



Management 719: Organizational Economics and Strategy
Fall 2009

Professor Evan Rawley
Office: 2203 Steinberg Hall-Dietrich Hall (phone) 215-746-2047
Mobile: 510-701-6259
Email: rawley@wharton.upenn.edu
Webcafe: <http://webcafe.wharton.upenn.edu>
Office hours: By appointment

Course description

This course examines the economic factors underlying value creation in organizational strategy. We shall explore the role of transaction costs, complementary assets, incentives, routines and organizational rigidity in the context vertical integration, horizontal diversification, market entry and scaling up. Consequently, students who take this course will develop a sophisticated basis for creating and evaluating growth strategies. Classroom time is devoted primarily to lively discussion of the cases and assigned readings, while the main deliverable is an original research paper on organizational economics and strategy. Because this is an advanced course that moves at a very rapid pace and builds on material covered in a number of core courses it is primarily geared toward second year MBA students and is only appropriate for the most advanced first year graduate students.

Your grade

Class participation	30%
Midterm exam	30%
Final paper	40%

Class sessions and participation

Class participation grades will be determined based on the overall quality of your individual comments and questions, in each class.

Midterm exam

The first half of this course will be devoted to studying the fundamental concepts of organizational strategy. On Tuesday December 1st we will have a midterm exam, covering the course material from the first eight sessions.

Paper

The major deliverable for this course is an original analytical paper, on a topic of your own choosing. The paper should be completed in groups of at least two and no more than four. The paper must examine an organizational economics issue, using a framework or frameworks discussed this course—including transaction cost economics, complementary assets, routines, and/or organizational rigidity—in the context of a single firm’s vertical integration, diversification, market entry or growth strategy. The paper should describe how a firm uses organizational economics to create value, or shows how organizational economics concepts can be used to describe a strategic challenge the firm faces.

Note that it is preferable to address a narrow problem deeply using a single theory discussed in class, rather than attempting to analyze a firm broadly using all the frameworks discussed exhaustively. I expect that the paper will be deeply researched using both primary and secondary data and that assertions will be well documented. The primary research component of the paper is extremely important. In particular, I expect that your team will conduct at least one interview with a senior manager at the firm being analyzed.

To ensure that research projects proceed on pace your grade on the paper will be computed, in part, based on achieving certain milestones. The milestones, along with the overall grading rubric, for the paper are listed below. We will discuss the precise nature of each deliverable in class.

<u>Milestone</u>	<u>Due date</u>	<u>Grade</u>
Topic approved	Thursday November 12	10%
One page summary	Thursday November 17	10%
5-page draft (“paper proposals”)	Tuesday November 24	10%
Comments	Thursday December 3	20%
Presentation	Tu/Th December 8/10	20%
Rough draft	Thursday December 10	10%
Final paper	Tuesday December 22	20%

Topics may be approved by e-mail or in person anytime before midnight on Thursday November 12. I encourage you to come to discuss your paper with me in my office outside of class, though this is not required. A one page summary of your paper proposal is due in hard copy in class on Thursday November 17th.

Tuesday November 24th is set aside for a reading exchange. To facilitate the reading exchange class will be cancelled, though you may wish to meet with other teams during class time in our regular class room on that day. By the end of the day on November 24th your team must exchange paper proposals (e.g., 5-page drafts) with another team for critical review and comments. Please e-mail your paper proposals to me, indicating which team is reviewing your paper, by midnight on November 24th. I will not accept 5-page drafts until they are being reviewed by another team.

Every team must formally comment on one other team's paper proposal. Two copies of your team's comments are due, one to me and one to the other team, at the beginning of class of Thursday December 3rd. Your comments will be graded based on the quality of your feedback. Comments that help push the other team's thinking about course concepts are particularly welcome.

The last two days of class are devoted to team presentations. We shall discuss the format and guidelines for these presentations in class.

Paper rough drafts are due in hard copy at the beginning of class on Thursday December 10th. Final papers are due by Tuesday December 22nd at 5pm. There is a 5% penalty per day for late papers.

Two person teams should submit papers that are at least 15 pages long, double-spaced, 12 font, plus bibliography and exhibits. Larger teams are expected to produce longer papers. The maximum length for a paper is 30 pages regardless of team size.

Course plan

Class 1: Course Overview (Thursday October 29)

- Read: Alfred D. Chandler Jr., Strategy and Structure, Chapter 1 Historical Setting, pp. 19-51.
- Read: Ronald H. Coase, "The Nature of the Firm," *Economica* 4(16), pp. 386-405.
- Read: Ronald H. Coase's Nobel Prize Lecture, http://nobelprize.org/nobel_prizes/economics/laureates/1991/coase-lecture.html

Class 2: Vertical integration (Tuesday November 3)

- Case: Arauco (A): Forward Integration or Horizontal Expansion?, HBS case #9-705-474
- Read: Oliver E. Williamson, The Economic Institutions of Capitalism, Chapter 1 Transaction Cost Economics, pp. 15-42
- Read: Edward L. Glaeser, "Honoring the Nobel Laureates," *New York Times* 10/12/09.

Class 3: Diversification (I) (Thursday November 5)

- Case: Newell Company: Corporate Strategy, HBS case #9-799-139
- Read: George P. Baker, "Beatrice: A Study in the Creation and Destruction of Value," *The Journal of Finance* 47(3), pp. 1081-1119.

Class 4: Complementary assets (Tuesday November 10)

Case: EMI and the CT Scanner (A) & (B), HBS case #9-383-194 and #383-195
Read: Steven Klepper and Kenneth L. Simons, "Dominance by Birthright: Entry of Prior Radio Producers and Competitive Ramifications in the U.S. Television Receiver Industry," *Strategic Management Journal* **21**(10/11), pp. 997-1016

Class 5: Incentives (Thursday November 12)

Case: Performance Pay at Safelite Auto Glass (A), HBS case #9-800-291
Read: "Citi Moves to End In-Fighting," *Financial Times* 10/13/08
Read: "Incentive Pay Can be Crippling," *Fortune* 11/13/95
Read: Richard R. Nelson and Sidney G. Winter, "An Evolutionary Theory of Economic Change," Ch. 5 Organizational Capabilities and Behavior, pp. 96-136

Class 6: Organizational capabilities (Tuesday November 17)

Case: People Express (A), HBS case #9-483-103
Read: Evan Rawley, "Diversification and Organizational Rigidity: Evidence from Microdata," *Strategic Management Journal* (forthcoming)

Class 7: Diversification (II) (Thursday November 19)

Case: International Management Group (IMG), HBS case #9-702-409
Guest speaker: Matt Cenedella, VP Corporate Finance IMG

Class 8: Reading Exchange (Tuesday November 24)

Read: Thomas Eisenmann, Geoffrey Parker and Marshall W. Van Alstyne, "Strategies for two-sided markets," *Harvard Business Review*, October 2006

Class 9: Midterm Exam (Tuesday December 1)

Class 10: Exploiting organizational rigidity (Thursday December 3)

Case: TheLadders, HBS case #9-908-061
Read: Clayton M. Christensen, The Innovator's Dilemma, Chapter 1 How Can Great firms Fail? Insights from the Hard Disk Drive Industry
Guest speaker: Marc Cenedella, CEO TheLadders

Class 11: Team presentations (Tuesday December 8)

Class 12: Team presentations (Thursday December 10)

Final paper due Tuesday December 22nd