



**J.L. Rotman School of Management
University of Toronto
MGT 3003--Winter 2010
Advanced Topics in Strategy & Economics**

Joanne Oxley
105 St. George Street
416.978.0305 phone
416.978.4629 fax
oxley@rotman.utorontoc.ca

Course Scope and Mission

The course emphasizes both seminal research and recent developments in the application of economics to strategic management. We will explore theoretical analyses and empirical studies that address fundamental questions in strategy research: What are the sources of differential firm performance? Why are firms different? How do industries evolve? What are the appropriate boundaries of the firm?

The overarching objectives of the course are:

- To familiarize you with fundamental questions that animate strategy research and to expose you to key current debates and continuing puzzles;
- To deepen your understanding of the economic and behavioral foundations of strategy, and current research in specific streams of inquiry;
- To help you to hone the skills necessary to evaluate, critique, and contribute to research in the field of strategic management.

Required Texts

There is no required text for this course. We will however rely heavily - though not exclusively - on a new (2009) reader developed and distributed by the Strategy Research Initiative, an informal organization of mid-career strategy scholars to which several Rotman faculty members belong. You can find the reader online at http://strategyresearch.net/---_strategy_reader.

Course Requirements

The course grade will be based on class participation, two paper critiques, and a term paper (three progress reports, a presentation, and a final paper), with component weighting as follows:

<i>Component</i>	<i>Weight</i>
Participation in Class Discussion	25%
Critiques	25%
Term Paper	50%

Participation in Discussion: Each week we will discuss two or three papers. Prior to each class you must read carefully and think about the assigned readings. The reading assignments are not excessive, and the commentaries included in the SRI Strategy Reader will help you to navigate the readings for many of the sessions. Expectations of thorough preparation are high: you are expected to actively participate in each class. You will be judged on the quality of your contribution to our collective effort of evaluating and understanding the research.

Critiques: Over the course of the semester you should pick *two* of the empirical papers assigned, break down the arguments into its logical components, identify any problems, suggest solutions to those problems, and identify opportunities for extensions and/or future research. I suggest that for the purposes of this exercise you choose one article from sessions 3-6 and one article from sessions 7-11. I will provide further guidance and suggestions during the first weeks of class.

Term Paper and Progress Reports: Ideally, your final paper will be a complete working draft of a theory paper or an empirical research paper. If you are unable to collect the necessary data for your empirical paper, at a minimum the paper should pose an interesting (and tractable) research question, effectively develop relevant theoretical claims, identify what type of data would be needed to test the claims, and where/how such data would be collected.

Alternatively, for **FIRST YEAR STUDENTS ONLY**, you may choose a topic area and provide a directed survey of core readings in that area. This should be a topic area which is *not* the primary focus of an existing reading list and commentary in the SRI Strategy Reader (or of our discussion). Your survey should cover 3-5 papers that you believe have made the most important contribution on different questions within your chosen topic area in the last 3-5 years. You should discuss what these questions are, what was the state of understanding at the time your chosen paper(s) was published, what has been discovered and achieved in the new papers, what are the most salient open questions and challenges going forward, and what you see as the most promising avenues for future research in the area.

You will need to begin thinking about your term paper early in the course. Please don't hesitate to discuss your ideas with me as soon as you are ready to do so. To help in developing your term paper, you will submit three progress reports for discussion prior to completing the final paper:

1. **Progress Report 1: Problem Definition** (2-3 pages, typed, double-spaced). Describe a strategy and economics research problem (or topic area if you plan to do a survey) that interests you. Describe why understanding this problem or topic area is relevant to scholars and practitioners in strategic management. **Due February 5** (5% of course grade).
2. **Progress Report 2: Literature Search.** Perform a literature search and develop a reading list of articles and books that address your research problem. Format your reading list as a list of references, following the format used in any of the major economics or strategy journals on the syllabus. Highlight the 3-5 "core readings" that are most closely related to your research topic. **Due February 26** (5% of course grade).
3. **Progress Report 3: Theory and Hypotheses** (5-7 pages, typed, double-spaced). Discuss theoretical perspectives that address your research problem. Revise your research problem if you find that it has already been addressed in previous research. Provide preliminary modelling and discuss testable predictions from your modelling. How do the model and its predictions contribute to knowledge in this area? If applicable, provide a status report on data availability and empirical strategy. For the survey option, provide a detailed summary and preliminary evaluation of the 3-5 papers that you have chosen as the focus of your survey, highlighting the relation of each paper to the prior literature and their novel findings that advance understanding of the topic area. **Due March 20** (5% of course grade).
4. **Presentation:** Develop a 15 minute presentation outlining the main elements of your paper or research

survey. (10% of course grade)

5. **Final Paper** (20-25 pages, typed, double-spaced). Your final paper should be of a quality suitable for submission to an academic conference. **Due at end of semester** (25% of course grade).

Class Schedule – Friday morning, 9-12

#1 – January 8: Introduction: Strategy and Economics

#2 – January 15: Competition and Performance

#3 – January 22: Sustainability of Competitive Advantage I: Theoretical Foundations

#4 – January 29: Sustainability of Competitive Advantage II: Empirical Evidence

#5 – February 5: Economics of Organization I: Theoretical Foundations

#6 – February 12: Economics of Organization I: Empirical Evidence

February 19: No class - University Reading Week

#7 – February 26: Industry Dynamics I: Market Entry

#8 – March 5: Industry Dynamics II: Industry Evolution

#9 – March 12: Industry Dynamics III: Innovation

#10 – March 20: Geography and Agglomeration

#11 – March 27: Institutional Environment

April 2: No class – Good Friday – work on your papers!

#12 – April 9: Student presentations of term papers

1. Introduction: Strategy and Economics

*SRI Strategy Reader: "Introduction," and "High Quality Research in Strategy"

<http://strategyresearchinitiative.wikispaces.com/Introduction>

*Porter, M. E. (2008), "The Five Competitive Forces That Shape Strategy," *Harvard Business Review* 86(1):78-93.

*Rumelt, R.P., D. Schendel, & D.J. Teece (1991), "Strategic Management and Economics," *Strategic Management Journal* 12(Winter): 5-22 (note that this is not the entire article).

Spulber, D. (1992), "Economic Analysis and Management Strategy: A Survey", *Journal of Economics and Management Strategy*, 1(3), pp. 535 – 74.

2. Competition and Performance

SRI Strategy Reader: Mike Ryall, "Competition and Performance"

<http://strategyresearchinitiative.wikispaces.com/Competition+%26+Performance>

Makowski, L. & Ostroy, J. M. (2001), "Perfect Competition and the Creativity of the Market," *Journal of Economic Literature* 39: 479--535.

Brandenburger, A. M. & Stuart, H. W. (1996) "Value-based Business Strategy," *Journal of Economics & Management Strategy* 5: 5--24.

MacDonald, G. & Ryall, M. D. (2004), "How Do Value Creation and Competition Determine Whether a Firm Appropriates Value?" *Management Science* 50, 1319--1333.

3. Sustainability of Competitive Advantage I: Theoretical Foundations

SRI Strategy Reader: Peter Zemsky, "Sustainability"

<http://strategyresearchinitiative.wikispaces.com/Sustainability>

Barney, J. B. (1991). "Firm Resources and Sustained Competitive Advantage," *Journal of Management* 17: 99-120.

Priem, R. and J. Butler (2001). "Is the Resource-Based 'View' a Useful Perspective for Strategic Management Research?" *Academy of Management Review* 26: 22-40

Pacheco-de-Almeida, G. and Zemsky, P. (2007). "The Timing of Resource Development and Sustainable Competitive Advantage," *Management Science* 53: 651-666

4. Sustainability of Competitive Advantage II: Empirical Evidence

SRI Strategy Reader: Anita McGahan, "Industry and Firm Effects,"

<http://strategyresearchinitiative.wikispaces.com/Industry+and+Firm+Effects>

McGahan, A.M. & Porter, M.E. (1999). The Persistence of Shocks to Profitability. *Review of Economics and Statistics*, 81(1): 143–153.

McGahan, A.M. & Porter, M.E. (2002). What do we know about variance in accounting profitability? *Management Science*, 48(7): 834-851.

Khanna, T. & Rivkin, J. (2001). Estimating the performance effects of business groups in emerging markets. *Strategic Management Journal*, 22(1): 45-74.

5. Economics of organization I: Theoretical Foundations

SRI Strategy Reader: Nick Argyres and Rachelle Sampson, "Organization Form: Selection and Consequences" <http://strategyresearchinitiative.wikispaces.com/+Organization+Form+-+Selection+%26+Consequences>

Alchian, A. & H. Demsetz (1972), "Production, information costs, and economic organization," *American Economic Review* 62(December): 777-795

Grossman, S. and O. Hart (1986) "The costs and benefits of ownership: A theory of lateral and vertical integration," *Journal of Political Economy*, 91: 907-928

Williamson, O.E. (1991), "Comparative economic organization: The analysis of discrete structural alternatives," *Administrative Science Quarterly* 36(2): 269-296

6. Economics of organization II: Empirical Evidence

Novak, S. and S. Stern (2007), "How Does Outsourcing Affect Performance Dynamics? Evidence from the Automobile Industry" NBER Working Paper No. W13235. Available at SSRN: <http://ssrn.com/abstract=999030>

Forbes, S.J. and M. Lederman (2009), "Adaptation and Vertical Integration in the Airline Industry," *American Economic Review*.

Ahmadjian, C. and J.E. Oxley (2009), "Vertical Relationships, Hostages, and Supplier Performance: Evidence from the Japanese Automotive Industry," Working Paper.

7. Industry Dynamics I: Market Entry

SRI Strategy Reader: Anne Marie Knott, "Entry" (including Appendix) <http://strategyresearchinitiative.wikispaces.com/Entry>

Foster, L., J. Haltiwanger, and C. Syverson (2008), "Reallocation, Firm Turnover, and Efficiency: Selection on Productivity or Profitability?" *American Economic Review*, 98(1): 394-425

Bresnahan, T and P. Reiss (1990), "Entry in Monopoly Markets. *Review of Economic Studies*, 57 (192) 531-554.

Bresnahan T. and P. Reiss, (1991), "Entry and Competition in Concentrated Markets," *Journal of Political Economy* 99, 977-1009.

9. Industry Dynamics II: Industry Evolution

SRI Strategy Reader: Brian Silverman, "Industry Evolution" <http://strategyresearchinitiative.wikispaces.com/Industry+Evolution>

Gort, M. and S. Klepper (1982), "Time paths in the diffusion of product innovations," *Economic Journal*, 92: 630-53

Tripsas, M. "Unraveling the Process of Creative Destruction: Complementary Assets and Incumbent Survival in the Typesetter Industry." *Strategic Management Journal* 18 (1997): 119-142.

de Figueiredo, J.M. & B.S. Silverman (2007), "Churn baby churn: Strategic dynamics among dominant and fringe firms in a segmented industry," *Management Science* 53: 632-650

9. Industry Dynamics III: Innovation

SRI Strategy Reader: Bruno Cassiman, "Innovation and Strategy"

<http://strategyresearchinitiative.wikispaces.com/Innovation>

Henderson, R. (1993) "Underinvestment and incompetence as responses to radical innovation: evidence from the photolithographic alignment equipment industry," *Rand Journal of Economics* 24(2): 248-270.

Cassiman, B. and Veugelers, R. 2006 "In Search of Complementarity in Innovation Strategy: Internal R&D and External Knowledge Acquisition," *Management Science*.

Gans, J. and S. Stern (2000), "Incumbency and R&D incentives: Licensing the gale of creative destruction," *Journal of Economics and Management Strategy* 9:485-511,

10. Geography and Agglomeration

SRI Strategy Reader: Juan Alcacer and Joanne Oxley, "Geography and Agglomeration"

<http://strategyresearchinitiative.wikispaces.com/Geography+and+Agglomeration>

Hanson, Gordon H. (2001), "Scale Economies and the Geographic Concentration of Industry," *Journal of Economic Geography* 1 (3):255–276.

Myles J. Shaver and Flyer, F. (2000), "Agglomeration Economies, Firm Heterogeneity, and Foreign Direct Investment in the United States," *Strategic Management Journal* 21:1175-1193.

Alcacer, Juan (2006), "Location Choices across the Value Chain: How Activity and Capability Influence Collocation," *Management Science* 52 (10):1457–1471.

11. Institutional Environment

Henisz, W. J. (2000) "The Institutional Environment for Multinational Investment," *Journal of Law, Economics and Organization*, 16(2): 334-64).

Fisman, R. (2001) "Estimating the Value of Political Connections," *American Economic Review* 91: 1095-1102

Foley, C.F., L. Branstetter and R. Fisman (2006), "Do Stronger Intellectual Property Rights Increase International Technology Transfer? Empirical Evidence from U.S. Firm-Level Panel Data," *Quarterly Journal of Economics* 121, (1): 321-349

12. No class – work on your research projects!

13. Student presentations