

## Strategic Management and Economic Theories of the Firm

2009 Ph.D. Seminar – LUISS Guido Carli

Instructor: Timothy B. Folta ([foltat@purdue.edu](mailto:foltat@purdue.edu))

### Course Overview

This course provides a Ph.D. level survey on both seminal theory and recent developments in the economics of strategy. We will examine contributions to the topic of strategic management from the following theories: 1) industrial organization, including strategic groups; 2) organizational economics, including transaction cost theory and agency theory; 3) economics of geography; and 4) real options. Though developed from a strategy perspective, the readings and discussion will likely interest students of organizational economics, finance, 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 on the following days:

Week 1		Week 2	
18 May	Monday, 9:00 – 12:00	25 May	Monday, 9:00 – 12:00
19 May	Tuesday, 9:00 – 12:00	26 May	Tuesday, 9:00 – 12:00
20 May	Wednesday, 9:00 – 11:00	27 May	Wednesday, 9:00 – 11:00
21 May	Thursday, 9:00 – 11:00	28 May	Thursday, 9:00 – 11:00

Each day 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:

- A. The motivation
  - a. Is the research question interesting?
  - b. Is the research question important?
  - c. Have the authors justified why the question has been inadequately addressed in prior literature?
- B. The literature review
  - a. Do they review the literature relevant to the research question?
  - b. Do they draw helpful inferences from this literature review?
- C. The theory
  - a. Is it clear which theory or theories the authors draw from to develop their hypotheses?
  - b. Are the theories correctly characterized by the authors?
- D. The Data
  - a. Is the context of the data appropriate for the research question?
    - i. Appropriate choice of industry, country, etc.
  - b. Are the data collection efforts unbiased?
  - c. Does the data offer adequate control variables?
  - d. Are the variables measured in a reasonable way?
    - i. Consistent with theory
    - ii. Follows precedent
- E. The Methods
  - a. Are the methods consistent with the theory?
  - b. Do they control for potential bias?
  - c. Are they sophisticated enough?
  - d. Do they demonstrate economic importance?
- F. The discussion

- a. Does it correctly reconcile the theory and evidence found in the paper?
- b. Does it place the paper in the context of the larger literature?
- c. Does it identify limitations and opportunities for future research?

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. A critique is not a summary, but a scholarly appraisal of the items identified above, with special emphasis on the unique qualities that enhance or mitigate the contribution of the paper.
- 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.**

### **Class Paper**

A paper is required for the completion of this course. You should choose a topic that interests you (e.g., alliances, acquisitions, entry, exit, investment in R&D, etc.) and match the topic with one of the theories we cover in this seminar. You are to develop a theoretical paper, much like what would be in the *Academy of Management Review* - with theoretical propositions. Please consider at least 10 papers beyond the scope of the class. You 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 your appraisal.

The paper is to be sent to me in electronic format by June 30.

### **Grade allocation**

Class preparation	50%
Class paper	50%

### **Background Reading (to be completed prior to our first meeting):**

- Rumelt, R.P.; Schendel, D.; & Teece, D.J. (1991). 'Strategic management and economics'. *Strategic Management Journal*, 12: 5-29.
- Williamson, O. (1991). 'Comparative economic organizational: An analysis of discrete structural alternatives. *Administrative Science Quarterly*, 36(2): 269-296.
- Fama, E.F. & Jensen, M. 1983. 'The separation of ownership and control.' *Journal of Law and Economics*, 26 : 301-325.
- Eisenhardt, K.M. (1989). 'Agency theory: An assessment and review.' *Academy of Management Review*, 14(1): 57-74.
- Arrow K.J. 1985. The economics of agency. In J.W. Pratt; R.J. Zeckhauser (Eds.), *Principals and agents: The structure of business*: 37-51. Harvard Business School Press: Boston, MA.
- Jensen M.C.; Meckling W. (1976). 'Theory of the firm: Managerial behavior, agency costs, and capital structure.' *Journal of Financial Economics* 3: 305-360.
- Myers S.C. 1977. 'Determinants of corporate borrowing.' *Journal of Financial Economics* 5(2): 147-175.
- Pfeffer, J. (2007). 'A modest proposal: How we might change the process and product of managerial research.' *Academy of Management Journal*, 50(6): 1334-1345.
- 'Business schools and research: Practically irrelevant?' *The Economist*, August 28, 2007.

### **(18/5) – Introduction & the Research Process**

- Rumelt, R.P.; Schendel, D.; & Teece, D.J. (1994). Fundamental Issues in Strategy, Chapter 1, Harvard Business School Press: Boston.
- McGahan, A. & Porter, M.E. 1997. How much does industry matter, really? *Strategic Management Journal*, 18 (Special Issue Supplement): 15-30.
- Montgomery, C.A., Wernerfelt, B., & Balakrishnan, S. 1989. Strategy content and the research process: A critique and commentary. *Strategic Management Journal*, 10(2): 189-197.
- Seth, A., Zinkhan, G., Montgomery, C.A., Wernerfelt, B., & Balakrishnan, S. 1991. Strategy and the research process: A comment; Reply. *Strategic Management Journal*, 12(1): 75-84.

### **(19/5) – Strategic Management and Industrial Organization**

- 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.
- Wernerfelt, B. & Montgomery, C.A. (1986). 'What is an attractive industry?' *Management Science*. 32(10): 1223-1230.
- Gimeno J. & Woo, C.Y. 1996. Hypercompetition in a multimarket environment: The role of strategic similarity and multimarket contact in competitive de-escalation. *Organization Science*, 7(3): 322-341.
- Ghemawat, P., Thomas, C. (2008). Strategic interaction across countries and multinational agglomération : An application to the cément industry. *Management Science*, 54(12) : 1980-96.

### **(20/5) – Transaction Cost Theory**

- Monteverde, K. & Teece, D.J. 1982. 'Supplier switching costs and vertical integration in the automobile industry.' *Bell Journal of Economics*, 13:206-213.
- Masten, S.E. ; Meehan Jr., J.W. ; & Snyder, E.A. (1991). 'The cost of organization.' *Journal of Law, Economics and Organization*, 7(1): 1-25.

### **(21/2) – Transaction Cost Theory**

- Pisano, G. P. (1990). 'The Research-and-Development Boundaries of the Firm - an Empirical-Analysis.' *Administrative Science Quarterly*, 35(1): 153-176.
- Argyres, N. & Bigelow, L. (2007). 'Does transaction misalignment matter for firm survival at all stages of the industry life cycle?' *Management Science*, 53(8): 1332-1344.

### **(25/5) – Agency Theory**

- Morck R, Shleifer A, Vishny RW. 1990. Do Managerial Objectives Drive Bad Acquisitions. *Journal of Finance* 45(1): 31-48.
- Hayward, M.L.A. & Hambrick, D.C. (1997). 'Explaining the premiums paid for large acquisitions : Evidence of CEO hubris.' *Administrative Science Quarterly*, 42(1) : 103-127.
- Mitsuhashi, H., Shane, S., & Sine, W.D. (2008). Organizational governance form in franchising: Efficient contracting or organizational momentum? *Strategic Management Journal*, 29(10): 1127-1136.

**(26/5) – Agency Theory**

- Demsetz, H. & Lehn, K. (1985). ‘The structure of corporate ownership: Causes and consequences.’ *The Journal of Political Economy*, 93(6): 1155-1177.
- Stuart, T.E., Hoang, H., & Hybels, R.C. (1999). Interorganizational endorsements and the performance of entrepreneurial ventures. *Administrative Science Quarterly*, 44(2): 314-349.
- Villalonga, B. (2004). “Diversification discount or premium? New evidence from business information tracking series establishment-level data.’ *Journal of Finance*, 59(2): 475-503.

**(27/5) – Geography and Firm Strategy**

- 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.
- 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.

**(28/5) - Real Options**

- 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.

## About Your Professor



I am an Associate Professor Management at Purdue University's Krannert School of Management and a Visiting Professor at EM Lyon Business School in Lyon France and at LUISS University in Rome. I have taught courses in strategy or entrepreneurship at Krannert, and at various schools in Europe and Asia. I am also Director of BIOMEDSHIP, a program designed to study and provide leadership in biomedical entrepreneurship and innovation.

My research focuses on determinants of performance, entry, and survival of entrepreneurial firms; the management of strategy under uncertainty; and firm entry and exit. The medical device and biotechnology industries have been the focus of much of this research. I have published in *Administrative Science Quarterly*, *Journal of Economic Behavior and Organization*, *Journal of Business Venturing*, *Journal of Management*, *Managerial and*

*Decision Economics*, *Strategic Management Journal*, *Industrial and Corporate Change*, *Journal of Management Studies*, and elsewhere. I received two "Best Paper" Awards in the Academy of Management: Business Policy and Strategy Division (1994), and Entrepreneurship Division (1992), and another Best Paper Award from the Small Business Administration. I am on the editorial boards for the *Strategic Management Journal*, *Strategic Entrepreneurship Journal*, and the *Journal of Business Venturing*, and review for a number of other journals.

When I am not teaching or doing research, I have served the broader academic community in several capacities, including as a member of the Executive Committee for the BPS Division (2003-2005), the Chair for the BPS Doctoral Consortium in 2004 & 2005, and past member of the Research Committee for the BPS Division. Locally, I am board member of the West Lafayette School Board Foundation. I also try to keep active physically by running, playing basketball, lifting weights, skiing, biking, or playing with my four children. We live in West Lafayette.

I look forward to seeing you in Rome.

Best Regards,

*Tim*

Professor Timothy B. Folta