



**Econ 5180: Strategy and Organization**  
Spring 2019 Syllabus  
(Tentative)

Department of Economics  
Business School  
HKUST

Xinyu Hua

**Time and Venue:**

Time: 9:00 – 12:30, Tuesdays, Jan. 29 – Mar. 26 (No class on Feb 5 and Mar 19)  
9:00 – 12:30, Sunday, Mar. 10  
Venue: LSK 2001

**Instructor:**

Xinyu Hua ( [xyhua@ust.hk](mailto:xyhua@ust.hk) ; 2358-7609; LSK Room 6076)  
**Email is always a great way to reach me.**

**Office Hours:** By appointment

**Course Web Site:** [Canvas.ust.hk](http://Canvas.ust.hk)

**Course Description and Learning Goals**

This course uses economic analysis to examine the design of organizations, and the relationship between organizational structure and corporate strategy. The first half of the course focuses on relationships within the firm. Topics in this first half include agency problem and incentive pay, decision power and divisional relationship, organization structure, internal labor market and human capital. The second half of the course focuses on the boundaries and market relationships of the firm. The topics include conglomerate diversification, horizontal merger, vertical integration, and post-merger integration. The learning objectives include:

- Use tools, concepts, and theories from microeconomics and industrial organization in analyzing organization design and management.

- Identify the linkage between organization structure and industry environment.
- Evaluate different strategic choices on organization scope, such as horizontal mergers, vertical integration, and conglomerate diversification, and their impacts on firms' decision-making.
- Effectively communicate economic intuition about organization strategies to people in academia and in private sectors.

### **Brief Course Outline and Pre-Readings**

The table below gives an approximate outline of the course. Readings can be found on the course site: [canvas.ust.hk](http://canvas.ust.hk)

	Topic	Reading and preparation before class
Day 1 (Jan 29)	Principal-Agent Framework <b>Incentive and Decision Right</b>	Case on “Arck Systems”
Day 2 (Feb 12)	<b>Incentive and Decision Right</b> (Multi-Tasks) (Multi-Agents, Divisional Relationship)	Case on “Perelson-Winer” Mini-Case on “Tru-Fit Parts”
Day 3 (Feb 19)	<b>Organization Structure</b>	<b>Cases on “Alibaba Group” and “P&amp;G Organization”</b> <b>Case Flash Forward on “P&amp;G Organization”</b> <b>First Assignment Due: Case analysis and presentation</b>
Day 4 (Feb 26)	<b>Internal Labor Market</b> <b>Conglomerate Diversification</b> (Internal Capital Market)	Case on “Danaher Corp”
Day 5 (Mar 5)	<b>Horizontal Merger</b> and Acquisition	Case on “Tokyo Electron” Optional Case on “Coca-Cola and Huiyuan” (Not Required)
Day 6 (Mar 10)	<b>Post-Merger Integration</b> <b>Vertical Relationship I:</b> Vertical Integration & Market	Case on “Philips-Indal: The Deal from Heaven?” Case on “UNIQLO” (pages 1-8 only) <b>Second Assignment Due</b>
Day 7 (Mar 12)	<b>Vertical Relationship II:</b> Vertical Integration & Hold-up	Case on “Pizza Hut”
Day 8 (Mar 26)	Exam	

### **Study Groups and Case Study Method**

**Each group should comprise of no fewer than four but no more than six people.** The groups are responsible for working on the cases and the assignments.

The approach toward teaching and learning strategy and organization is primarily inductive. That is, you will learn many concepts and topics outlined above largely through cases, examples and some simple models – this is the essence of **the case study method**. The goal is to carefully study specific business situations and decisions with the goal of extracting broader principles, which will then be available to you in a wide variety of managerial contexts.

Good cases are necessarily complex and ambiguous. In preparing for case discussions, you may find sorting through this complexity and ambiguity to be frustrating. The problems presented in the case discussion may not have one correct

answer. However, there will generally be a set of insights and solutions which are better than others. And it is in working through the messy details to find these insights and solutions – both in your own preparation and in class discussion – that the concepts and principles introduced in the readings and lectures will come alive and be enriched for you.

**For a case discussion to be a valuable learning experience, it is essential that you come prepared to discuss the cases.** Finally, I ask that you deal with the cases as you find them; do not seek outside or post-case data on the firm or the industry.

### **How Will You Be Graded?**

**Please note that we will follow the attendance policy used by the MBA program: if you miss two meetings, your grade will be reduced (e.g. from A- to B+), and if you miss more than two meetings, you will have to withdraw from the class.**

The grade is made up of four components:

- 1. Final Exam (50%):** The final will be an in-class exam on **Mar 26**. It will be a combination of a few mini-case questions and quantitative questions. It is possible that there will be questions about the cases we discussed in class.
- 2. The First Group Assignment (15%):** Some groups will submit written analysis on “Alibaba Group” and the other groups will do so on “P&G Organization” on **Feb 19**. We will have random draws in Week 1. The report should be in PowerPoint format. **During the class, some groups will be selected to make a 20-min presentation.**
- 3. The Second Group Assignment (15%):** All groups will submit answers to a few questions on **Mar 10**. Detailed instructions will be given later.
- 4. Class Contribution (20%):** Attendance, preparation, and participation are essential in this class, as in any class based on the case method. Obviously, you cannot participate if you are not present, so absences without legitimate excuses will lead to a reduced grade as mentioned above. Learning opportunities are maximized when students are actively engaged in class discussion. Active engagement means that you’re *listening carefully* to the comments of other students and seeking opportunities to make comments that move discussion forward.

Class contribution will be evaluated primarily on (1) the effort and incentives to prepare and to participate in class discussion, and (2) the evaluation of content based on the following:

- Relevance: Are your comments related to the case and to the comments of others?
- Advancement: Does your comment move the class discussion forward?
- Fact-Based: Have you used specific data from the case, from readings, or from personal experience to support the assertions that you are making?
- Logical: Is your reasoning logical? Do you use economic concepts correctly?

### **What Materials Will We Use?**

The key materials are the lecture notes, cases, and additional readings, to be uploaded on the course site. **Due to copyright, you should not distribute these materials outside our class for any education or business purpose.**

The textbook for reference (Not Required) is The Economics of Strategy, 7<sup>th</sup> Edition, by David Besanko, David Dranove, Mark Shanley, and Scott Schaefer (listed as BDSS below), published by Wiley. Other editions of the book are fine as well.

### **HKUST Honor Code and Classroom Etiquette**

The HKUST Academic Integrity and Honor Code apply to this course. In particular, the assignments must be strictly your group's original work. And you should not get any course material from the classes in previous years.

**Students are expected to arrive for class on time and the instructor will start the class according to schedule.** Students should demonstrate respect for the instructor and fellow students during the class period. **Please try to avoid side conversations when your classmates raise questions or give comments.** You are welcome to bring your laptop or ipad to class. However, you may not engage in distracting behavior such as surfing the Web or instant-messaging.

## **Course Outline**

This detailed course structure is designed to help you organize what you learn into a coherent framework. *However, it is important to recognize upfront that this class cannot be as perfectly organized as the outline suggests.* This is not accounting or statistics which begin with core, universally accepted principles, and then build to harder problems and applications. Instead, strategy is complicated throughout, and we may adjust the detailed topics or learn new tools throughout the course to answer new questions that arise.

### **Optional Review Readings:**

- “Economics Review for Strategy”, available online.

### **Jan 29:**

- Introduction**
- Principal-Agent Relationship**
- Incentive Design and Decision Right**

Mini-Case: *Arck Systems* (HBS)

Reading: BDSS, Chapter 12

### **Feb 12:**

a) **Incentive Design and Decision Right (Multi-Task and Multi-Agent)**

Case: *Perelson-Weiner* (HBS)

Mini-Case: *Tru-Fit Parts* (Crimson Group)

Reading: BDSS, Chapter 12 and Chapter 14

**Feb 19:**

a) **Organization Structure**

Cases: *Alibaba Group* (HBS)

*P&G Organization* (HBS)

Reading: BDSS, Chapter 13

**Feb 26:**

a) **Internal Labor Market** (Dynamic Incentives)

Reading: BDSS, Chapter 12

b) **Conglomerate Diversification** (Internal Capital Market)

Case: *Danaher Corp* (HBS)

Reading: BDSS, Chapter 2

**Mar 5:**

a) **Horizontal Merger and Acquisition**

Case: *Tokyo Electron* (Ivey)

Optional Case: *Coca-Cola and Huiyuan* (HKU)

Reading: BDSS, Chapter 2

**Mar 10:**

a) **Post-Merger Integration**

Case: *Philips-Indal: The Deal from Heaven?* (Ivey)

Reading: BDSS, Chapter 4

b) **Vertical Relationship I: Vertical Integration and Market**

Case: *UNIQLO* (HKU), pages 1-8 only

Reading: BDSS, Chapter 3

**Mar 12:**

a) **Vertical Relationship II: Vertical Integration and Holdup**

Case: *Pizza Hut* (HBS)

Reading: BDSS, Chapter 3