

MGMT 701: STRATEGY AND COMPETITIVE ADVANTAGE

Spring 2013

SYLLABUS

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MGMT 701 is an elective, advanced-level course in strategy. The main teaching objective of the course is to provide concepts and ideas for the tool-kit of the manager involved in the strategy process. Whereas the current course builds on the understanding of creation and appropriation of value developed in the core course, MGMT 701 considers a set of topics not explicitly covered in the core strategy course.

The study begins (Section I) with clarifying the notion of strategy used throughout the course. Then, specific directions, in which students will enhance their conception of sources of value creation, are defined (Section II). In the next section (Section III), students zoom in on several economic mechanisms of value creation. The course identifies determinants of each mechanism, suggests ways of measuring some of those determinants in business contexts, and uncovers tradeoffs among different mechanisms of value creation. The final section (Section IV) explores challenges to implementation of the value-creating mechanisms.

Your final grade for the course will involve the following components:

- class attendance and participation (20%);
- individual homework assignments (15%);
- a final paper developed in groups (15%);
- a group presentation of the paper (10%); and
- a final written exam (40%).

The multiple components of the grade are intended to ensure that students diligently prepare to various class activities developed for the achievement of the learning objectives. In order to pass the current class, students will have to make considerable commitments to all of the involved activities. Moreover, the final evaluation will consist of an individual performance of a student and a collaborative work on the group assignment. Early in the course, students will form groups for working on the final project during the semester. More information about the final project and the group formation will be provided in the first class.

Identical course policies will apply to all students. To avoid potential conflicts of interests on teams, students cannot take the current class with the Pass/Fail option. Laptops, smartphones, and other electronic devices are allowed in the classroom only in the silent mode and strictly not for texting, browsing the internet, e-mailing, or other externally focused activities. A violation of the rule for using electronic devices may result in a reduction of the score for the class participation. Individual class participation and attendance will be regularly monitored. The deadlines for submission of homework assignments and preliminary and final drafts of the paper are strict: late submissions are considered non-submissions. An individual commitment to the

group project is evaluated by peer group members. In the day of the final exam, students must be present during the class in which the exam is scheduled. If a student believes she/he has a serious reason for not taking the exam at the scheduled time, she/he must beforehand request a permission of the instructor to arrange a make-up exam in the form selected by the instructor.

Although the requirement of properly using quotes and citations from intellectual work of other people may be self-evident to most students, the course policy on the proper citation must be explicit. Copying paragraphs from magazine or newspaper articles, analyst reports, or other intellectual work of other people without properly citing the source is a serious offense. A proper citation means that, if students copy others' work word-by-word, they have to mark the citation by enclosing the copied text with quotation marks “ ” and citing the source. Even if students don't copy word-by-word, but they take someone else's idea, students have to indicate in a citation the source of that idea. The citation has to follow directly the idea in the form of a footnote or an endnote. At the end of the paper, students should list all sources that are cited in the text. As a very serious academic offense, non-proper citing can be a reason for failing the class and will lead to the review of the case by the academic review board of the University.

Please note that this syllabus is subject to change with prior announcements. Also note that overheads will be posted after each class in Canvas. The TA for the class will be soon announced and will be mainly responsible for paper projects.

I. PREVIEWS

1/10 Session 1: Course Logistics. What is Strategy? What is Competitive Advantage?

Mintzberg, Henry, Richard T. Pascale, Michael Goold, Richard P. Rumelt. 1996. "The 'Honda Effect' Revisited." *California Management Review* 38(4): 78–117.

Gavetti, Giovanni, Daniel A. Levinthal. 2004. "The Strategy Field from the Perspective of Management Science: Divergent Strands and Possible Integration" *Management Science* 50(10): 1309–1318.

Case: "Honda (A)" (9–384–049) and "Honda (B)" (9–384–050).

1/15 Session 2: A Balanced Approach to Strategy

Levinthal, Daniel A. 2011. "A Behavioral Approach to Strategy – What's the Alternative?" *Strategic Management Journal* 32(13): 1517–1523.

Sull, Donald, Kathleen M. Eisenhardt. 2012. "Simple Rules for a Complex World." *Harvard Business Review* (September): 1–8.

Ethiraj, Sendil K., Daniel Levinthal. 2009. "Hoping for A to Z While Rewarding only A: Complex Organizations and Multiple Goals." *Organization Science* 20(1): 4–21.

Complete team sign-up by 5:00pm on 1/16 via Canvas and e-mail!

II. DIRECTIONS OF IMPROVING UNDERSTANDING OF SOURCES OF VALUE

1/17 Session 3: Commitment versus Flexibility

Ghemawat, Pankaj. 1991. "Commitment." Chapter 2: pp. 13–32; Chapter 6: pp. 109–134.

Sanchez, Ron. 1995. "Strategic Flexibility in Product Competition." *Strategic Management Journal* 16(S1): 135–159.

Ghemawat, Pankaj, Patricio del Sol. 1998. Commitment versus Flexibility? *California Management Review* 40(4): 26–42.

1/22 Session 4: Commitment versus Flexibility Applied

Doz, Yves, Mikko Kosonen. 2008. "The Dynamics of Strategic Agility: Nokia's Rollercoaster Experience." *California Management Review* 50(3): 95–118.

1/24 Session 5: Flexibility and Real Options

Trigeorgis, Lenos. 1993. "Real Options and Interactions with Financial Flexibility." *Financial Management* 22(3): 202–224.

In-class exercise: valuation of real options.

Individual homework assignment: valuation of real options.

1/29 Session 6: Real Options in Management Practice

Homework assignment is due before the class. Please submit via Canvas.

Synthesis of results of the individual homework assignment. Analyses of determinant(s) of option value and the interaction of simultaneously present multiple options.

Kester, W. Carl. 1984. "Today's Options for Tomorrow's Growth." *Harvard Business Review* (March – April): 153-160.

Triantis, Alex, Adam Borison. 2001. "Real Options: State of the Practice." *Journal of Applied Corporate Finance* 14(2): 8–24.

Kogut, Bruce, Nalin Kulatilaka. 1994. "Option Thinking and Platform Investments: Investing in Opportunity." *California Management Review* 36(2): 52–71.

1/31 Session 7: Firm Resources and Competitive Advantage

Grant, Robert M. 1993. "The Resource-based Theory of Competitive Advantage: Implications for Strategy Formulation." *California Management Review* 33(3): 114–135.

Teece, D.J. 1998. "Capturing Value from Knowledge Assets: The New Economy, Markets for Know-how, and Intangible Assets." *California Management Review* 40(3): 55–79.

Case: Wal-Mart Stores Inc., 2007, in Grant, Robert M. 2008. "Cases to accompany Contemporary Strategy Analysis," 6th ed., Blackwell Publishing, pp. 57–76.

2/5 Session 8: Firm Resources and Corporate Strategy

Collis, David J., Cynthia A. Montgomery. 1998. "Creating Corporate Advantage." *Harvard Business Review* (May – June): 70–83.

Chatterjee, Sayan, Briger Wernerfelt. 1991. "The Link between Resources and Type of Diversification: Theory and Evidence." *Strategic Management Journal* 12(1): 33–48.

Penrose, Edith T. 1960. "The Growth of the Firm — A Case Study: The Hercules Powder Company." *The Business History Review* 34(1): 1–23.

III. MECHANISMS OF VALUE CREATION IN RESOURCE DEPLOYMENT

2/7 Session 9: Economies of Scale

Besanko, David, David Dranove, Mark Shanley, Scott Schaefer. 2012. "Economics of Strategy." Chapter 2: pp. 61–83.

Skinner, Wickham. 1974. "The Focused Factory." *Harvard Business Review* (May – June): 113–120.

Case: "Managing Orthopedics at Rittenhouse Medical" (9–607–152).

2/12 Session 10: Limits to Economies of Scale

Huckman, Robert S. 2009. "Are You Having Trouble Keeping Your Operations Focused?" *Harvard Business Review* (September): 1–6.

Goldhar, Joel D., Mariann Jelinek. 1983. "Plan for Economies of Scope." *Harvard Business Review* (November – December): 141–148.

Case: "Polyface: The Farm of Many Faces" (9–611–001).

2/14 Session 11: Economies of Scope

Bailey, Elizabeth, Ann. F. Friedlaender. 1982. "Market Structure and Multiproduct Industries." *Journal of Economic Literature* 20(3): 1024–1028.

Vandermerwe, Sandra, Juan Rada. 1988. "Servitization of Business: Adding Value by Adding Services." *European Management Journal* 6(4): 314–324.

Venkatesh, Shankar, Leonard L. Berry, Thomas Dotzel. 2009. "A Practical Guide to Combining Products and Services." *Harvard Business Review* (November): 95–99.

Case: "Taiwan Semiconductor Manufacturing Co.: The Semiconductor Services Company" (GS–40).

2/19 Session 12: Limits to Economies of Scope, Diseconomies of Scope (1)

Teece, David J. 1980. "Economies of Scope and the Scope of the Enterprise." *Journal of Economic Behavior and Organization* 1(3): 223–247.

Case: "Birds Eye and the U.K. Frozen Food Industry (A)" (9–792–074) and "Birds Eye and the U.K. Frozen Food Industry (B)" (9–792–078).

2/21 Session 13: Limits to Economies of Scope, Diseconomies of Scope (2)

Goold, Michael, Andrew Campbell. 1998. "Desperately Seeking Synergy." *Harvard Business Review* (September – October): 131–143.

Bryce, David J., Sidney G. Winter. 2009. "A General Interindustry Relatedness Index." *Management Science* 55(9): 1570–1585.

Case: "Louis Vuitton Moët Hennessy: In Search of Synergies in the Global Luxury Industry" (TB0151).

In-class exercise: estimation of the ease of sharing knowledge between two industries — knowledge relatedness.

Individual homework assignment: estimation of knowledge relatedness between two industries.

2/26 Session 14: Intra–temporal versus Inter–temporal Economies of Scope

Homework assignment is due before the class. Please submit via Canvas.

Synthesis of results of the individual homework assignment. Analysis of validity of the estimated knowledge relatedness.

Helfat, Constance E., Kathleen M. Eisenhardt. 2004. “Inter–temporal Economies of Scope, Organizational Modularity, and the Dynamics of Diversification.” *Strategic Management Journal* 25(13): 1217–1232.

Anand Jaideep, Harbir Singh. 1997. “Asset Redeployment, Acquisitions and Corporate Strategy in Declining Industries.” *Strategic Management Journal* 18(S1): 99–118.

Case: “Tenova: Mining for Growth in Economic Crisis” (9–610–021).

In-class exercise: estimation of intra-temporal and inter-temporal economies of scope.

Individual homework assignment: estimation of inter-temporal economies of scope.

2/28 Session 15: Interplay of Determinants of Inter–temporal Economies of Scope

Homework assignment is due before the class. please submit via Canvas.

Synthesis of results of the individual homework assignments. Analysis of what determines inter-temporal economies of scope. Generalization of the considered context based on materials distributed in-class.

Baghai, Mehrdad A., Stephen C. Coley, Ronald H. Farmer, Hugo Sarrazin. 1997. “The Growth Philosophy of Bombardier.” *The McKinsey Quarterly* 2: 4–29.

In-class exercise: inducements for redeployment of resources between two industries.

In-class exercise: estimation of the ease of redeployment of human resources between two industries — human resource relatedness.

Individual homework assignment: inducements for redeployment of resources between two industries.

Individual homework assignment: estimation of human resource relatedness between two industries.

3/5 Spring Break: No Class

3/7 Spring Break: No Class

3/12 Session 16: Implications of Economies of Scope for the Firm Scope

Homework assignment is due before the class. Please submit via Canvas.

Synthesis of results of the individual homework assignments. Analysis of validity of the estimated human resource relatedness. Analysis of the relationship between knowledge relatedness and human resource relatedness. Analysis of the relationship between inducements and obstacles for resource redeployment.

Teece, David J., Richard Rumelt, Giovanni Dosi, Sidney Winter. 1994. “Understanding Corporate Coherence: Theory and Evidence.” *Journal of Economic Behavior and Organization* 23(1): 1–30.

Levy, David T., Lawrence J. Harber. 1986. “An Advantage of the Multiproduct Firm: The Transferability of Firm-specific Capital.” *Journal of Economic Behavior and Organization* 7(3): 291–302.

In-class exercise: estimation of the development of the scope of the firm.

Individual homework assignment: estimation of the development of the scope of the firm.

3/14 Session 17: Inter-temporal Economies of Scope and Conglomerates

Homework assignment is due before the class. Please submit via Canvas.

Synthesis of results of the individual homework assignment. Analysis of what determines the scope of the firm. Generalization of the considered context based on materials distributed in-class.

Khanna, Tarun, Krishna Palepu. 1997. “Why Focused Strategies May Be Wrong for Emerging Markets.” *Harvard Business Review* (July – August): 3–10.

Case: “Empresas CAP — 1994” (9–799–019) and “Vivendi: Revitalizing a French Conglomerate (B)” (9–798–053).

3/19 Time for Research: No Class

3/21 Session 18: Specifics of Economies in Vertical Integration

- Williamson, Oliver E. 1991. "Strategizing, Economizing, and Economic Organization." *Strategic Management Journal* 12(Winter Special Issue): 75–94.
- Masten, Scott E., James W. Meehan, Edward A. Snyder. 1991. "The Costs of Organization." *Journal of Law, Economics, and Organization* 7(1): 1–25.
- Remneland, Björn, David Knights. 2012. "Transaction Cost economics and Open Innovation: Implications for Theory and Practice." *Creativity and innovation Management* 21(3): 277–289.

Case: "Arauco (A): Forward Integration or Horizontal Expansion?" (9–705–474) and "Arauco (B): "Papel" in Brazil" (9–709–416).

IV. CHALLENGES TO CAPTURING VALUE IN RESOURCE DEPLOYMENT

3/26 Session 19: Asymmetric Valuation of Resources

- Campello, Murillo, John M. Graham, Campbell R. Harvey. 2010. "The Real Effects of Financial Constraints: Evidence from a Financial Crisis." *Journal of Financial Economics* 97(3): 470–487.
- Lev, Baruch. 2004. "Sharpening the Intangibles Edge." *Harvard Business Review* (June): 1–8.
- Denrell, Jerker, Christina Fang, Sidney G. Winter. 2003. "The Economics of Strategic Opportunity." *Strategic Management Journal* 24(10): 977–990.

In-class exercise: asymmetric valuation of tangible resources.

Individual homework assignment: asymmetric valuation of tangible resources.

3/28 Session 20: Corporate Strategy and Corporate Structure

Homework assignment is due before the class. Please submit via Canvas.

Paper draft is due before the class. Please submit via Canvas.

- Chandler, Jr., Alfred D. 1962. "Chapters in the History of the American Industrial Enterprise." Chapter 2: pp. 52–113.

4/2 Session 21: Structure and Other Elements of Organizational Design

- Baldwin, Carliss Y., Kim B. Clark. "Managing in an Age of Modularity." *Harvard Business Review* (September – October): 84–93.
- Rivkin, Jan W., Nicolaj Siggelkow. 2006. "Organizing to Strategize in the Face of Interactions: Preventing Premature Lock-in." *Long Range Planning* 39(6): 591–614.

In-class exercise: organizational design.

4/4 Session 22: Core Competences and Organizational Inertia

- Prahalad, C.K., Gary Hamel. 1990. "The Core Competence of the Corporation." *Harvard Business Review* (May – June): 1–14.
- Leonard–Barton, Dorothy. 1992. "Core Capabilities and Core Rigidities: A Paradox in Managing New Product Development." *Strategic Management Journal* 13(Summer Special Issue): 111–125.
- Hall, Stephen, Dan Lovallo, Reinier Musters. 2012. "How to Put Your Money Where Your Strategy Is." *The McKinsey Quarterly* (March): 1–11.

Case: will be distributed in advance.

4/9 Time for Research: No Class

4/11 Session 23: Dynamic Capabilities to Capture Economies in Resource Deployment

- Teece, David J., Gary Pisano, Amy Shuen. 1997. "Dynamic Capabilities and Strategic Management." *Strategic Management Journal* 18(7): 509–533.
- Eisenhardt, Kathleen M., D. Charles Galunic. 2000. "Coevolving: At Last, a Way to Make Synergies Work." *Harvard Business Review* (January – February): 90–102.
- Brown, Shona L., Kathleen M. Eisenhardt. 1997. "The Art of Continuous Change: Linking Complexity Theory and Time–Paced Evolution in Relentlessly Shifting Organizations." *Administrative Science Quarterly* 42(1): 1–34.

4/16 Session 24: Wrap-Up, Preparation to the Final Exam

4/18 Session 25: Group Presentation

4/23 Session 26: Group Presentation

<i>Final paper is due by 5:00pm on 4/30. Please submit via Canvas.</i>
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