategic context. As a bonus, I would also hope that the synthesis may help economics graduates to contribute more effectively to long-term decisions in the firms for which they work or, at least, to understand why their bosses take such decisions.

The book is concerned with the way in which firms may choose the direction and the method to be followed in their future growth, and it concentrates on the analytical reasons behind these strategic decisions rather than on the management problems of implementing the decisions. It also concentrates on the aspects of strategy that are most amenable to general economic analysis, and leaves aside those areas that require more specialized knowledge. It, therefore, avoids the intricate details of (say) financial strategy. The topics are touched upon, for example, in the discussions of mergers and diversification, but the treatment is unashamedly designed for the generalist rather than the specialist. This implies a fairly narrow definition of strategy, which may seem to be unnecessarily restrictive to some readers. But there is no universal agreement on the limits of any definition of strategy, and the definition adopted here is consistent with the views of at least one eminent management specialist and at least one eminent economist. For example, P. F. Drucker suggested that top management's strategic challenge relates to "size and complexity, diversity and diversification, growth change and innovation" (1974, p. 603), while O. E. Williamson defined strategic planning as being concerned with "diversification, acquisition, and related activities" (1975, p. 149).

The first part is an introduction. It assumes no knowledge of corporate behavior, and is therefore presented as a fairly elementary guide to strategic planning. Subsequent chapters draw more heavily on economic analysis and are a little more advanced. The second part (Chapters 3, 4, 5, and 6) deals with integration and diversification: that is, it deals with the direction of growth. Initially in Chapters 3 and 4 the analysis ignores national boundaries; Some specific problems of multinational strategy are, however, discussed in Chapter 6. The main emphasis is on the range of factors that may influence such strategic decisions rather than with detailed decision-taking processes, but Chapter 5 does attempt to show how different aspects of the analysis are appropriate at different stages of the process. The third part (Chapters 7 and 8) deals with mergers and innovation and is therefore concerned with the method by which growth can be achieved. As with the second part, it concentrates on the background factors that help to shape decisions, but it includes brief discussions of the decision-taking procedures for mergers and of the problems of handling nonquantifiable criteria in assessing innovation projects.

Many colleagues and students have influenced this work, and I should like to thank them all; they are too numerous to mention individually. More formally, my thanks are due to the Cambridge University Press for permission to reproduce the data in Table 1. Various parts of the book were read in draft by Frank Bradbury, Richard Davies, Neil Kay, Brian Loasby, and Richard Shaw, and I

am most grateful to them for their comments and suggestions. I should also like to thank June Watson, Catherine McIntosh, and Eileen Cerrone for their help at various stages in the preparation of the typescript, and above all, my wife for her unfailing patience, encouragement, and coffee. My thanks are due to all these people for their contribution to the work. It goes without saying, however, that all the errors are entirely my own.

June 1979 C. J. SUTTON