



Econ 5180: Strategy and Organization
Spring 2021 Syllabus
(Tentative)

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HKUST

Time and Venue:

Time: 9:30 – 13:00, Tuesdays, Feb 2 – Mar 23 (Exam on Mar 23)

Venue: LSK 2001

Zoom Meeting ID: 511 915 7346

Zoom Meeting Password: econ5180xh

Instructor:

Xinyu Hua (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

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.

Study Groups and Case Study Method

Each group should comprise of no fewer than three but no more than six people. You are encouraged to form a group with members from different programs.

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 (55%):** The final will be an in-class exam on **Mar 23**. It will be a combination of a few mini-case questions and quantitative questions.
- 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 23**. We will have random draws in Week 2. The report should be in PowerPoint format. **During the class, some groups will be selected to make a 15-min presentation.**

3. The Second Group Assignment (15%): All groups will submit answers to a few questions on **Mar 9**. Detailed instructions will be given later.

4. Class Contribution (15%): 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 on (1) the effort and incentives to prepare and to participate in class discussion, and (2) the evaluation of content based on:

- **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, 7th 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 group assignments must be strictly your group's original work and the individual assignment must be your original work. And you should not get any course material from the classes in previous years.

Students are expected to join the 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.

Anyone attending the class online should turn on video/webcam and mute your mic (unless you are called to share insights or questions during class discussions). We will make arrangements so that online students will have opportunities to contribute to class discussions: you can use the "raise hand" function on Zoom and then our TA or I may call your name for sharing. Please be patient if there are technical/internet problems or if you are not called due to time constraints.

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. **Readings in italic are not required.**

	Topic	Reading and preparation before class
Day 1 (Feb 2)	Principal-Agent Framework Incentive and Decision Right	Mini-Case on “Arck Systems” <i>Optional: BDSS, Chapter 12</i>
Day 2 (Feb 9)	Incentive and Decision Right (Multi-Tasks) (Multi-Agents, Divisional Relationship)	Case on “Aperture Investors” Mini-Case on “Tru Fit Parts” <i>Optional: BDSS, Chapter 12 and 14</i>
Day 3 (Feb 16)	Internal Labor Market Conglomerate Diversification (Internal Capital Market)	Case on “Danaher Corporation ”
Day 4 (Feb 23)	Organization Structure	Cases and Updates on “Alibaba” and “P&G Organization” First Assignment Due: Case analysis and presentation <i>Optional: BDSS, Chapter 13</i>
Day 5 (Mar 2)	Horizontal Merger I: Strategic Analysis	Mini-Case on “Pfizer and the Pharmaceutical Industry ” <i>Optional: BDSS, Chapter 2</i>
Day 6 (Mar 9)	Horizontal Merger II: Post-Merger Integration Vertical Relationship I: Integration & Market	Case on “Philips-Indal: The Deal from Heaven?” Case on “UNIQLO” (pages 1-8 only) Second Assignment Due <i>Optional: BDSS, Chapter 3</i>
Day 7 (Mar 16)	Vertical Relationship II: Hold-up	Case on “Ferns N Petals” <i>Optional: BDSS, Chapter 3</i>
Day 8 (Mar 23)	Exam	

Remark 1: You are encouraged to read up on the background note “**Economics Review for Strategy**” (available on the course website).

Remark 2: In each week (except for week 3), the estimated time for reading the assigned case and making preparations is about 2 hours. In Week 4, the estimated time for Group Assignment 1 (including reading the cases and discussing with teammates) is about 3-5 hours. These estimations are only for reference.