

## **BA591. Strategy I and II**

**Syllabus version: 3 September 2009**

The first year core strategy sequence is designed to introduce students to the strategy literature and the research approaches that strategy research uses.

- We will discuss the nature of scientific thought and inquiry, particularly as it applies to the social sciences.
- We will explore how to frame a research problem and develop and apply theory, including both the development of mathematical models and the formulation of formal hypotheses.
- We will learn about various empirical approaches and focus on general areas of concern such as measurement, selection, and endogeneity.
- We will do all this while reading and critiquing major branches and works within the strategy literature.
- Finally, we will provide regular opportunities for students to develop and present research ideas.

The seminar will meet every other Monday at 11:00am in both the Fall and Spring semesters. The course is designed to be taken as a sequence and students are expected to enroll in both the Fall and the Spring. The faculty for the course are Will Mitchell ([willm@duke.edu](mailto:willm@duke.edu)) and Charles Williams ([charlesw@duke.edu](mailto:charlesw@duke.edu)). The course web-site is:

[http://faculty.fuqua.duke.edu/~charlesw/s591/Strategy591\\_2009\\_2010.htm](http://faculty.fuqua.duke.edu/~charlesw/s591/Strategy591_2009_2010.htm)

### **Course requirements**

- We expect you to attend each class, prepare assigned readings, and be prepared to discuss the readings.
- We will ask you to make regular presentations of your research ideas. Once the joint sessions with Bocconi begin, classes are organized as debates where two teams argue in favor of alternative propositions. We will regularly ask you to be part of one of these themes and prepare presentations to argue for your proposition.
- You will complete and submit a research paper by the end of the Spring term. The research paper will include identifying a focal question, providing a relevant literature review, developing logical hypotheses, and conducting at least a limited empirical exploration of the hypotheses.

## List of Topics

### Fall 2009 – Spring 2010

1	Sep 14 <sup>th</sup>	Introduction to Strategy
		Research Methods
2	Sep 28 <sup>th</sup>	Philosophy of (Social) Science
3	Oct 19 <sup>th</sup>	Strategy Theory Development
4	Nov 2 <sup>nd</sup>	Strategy Research Design
5	Nov 16 <sup>th</sup>	Strategy Data Collection
		Major Theoretical Perspectives
6	Nov 30 <sup>th</sup>	Industrial Organization & Structure (SCP)
7	Dec 14 <sup>th</sup>	Rivalry & Competitive Dynamics (Game Theory)
8	Jan 25 <sup>th</sup>	Firm Heterogeneity & Ricardian Rents (RBV)
9	Feb 8 <sup>th</sup>	Boundaries of the firm
10	Feb 22 <sup>nd</sup>	Acquisitions and Alliances
11	Mar 8 <sup>th</sup>	Cognition and strategy
12	Mar 22 <sup>nd</sup>	Strategy in Practice
13	April 12 <sup>th</sup>	Student Presentations
14	April 26 <sup>th</sup>	Student Presentations

## **Annotated Syllabus**

“Babbie” = Earl Babbie, *The Practice of Social Research*, 12<sup>th</sup> edition, Wadsworth, 2009 (or an earlier edition, if you find a cheap copy – the paradigm has not yet shifted).

Note: We will add readings as the term progresses, in order to build on the ongoing discussion. Where possible, we will make the readings available via the course website.

### **1. Introduction to Strategy**

An introduction to the history and development of the field of strategy.

- We will tackle several broad questions such as: What is strategy? What are the major themes and questions of strategy?
- We will discuss the disciplinary foundations of strategy.
- We will also take some time discussing some earlier works that have been influential in the development of the field.
- Finally, we will introduce the primary institutions (e.g. conferences, journals) supporting the strategy field.
  
- Readings (read and be prepared to discuss each of these readings):
  - Rumelt, Schendel, & Teece (RST). 1991 (SMJ). Strategic management and economics
  - RST, Chapter 1. Fundamental Issues in Strategy
  - Rumelt, 1991 (SMJ). How Much Does Industry Matter?
  - McGahan & Porter, 1997 (SMJ). How Much Does Industry Matter, Really?
  
- Foundational Works (each student will be assigned one to read):
  - Chandler, Alfred
  - Richard Cyert & James March
  - Penrose, Edith
  - Mintzberg, Henry
  - Andrews, Kenneth
  - Barnard, Chester
- Approaches to research: “Red state” versus “Blue state” papers

### **2. Philosophy of (Social) Science**

**Topics covered in readings and discussion:** What is science? The scientific method. Epistemology, causality, and the “truthfulness” of theory. The challenge of social science. Kuhn/Popper.

- Babbie: Chapter 1
- Excerpts from “The Structure of Scientific Revolutions” - Thomas S. Kuhn
- Excerpts from “The Logic of Scientific Discovery” - Karl Popper
- Bill McKelvey: excerpt from “Complexity Theory in Organization Science: Seizing the Promise or Becoming a Fad?” *Emergence* v.1 n.1 1999.

### **Starting point discussion questions to consider during the readings**

1. What is (social) science?
2. If reality is at least partly socially constructed, what are the implications for those of us who study social phenomena?
3. What are common errors in human inquiry? Can you find examples in the public media?
4. What are the relative strengths and weaknesses of deductive and inductive reasoning?
5. What are the relative strengths and weaknesses of positive and normative research?
6. What is a theory? What does it mean logically to formalize a theory? What purposes does this serve?
7. How do you evaluate a theory relative to competing theories?
8. What the strengths and weaknesses of falsification as the primary test of theories?
9. What is a paradigm? What are its elements? What role do paradigms play for working researchers?
10. Evaluate Kuhn's argument concerning how theories arise.
11. How does McKelvey's division of scientific labor into theory-model validity and model-data validity help save the goals of science from the death of positivism?

**Proto-research presentations:** Each student will make a 5-10 minute presentation of a "red state" approach to a research question that interests her.

### **3. Theory Development**

a. **Readings topics:** Where do good questions come from? hypothesis testing, verbal explication and box plots, mathematical models, game theoretic models, computational models, equilibrium analysis versus dynamic models, analytical tractability versus computational methods, relationship with empirical models

- Babbie: Chapters 2 & 3
- Singleton and Straights – Chapter 3 – The logic of scientific reasoning
- Arthur Koestler "The case of the midwife toad"

*Supplements on Academic Writing:*

- Hal Varian 1994, How to Write an Economic Model (book chapter)
- Writing Style (Mitchell 2007)
- Linda Johanson, "Sitting in Your Reader's Chair: Attending to Your Academic Sensemakers," JMI v.16, n.3, 2007.
- Siggelkow, N. (2007). Persuasion with case studies. *Academy of Management Journal*, 50(1), 20.

b. **Academic writing:** Please review the posted articles about approaches to academic writing

c. **Proto-research presentations:** Each student will make a 5-10 minute presentation of a "blue state" approach to last week's research question.

#### **4. Research Design**

Topics covered: Experiments and natural experiments. Quasi experiments. Qualitative methods: case studies, ethnography, and historical analysis. Summary statistics, correlations, and anova. Multivariate regression and test statistics. Endogeneity and self-selection.

- Babbie: Chapters 4 to 7

#### **5. Data Collection**

Topics covered: archival data, surveys, lab experiments, coding

- Babbie: Chapters 8 to 12
- Example papers: The web-site includes example papers – please focus on the data collection aspects of the papers, together with how data collection interacts with the framing and analysis.

#### **6. Industrial Organization & Structure**

An introduction to industrial organization economics in general and the Bain IO model of industry structure in particular. We compare profitability in efficient markets with that of monopoly. We develop basic models of competition under oligopoly. We will then turn our attention to barriers to entry and monopoly rents paying particular attention to Porter's use of industrial organization as a model for business strategy.

Readings:

- Caves & Porter. 1977. From Entry Barriers to Mobility Barriers. QJE.
- Caves. 1980. Industrial Organization, Corporate Strategy, and Structure. JEL
- Porter. 1981. Contributions of IO to Strategic Management. AMR
- Porter Competitive Advantage 1985 Chapter 1
- Sutton, J. 1991. Sunk Costs and Market Structure.
- Sharon Oster. 1994. Modern Competitive Analysis. Chapter 2.
- Tirole. 1993. Theory of Industrial Organization. Part 1 & Part 2
- Sutton, J. 1991. Sunk Costs and Market Structure.

#### **7. Rivalry & Competitive Dynamics**

An introduction to game theory and the use of game theory in strategy. Different game types and the concept of Nash equilibrium will be introduced. Using game theory as a basis, we will discuss issues of rivalry such as competitive pricing and strategy such as advertising.

Readings:

- Schelling. 1960. The Strategy of Conflict.
- Saloner. 1994. Game Theory and Strategic Management. In Fundamental Issues in Strategy.

- Camerer. 1991. Does Strategy Research Need Game Theory? SMJ
- Breshnahan. 1987. Competition and Collusion in the American Automobile Industry. JIO.

## **8. Firm Heterogeneity and Ricardian Rents**

An introduction to the resource-based view of the firm. We will ask how do firms differ? We will discuss what types of firm assets are likely to provide Ricardian rents. We will highlight the importance of information asymmetries in generating imperfect factor markets. In particular, we discuss the value of intangible assets such as knowledge and capabilities. We also introduce the notion of complementarities as a way of thinking about such rents.

Readings:

- Lippman & Rumelt. 1982. Uncertain Imitability. Rand.
- Wernerfelt. 1984. A Resource-Based View of the Firm. SMJ.
- Barney. 1986. Strategic Factor Markets. MS.
- Dierick & Cool. 1989. Asset Stock Accumulation. MS.
- Prahalad & Hamel. 1990. The Core Competence of the Corporation. HBR.
- Milgrom & Roberts. 1990. The Economics of Modern Manufacturing. AER.
- Peteraf. 1993. The Cornerstones of Competitive Advantage. SMJ.
- Amit & Schoemaker. 1993. Strategic Assets & Organizational Rents. SMJ
- Lippman & Rumelt. 2003. The Payments Perspective: Micro-Foundations of Resource Analysis. SMJ\*\*
- Lenox, Rockart, and Lewin, 2006. Interdependency, Competition, and the Distribution of Firm and Industry Profits. MS\*\*

## **9 . The Boundaries of the Firm**

An introduction to topics in corporate strategy. We introduce transaction cost economics and agency theory as two ways to think about the boundaries of the firm. We will compare and contrast the Berkeley perspective on transactions costs with the Cambridge perspective. We will then explore the debate transaction costs vs. capabilities explanations of the boundaries of the firm. We will tackle topics such as diversification, vertical integration, and network forms of organization such as alliances and joint ventures.

Readings:

- Coase. 1937. The Nature of the Firm. Economica.
- Alchian & Demsetz. 1972. Production, Information Costs, and Economic Organization. AER.
- Monteverde & Teece. 1982. Supplier Switching Costs and Vertical Integration. Bell Journal (now Rand)
- Hart & Moore. 1990. Property Rights and the Nature of the Firm. JPE.
- Holmstrom & Milgrom. 1994. The Firm as an Incentive System. AER.

- Klein, Crawford and Alchian. 1978. Vertical Integration, Appropriable Rents and the Competitive Contracting Process. *Journal of Law and Economics* 21: 403
- Helper, MacDuffie and Sabel. 2000. Pragmatic collaborations: Advancing knowledge while controlling opportunism. *Industrial and Corporate Change* 9(3)
- Madhok, A. (2002). Reassessing the fundamentals and beyond: Ronald Coase, the transaction cost and resource-based theories of the firm and the institutional structure of production. *Strategic Management Journal*, 23(6), 535.
- Jacobides, M. G., & Winter, S. G. (2005). The co-evolution of capabilities and transaction costs: Explaining the institutional structure of production. *Strategic Management Journal*, 26(5), 395-413.
- \*Brusoni, S., Prencipe A. and Pavitt K. 2001. Knowledge specialisation, organisational coupling, and the boundaries of the firm: why do firms know more than they make? *Administrative Science Quarterly*, 46(4), 597–621.
- Arora, A., Fosfuri, A., and Gambardella, A., 2001, “Markets for Technology and their Implications for Corporate Strategy”, *Industrial and Corporate Change*, Vol.10 (2), pp.417-449.
- \*Henderson R. and Clark K. B. 1990. Architectural innovations: the reconfiguration of existing product technologies and failure of established firms. *Administrative Science Quarterly*. 35: 9-30.
- Excerpts from Clark & Baldwin. 2000. *Design Rules: the Power of Modularity*.

Alternative propositions:

1. Those sustaining transaction costs economics or property rights explanations of firms boundaries are victims of the elegance of those theories – while they seem powerful tools, they can explain firm boundaries only under very restrictive (and uninteresting) conditions. By contrast, competencies explanations are much more powerful explanatory tools in a world in which innovation plays a paramount role.
2. Competence and problem-solving explanations of firm boundaries are ad-hoc explanations, built on specific cases. Those sustaining these theories have as yet been unable to provide sufficient generalizations and formalizations to make their explanations convincing on a theoretical level. By contrast, transaction cost and property rights explanations offer a general framework that, suitably adapted, explains firm’s choices about their boundaries in most cases.

## 10. Growth through Acquisitions and Alliance

XX These Readings are to be Revised & ReducedXX

Readings:

*Internal v. External Sourcing*

- Laurence Capron and Will Mitchell. 2008. Selection capability: How capability gaps and internal social frictions affect internal and external strategic renewal, *Organization Science*, forthcoming.
- Anita McGahan, Will Mitchell. 2003. Editorial comment: How Do Firms Change in the Face

of Constraints to Change? An Agenda for Research on Strategic Organization, Strategic Organization!, 1 (2): 231-240.

### *Acquisitions*

- Abhirup Chakrabarti and Will Mitchell. 2005. A corporate level perspective on acquisitions and integration, *Advances in Mergers and Acquisitions*, Volume 4 (Cary L. Cooper and Sydney Finkelstein, eds.), Elsevier, pp. 1-22.
- Jane Banaszak-Holl, Will Mitchell, Joel A.C. Baum, Whitney B. Berta. 2006. Chain-to-component transfer learning in multiunit chains: U.S. nursing homes, 1991-1997, Industrial and Corporate Change
- Jay Anand, Laurence Capron, Will Mitchell. 2005. Using acquisitions to access multinational diversity: Thinking beyond the domestic versus cross-border M&A comparison. Industrial and Corporate Change.
- Samina Karim, Will Mitchell. 2004. Innovation through acquisition and internal development: A quarter-century of business reconfiguration at Johnson & Johnson, Long Range Planning, 37: 525-547, 2004.
- Myles Shaver, Will Mitchell. 2003. Who buys what? How integration capability affects acquisition incidence and target choice, Strategic Organization!, 1 (2): 171-202
- Jane Banaszak-Holl, et al. 2002. The rise of human service chains: Antecedents to acquisitions and their effects on the quality of care in U.S. nursing homes, Managerial and Decision Economics, Special Issue concerning "Conversations on the Dynamics, Context, and Consequences of Strategy" (eds., Margaret A. Peteraf and Walter J. Ferrier), volume 23 (nos. 4 & 5), 261-282, June-August 2002.
- Laurence Capron, Anand Swaminathan, Will Mitchell. 2001. Asset divestiture following horizontal acquisitions: A dynamic view, Strategic Management Journal, 22 (9), 817-844.
- Samina Karim, Will Mitchell. 2000. Path-dependent and path-breaking change: Reconfiguring business resources following acquisitions in the U.S. medical sector, 1978-1995, Strategic Management Journal, Special Issue on the Evolution of Business Capabilities, 21 (10-11), 1061-1081, 2000.
- Laurence Capron, Will Mitchell. 1998. The role of acquisitions in reshaping business capabilities in the international telecommunications industry, Industry and Corporate Change, Special Issue on Telecommunications Policy and Strategy, 7 (4), 715-730.
- Laurence Capron, Will Mitchell. 1998. Bilateral resource redeployment following horizontal acquisitions: A multi-dimensional study of business reconfiguration. Industrial and Corporate Change, 7, 453-484.
- Laurence Capron, Pierre Dussauge, Will Mitchell. 1998. Resource redeployment following horizontal mergers and acquisitions in Europe and North America, 1988-1992, Strategic Management Journal, 19, 631-661.
- Laurence Capron, Will Mitchell. August 2007. Acquisition Experience and Acquisition Success: Examining the Mediating Role of Acquisition Mode Selection Capabilities. Working paper.

### *Alliances*

- Kulwant Singh and Will Mitchell. 2005. Growth dynamics: The bi-directional relationship between interfirm collaboration and business sales in entrant and incumbent alliances,

Strategic Management Journal, 26: 497-522, 2005.

- Pierre Dussauge, Bernard Garrette, Will Mitchell. 2004. Asymmetric performance: The market share impact of scale and link alliances in the global auto industry, Strategic Management Journal, 25 (7), 701-711, 2004. yy note submitted to SMJ March 2002; paper R&R August 2002; resubmitted Fall 2002; R&R January 2003; resubmitted October 2003; accepted January 2004.
- Bernard Garrette, Frédéric Dalsace, Will Mitchell. February 4, 2008. Managing Vertical Relations in Horizontal Alliances: Leveraging Relational Rents or Indulging in Bad Habits? Working paper.
- Pierre Dussauge, Bernard Garrette, Will Mitchell. 2000. Learning from competing partners: Outcomes and durations of scale and link alliances in Europe, North America, and Asia, Strategic Management Journal, 21 (2), 99-126.
- Kulwant Singh, Will Mitchell. 1996. Precarious collaboration: Business survival after partners shut down or form new partnerships. Strategic Management Journal, Volume 17, 95-115, *Special Issue on Evolutionary Perspectives on Strategy*.
- Will Mitchell, Kulwant Singh. 1992. Incumbents' use of pre-entry alliances before expansion into new technical subfields of an industry. Journal of Economic Behavior and Organization, 18(3), 347-372.
- Will Mitchell, Kulwant Singh. 1996. Survival of businesses using collaborative relationships to commercialize complex goods. Strategic Management Journal, 17 (3), 169-196.
- Gautam Ahuja, Francisco Polidor Jr., Will Mitchell. November 2007. Structural homophily or social asymmetry? The formation of alliances by poorly-embedded firms. Working paper.
- Francisco Polidor Jr., Gautam Ahuja, Will Mitchell. November 2007. When the social structure overshadows competitive incentives: The effects of network embeddedness on joint venture dissolution . Working paper.
- Miguel Rivera, Pierre Dussauge, Will Mitchell. October 2007. Inside Alliances: Corporate Mechanisms For Learning and Protection, working paper.
- Anne Parmigiani, Will Mitchell. January 2008. The hollow corporation revisited: Can governance mechanisms substitute for technical expertise in managing buyer-supplier relationships? Working paper.
- Puranam, Phanish; Harbir Singh; Maurizio Zollo. 2006. Organizing for innovation: managing the coordination-autonomy dilemma in technology acquisitions. *Academy of management journal*. 49(2): 263-280.
- Harzing, Anne-Wil. 2002. Acquisitions versus greenfield investments: international strategy and management of entry modes. *Strategic management journal*. 23: 211-227.
- Halebian, Jerayr; Sydney Finkelstein. 1999. The influence of organizational acquisition experience on acquisition performance: a behavioral learning perspective. *Administrative science quarterly*. 44(1): 29-56.

#### Alternative propositions

1. Alliances and acquisitions are key strategic tools that enable firms to cope with the growing breath, depth and rapid evolution of the knowledge used in economic activities. As long as these features of the economy remain in place, alliances and acquisitions are here to stay.

2. Alliances and acquisitions are very difficult to manage successfully and they are more likely to fail than to succeed. Their widespread use in recent years is the result of a managerial fashion that has emphasized 'core competencies' and 'networking', rather than any substantial change in the economy. They are a fad and as such they are going to disappear soon.

## 11. Cognition and strategy

- Tripsas, Mary and Giovanni Gavetti, 2000. Capabilities, Cognition, and Inertia: Evidence from Digital Imaging. SMJ
- Gavetti, Giovanni, 2005. Cognition and Hierarchy: Rethinking the Microfoundations of Capabilities' Development. OS
- S. Kaplan, **F. Murray** and R. Henderson, 2003. Recognition & response to biotechnology by leading pharmaceuticals companies. ICC
- Gavetti, G., Levinthal, D. A., & Rivkin, J. W. (2005). Strategy making in novel and complex worlds: The power of analogy. *Strategic Management Journal*, 26(8), 691-712.
- Garud, R., & Rappa, M. A. (1994). A sociocognitive model of technology evolution - the case of cochlear implants. *Organization Science*, 5(3), 344-362.
- Kaplan, S. (2008). Framing contests: Strategy making under uncertainty. *Organization Science*, 19(5), 729-752.
- Weick, K. E. (1990). Cartographic myths in organizations. In A. S. Huff (Ed.), *Mapping strategic thought* (pp. 1-10). Chichester, England: John Wiley & Sons.
- Feldman, M. S., & March, J. G. (1981). Information in organizations as signal and symbol. *Administrative Science Quarterly*, 26(2), 171-186.

Alternative propositions:

1. Managerial cognition at both top and middle management level is key in strategic reorientation, as it enables firms to reduce the effects of path-dependency and renew themselves. It is therefore a central aspect of strategy.
2. The role of managerial cognition in strategy, and in particular top management cognition, is grossly exaggerated. Cognition in organizations is distributed and embedded into operational routines. Top manager cognition must to a considerable extent reflect the cognition already embedded in the organization for it to have any practical relevance. This means that strategy must be studied focusing on organization level constructs such as capabilities, and not on manager's cognition.

## 12. Strategy in practice

- Mintzberg H. 1978. Patterns of Strategy Formulation. *Management Science*, 24:934-48

- Mintzberg H. 1985. Of strategies: Deliberate and Emergent. *SMJ* 6: 257-72
- Excerpts from Boston Consulting Group. 1975. Strategy alternatives for the British Motorcycle Industry (London: Her Majesty's Stationary Office)
- Pascale R.T. 1984. Perspectives on Strategy: The real Story behind Honda's Success. *California Management Review* 26(3):47-72
- Grant, R. M. (2003). Strategic planning in a turbulent environment: Evidence from the oil majors. *Strategic Management Journal*, 24(6), 491-517.
- Balogun, J., & Johnson, G. (2005). From intended strategies to unintended outcomes: The impact of change recipient sensemaking. *Organization Studies*, 26(11), 1573-1601.

Alternative propositions:

1. The focus on implementation and on how *people* make sense of strategy and then implement it is an important complement to approaches that focus on aseptic constructs such as 'resources' or 'positions'. We cannot hope to have something relevant to say about strategy if we miss this crucial link with implementation and therefore with the success or failure of strategies.
2. The importance of studying the emergent properties of strategy is inversely proportional to the quality of the strategic plan. Well designed, well communicated strategic change leaves little space and little relevance to emergence.

### **13 & 14. Student Presentations**