



## **Management 719: Organizational Economics and Strategy**

Professor Evan Rawley

Office: 2203 Steinberg Hall-Dietrich Hall, (phone) 215-746-2047

Email: [rawley@wharton.upenn.edu](mailto:rawley@wharton.upenn.edu)

Office hours: Tuesday 3pm-4pm

### **Course description**

This course examines the economic factors underlying value creation in organizational strategy. We explore the role of transaction costs, agency costs, complementary assets, routines and organizational rigidity in the context vertical integration, horizontal diversification, market entry and scaling up. Students who take this course will develop a sophisticated basis for evaluating corporate strategy questions related to growth strategy and the boundary of the firm. Classroom time is devoted primarily to lively discussion of the cases and assigned readings. Grades are based on class participation, two team case write-ups and a final exam. 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	25%
Two team case write-up	25% x 2
Final exam	25%

### **Class sessions and participation**

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

### **Team case write-ups**

There are two team case write-ups due in this course. The Arauco write-up is due at the beginning of class 4, and the IMG write-up is due at the beginning of class 7. Both are to be delivered in hard copy. A "team" can be as small as one person. Maximum team size is five people. All team members will receive the same grade. We will discuss the specific details of the write-ups in class.

### **Final exam**

The final exam will be given in the class during our last class session. The exam will be cumulative.

### **Course plan**

#### **Class 1: Course Overview and background, Thursday October 28**

Read: Alfred D. Chandler Jr., Strategy and Structure, Chapter 1 Historical Setting, pp. 19-51.

Read: Ronald H. Coase. 1937. "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](http://nobelprize.org/nobel_prizes/economics/laureates/1991/coase-lecture.html)

#### **Class 2: Vertical integration (I), Tuesday November 2**

Case: Flextronics

Read: Oliver E. Williamson. 2002. "The Theory of the Firm as Governance Structure: From Choice to Contract." *The Journal of Economic Perspectives* **16**(3), pp.171-195.

Read: Edward L. Glaeser, "Honoring the Nobel Laureates," *New York Times* 10/12/09.

#### **Class 3: Vertical integration (II), Thursday November 4**

Case: Molding the Impossible: The NYPRO/Vistakon Disposable Contact Lens Project, HBS case #9-694-062

Read: Oliver E. Williamson. 1985. The Economic Institutions of Capitalism, Chapter 1 Transaction Cost Economics, pp. 15-42

#### **Class 4: Vertical integration (III), Tuesday November 9**

Case: Arauco (A): Forward Integration or Horizontal Expansion?, HBS case #9-705-474

#### **Class 5: Agency costs, Thursday November 11**

Read: George P. Baker. 1992. "Beatrice: A Study in the Creation and Destruction of Value." *The Journal of Finance* **47**(3), pp. 1081-1119.

**Class 6: Diversification (I), Tuesday November 16**

Case: Newell Company: Corporate Strategy, HBS case #9-799-139

Read: Antoinette Schoar. 2002. "The Effects of Corporate Diversification on Productivity." *The Journal of Finance* **58**(6), pp.2379-2403.

**Class 7: Diversification (II), Thursday November 18**

Case: International Management Group (IMG), HBS case #9-702-409

**Class 8: Implementing growth strategies, Tuesday November 23**

Read: Evan Rawley. 2010. "Diversification and Organizational Rigidity: Evidence from Microdata." *Strategic Management Journal*, 2010, **31**(8) pp. 873-891.

Guest speaker: Mark Golovcsenko, Partner PriceWaterhouseCoopers

**Class 9: Routines, processes and complementarities, Tuesday November 30**

Case: People Express (A), HBS case #9-483-103

Read: Steven Klepper and Kenneth L. Simons. 2000. "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 10: Exploiting organizational rigidity, and growing the firm, Thursday December 2**

Case: TheLadders, HBS case #9-908-061

Read: Clayton M. Christensen. 1997. *The Innovator's Dilemma*. Chapter 1 How Can Great firms Fail? Insights from the Hard Disk Drive Industry

Read: Thomas Eisenmann, Geoffrey Parker and Marshall W. Van Alstyne. 2006. "Strategies for two-sided markets," *Harvard Business Review* reprint series pp.1-11.

Guest speaker: Marc Cenedella, CEO TheLadders

**Class 11: Course review**

**Class 12: Final exam**