

MGMT 658: COMPETITIVE STRATEGY
Krannert Graduate School of Management
Purdue University
Spring 2004 – Module 3

Instructor:

Professor Timothy B. Foltat
KRAN 409
765-494-9252
Foltat@mgmt.purdue.edu

Class Logistics:

Time: Mondays, 2:30 – 5:30 PM
Room: RAWLS 4098A

Course Overview

This course provides a Ph.D. level survey on both seminal theory and recent developments in the economics of strategy at the business-level. We will examine contributions to the topic of competitive strategy from the following theories: 1) industrial organization, including strategic groups; 2) behavioral theory; 3) economics of organizations, including transaction cost theory, agency theory, and property rights; 4) resource based theory; 5) evolutionary economics; 6) game theory; and 7) economics of geography. Though developed from a strategy perspective, the readings and discussion will likely interest students of organizational economics, finance, sociology, organizational theory, and other related disciplines.

This doctoral seminar has four primary objectives: (1) survey the major economics-based theoretical perspectives that bear on the topic of competitive strategy; (2) develop students' skills in appraising and critiquing academic research; (3) develop students' abilities to identify original and testable research ideas; and (4) develop students' skills in presenting research ideas orally.

Course Format

The class will meet once a week. Each week will be devoted to one or more of the topics as indicated in the outline. All students will be responsible for a common set of readings. When reading a paper, scrutinize:

- the theoretical justifications provided for the research questions
- operationalization and measurement of the concepts
- data collection methods
- research methodology
- findings and interpretations
- contributions to the literature

A discussion leader will be assigned for each article. It is the responsibility of the research leader to:

- present an in-depth critique of the article

- structure and monitor discussions
- provide a type-written summary of the article in terms of major objective, justification, methodology, findings, contributions, and limitations. Turn in a hard copy and an electronic copy of the written report on the day the article is to be discussed.

ALL STUDENTS ARE EXPECTED TO BE THOROUGHLY PREPARED ON THESE ARTICLES.

Special Weekly Reports

Because of the great volume of material to be covered, on a given week I will assign one or two long reading projects to specific individuals. The project can be a research monograph or a collection of articles on a topic. These individuals are to prepare a written report. You will be given advance notice to prepare for this assignment.

Class Paper

A paper with two parts will be required for the completion of this course. The first part of the paper is to provide an in-depth review and integration of literature on a designated topic. The first part will be evaluated on the comprehensiveness of the literature review, the degree of integration and synthesis applied to the extant literature, and the thoughtfulness of the student's appraisal.

The second part of the paper is to make a theoretical contribution that goes beyond the existing literature, perhaps by presenting a novel set of hypotheses or research questions which fall out of the literature review conducted above. It should also provide specific directions for future research. This part of the paper will be evaluated on the suggestions for operationalization of the concepts, data collection methods, and the proposed use of various techniques.

I am willing to bend with the interest of the individual students and your stage of development in the program. Those of you who are interested in developing a paper for submission to various professional meetings or journals can also use this as an opportunity. The topic should fall within the broad scope of this course. I would like you to have selected a topic by the third week of class (January 30th) and come by to discuss this with me. The topic should be finalized by February 6th and turned in by March 8th. Your article should conform to the *Academy of Management Review* Style Guide. There is no page limit on this venture.

Grade allocation

Class preparation and special reports	50%
Class paper	50%

Class Materials

I will send the readings electronically one week prior to the assigned discussion date, but they are also available on JSTOR and THOR.

Week 1: Industrial Organization, Rivalry, and Firm Mobility

Required Background Reading:

- Martin, S. 2002. Advanced Industrial Economics (2nd Edition ed.). Malden, Massachusetts: Blackwell, Chapters 1, 5, and 6.
- Caves, R. E. 1998. Industrial organization and new findings on the turnover and mobility of firms. Journal of Economic Literature, 36(4): 1947-1982.

Required Articles:

- Hatten, K. J. & Schendel, D. E. 1977. Heterogeneity within an Industry - Firm Conduct in United-States Brewing Industry, 1952-71. Journal of Industrial Economics, 26(2): 97-113.
- Caves, R. E. & Porter, M. E. 1977. Entry Barriers to Mobility Barriers - Conjectural Decisions and Contrived Deterrence to New Competition. Quarterly Journal of Economics, 91(2): 241-261.
- Cool, K. & Dierickx, I. 1993. Rivalry, Strategic Groups and Firm Profitability. Strategic Management Journal, 14(1): 47-59.
- Dranove, D., Peteraf, M., & Shanley, M. 1998. Do strategic groups exist? An economic framework for analysis. Strategic Management Journal, 19(11): 1029-1044.
- Gimeno, J. 1999. Reciprocal threats in multimarket rivalry: Staking out 'spheres of influence' in the US airline industry. Strategic Management Journal, 20(2): 101-128.

Week 2: Transaction Cost Economics

Required Background Reading:

- Mahoney, J. T. 2003. Economic Foundations of Strategy. Chapter 1: Behavioral Theory of the Firm.
- Mahoney, J. T. 2003. Economic Foundations of Strategy. Chapter 2: Transaction Cost Theory.

Required Articles:

- Anderson, E. & Schmittlein, D. C. 1984. Integration of the Sales Force - an Empirical-Examination. Rand Journal of Economics, 15(3): 385-395.
- Leiblein, M. J., Reuer, J. J., & Dalsace, F. 2002. Do make or buy decisions matter? The influence of organizational governance on technological performance. Strategic Management Journal, 23(9): 817-833.
- Monteverde, K. & Teece, D. J. 1982. Supplier Switching Costs and Vertical Integration in the Automobile-Industry. Bell Journal of Economics, 13(1): 206-213.

Pisano, G. P. 1990. The Research-and-Development Boundaries of the Firm - an Empirical-Analysis. Administrative Science Quarterly, 35(1): 153-176.

Silverman, B. S. 1999. Technological resources and the direction of corporate diversification: Toward an integration of the resource-based view and transaction cost economics. Management Science, 45(8): 1109-1124.

Week 3: Agency Theory and Property Rights

Required Background Reading:

* skim Mahoney, J. T. 2003. Economic Foundations of Strategy. Chapter 3: Property Rights; Chapter 4: Agency Theory.

Mahoney, J. T. 2003. Economic Foundations of Strategy. Chapter 4: Agency Theory.

Shleifer, A. & Vishny, R. W. 1991. Takeovers in the 60s and the 80s - Evidence and Implications. Strategic Management Journal, 12: 51-59.

Required Articles:

Villalonga, B. 2004. Diversification discount or premium? New evidence from business information tracking series establishment-level data. Journal of Finance, 59(2): 475-503.

Hertzzel, M. & Smith, R. L. 1993. Market Discounts and Shareholder Gains for Placing Equity Privately. Journal of Finance, 48(2): 459-485.

Makadok, R. 2003. Doing the right thing and knowing the right thing to do: Why the whole is greater than the sum of the parts. Strategic Management Journal, 24(10): 1043-1055.

Amihud, Y. & Lev, B. 1999. Does corporate ownership structure affect its strategy towards diversification? Strategic Management Journal, 20(11): 1063-1069.

Denis, D. J., Denis, D. K., & Sarin, A. 1999. Agency theory and the influence of equity ownership structure on corporate diversification strategies. Strategic Management Journal, 20(11): 1071-1076.

Lane, P. J., Cannella, A. A., & Lubatkin, M. H. 1999. Ownership structure and corporate strategy: One question viewed from two different worlds. Strategic Management Journal, 20(11): 1077-1086.

Week 4: Resource Based Theory

Required Background Reading:

Mahoney, J. T. 2003. Economic Foundations of Strategy. pp. 237-286.

Hoopes, D. G., Madsen, T. L., & Walker, G. 2003. Guest editors' introduction to the special issue: Why is there a resource-based view? - Toward a theory of competitive heterogeneity. Strategic Management Journal, 24(10): 889-902.

Required Articles:

Cockburn, I. M., Henderson, R. M., & Stern, S. 2000. Untangling the origins of competitive advantage. Strategic Management Journal, 21(10-11): 1123-1145.

Denrell, J., Fang, C., & Winter, S. G. 2003. The economics of strategic opportunity. Strategic Management Journal, 24(10): 977-990.

Lippman, S. A. & Rumelt, R. P. 2003. The payments perspective: Micro-foundations of resource analysis. Strategic Management Journal, 24(10): 903-927.

Ray, G., Barney, J. B., & Muhanna, W. A. 2004. Capabilities, business processes, and competitive advantage: Choosing the dependent variable in empirical tests of the resource-based view. Strategic Management Journal, 25(1): 23-37.

Villalonga, B. 2003. Intangible resources, Tobin's Q, and sustainability of performance differences, Harvard Business School. Boston.

Week 5: Real Options

Required Background Reading:

Mahoney, J. T. 2003. Economic Foundations of Strategy. pp. 287-298.

Kester, W. C. 1984. Today's options for tomorrow's growth. Harvard Business Review, 62(2): 153-160.

Required Articles:

Kogut, B. 1991. Joint ventures and the option to expand and acquire. Management Science, 37(1): 19-33.

Folta, T. B. & O'Brien, J. 2004. Entry in the presence of dueling options. Strategic Management Journal, 25(2): 121-138.

Ziedonis, A. 2002. Real Options in Technology Acquisition, Wharton School Working Paper. Philadelphia.

- Adner, R. & Levinthal, D. A. 2004a. What is not a real option: Considering boundaries for the application of real options to business strategy. Academy of Management Review, 29(1): 74-85.
- Adner, R. & Levinthal, D. A. 2004b. Real options and real tradeoffs. Academy of Management Review, 29(1): 120-126.
- Kogut, B. & Kulatilaka, N. 2004. Real options pricing and organizations: The contingent risks of extended theoretical domains. Academy of Management Review, 29(1): 102-110.
- McGrath, R. G., Ferrier, W. J., & Mendelow, A. L. 2004. Real options as engines of choice and heterogeneity. Academy of Management Review, 29(1): 86-101.

Week 6: Commitment and Game Theory

Required Background Reading:

- Saloner, G., Shepard, A., & Podolny, J. M. 2001. Strategic Management. New York: John Wiley & Sons, Inc.; Appendix: Applying Game Theory to Strategic Management.

Required Articles

- Maynard Smith, J. 1978. The evolution of behavior. Scientific American, 239: 176-192.
- Camerer, C. F. 1991. Does Strategy Research Need Game-Theory. Strategic Management Journal, 12: 137-152.
- Kreps, D. M. 1990. Corporate culture and economic theory. In J. E. Alt & K. A. Shepsle (Eds.), Perspectives on Positive Political Economy. Cambridge, U.K.: Cambridge University Press.
- Lippman, S. A. & Rumelt, R. P. 2003. A bargaining perspective on resource advantage. Strategic Management Journal, 24(11): 1069-1086.
- Weber, R. A. & Camerer, C. F. 2003. Cultural conflict and merger failure: An experimental approach. Management Science, 49(4): 400-415.
- Dixit, A. K. & Nalebuff, B. J. 1991. Thinking Strategically. New York: W.W. Norton & Company.

Week 7: Economics over the Product Life Cycle and Geography

Required Background Reading:

- Krugman, P. 1991. Increasing Returns and Economic-Geography. Journal of Political Economy, 99(3): 483-499.
- Sorenson, O. and Baum, J. 2002. Geography and Strategy: The strategic management of space and place. In J.A.C. Baum O. Sorenson (Eds.) Geography and Strategy, Advances in Strategic Management, Volume 20, Elsevier.

Required Articles:

- Jaffe, A. B., Trajtenberg, M., & Henderson, R. 1993. Geographic Localization of Knowledge Spillovers As Evidenced By Patent Citations. Quarterly Journal of Economics, 108(3): 577-598.
- Pouder, R. & St. John, C. 1996. Hot spots and blind spots: Geographical clusters of firms and innovation. Academy of Management Review, 21(4): 1192-1225.
- Shaver, J. M. & Flyer, F. 2000. Agglomeration economies, firm heterogeneity, and foreign direct investment in the United States. Strategic Management Journal, 21(12): 1175-1193.
- Agarwal, R., Sarkar, M., & Echamebadi, R. 2002. The conditioning effect of time on firm survival: An industry life cycle approach. Academy of Management Journal, 45(5): 971-994.
- Rosenkopf, L. & Almeida, P. 2003. Overcoming local search through alliances and mobility. Management Science, 49(6): 751-766.

Week 8: Student Presentations