

University of Illinois at Urban-Champaign
College of Business
Department of Business Administration
BA 546 *Strategy Content and Formulation Research*

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This Ph.D. course is required of first-year Strategy doctoral students and upon approval of your doctoral group would serve as one of three courses for a Strategy minor for doctoral students in Information Systems, Management Science/Process Management, Marketing, Organization Behavior & Organization Theory, as well as for doctoral students in Agricultural Economics, and Industrial Organization Economics.

After a brief summary of the Industrial Organization Economics literature (from the Scherer and Ross book), the course will proceed along the lines of my book: *Economic Foundations of Strategy*.

- **Behavioral Theory of the Firm**
- **Transaction Costs Theory**
- **Property Rights Theory**
- **Agency Theory**
- **Resource-Based Theory, Dynamic Capabilities and Options**

Note that we will only briefly discuss the Behavioral Theory of the Firm because this material will be studied extensively in the foundational doctoral seminar on the behavioral theory of Strategy.

The schedule for the semester consists of two half-unit courses:

Section A1: (January 18 -- March 11)
Section A2: (March 14 – May 4)

Section A1: (January 18 – March 11)

Session #1:	January 19	Course Introduction
Session #2:	January 26	Industrial Organization Economics and Strategy
Session #3:	February 2	Game Theory and Strategy Reading: Porter (1996) “What is Strategy?”
Session #4:	February 9	Behavioral Theory of the Firm
Session #5:	February 16	Transaction Costs Theory
Session #6:	February 23	Transaction Costs Theory Case Assignment: PepsiCo Restaurants
Session #7:	March 2	Transaction Costs Theory: Vertical Integration Strategy Case Assignment: Viacom
Session #8:	March 9	Exam: 9AM – Noon

Section A2: (March 15 – May 4)

Session #1:	March 16	Property Rights Theory
Session #2:	March 30	Property Rights Theory
Session #3:	April 6	Agency Theory
Session #4:	April 13	Agency Theory Case Assignment: Andersen v. Andersen
Session #5:	April 20	Resource-based Theory Review Porter (1996) “What is Strategy?”
Session #6:	April 27	Dynamic Capabilities: Empirical Tests Case Assignment: Wal-mart
Session #7:	May 4	Real-options Theory and Dynamic Capabilities Case Assignment: Nucor
Session #8:		FINAL EXAM during Finals Week

Course Grade for Each Section:

Preparation and Contributions in Class:	20%
Case Assignments:	20%
Exam:	60%

[Note: The Porter (1996) reading and the five Harvard Business School Cases: (1) PepsiCo Restaurants; (2) Viacom Incorporated; (3) Family Feud: Andersen v. Andersen; (4) Wal-mart Stores, Inc.; and (5) Nucor at a Crossroads can be found in the “BADM 546 College Course Pak,” which is available only at the T.I.S. Campus Bookstore.]

I. Industrial Organization

Scherer, F. M. and David Ross (1990). Industrial Market Structure and Economic Performance. Boston: Houghton Mifflin. (See power point notes)

(*) Phillips, Almarin (1976). A critique of empirical studies of relations between market¹ structure and profitability. Journal of Industrial Economics, 24 (4): 241-249. (Note: All required journal readings are available at JSTOR: <http://www.jstor.org>)

II. Behavioral Theory of the Firm (in Behavioral Foundations of Strategy)

(*) Mahoney, Joseph T. (2005). “The Behavioral Theory of the Firm” (Chapter 1) in Economic Foundations of Strategy. Thousand Oaks, CA: Sage Publications.

Barnard, Chester I. (1938). The Functions of the Executive. Cambridge, MA: Harvard University Press. (See power point notes)

Cyert, Richard M., and James G. March (1963). A Behavioral Theory of the Firm. Englewood Cliffs, N.J.: Prentice-Hall. (See power point notes)

March, James G. and Herbert A. Simon (1958). Organizations. New York, NY: John Wiley & Sons. (See power point notes)

Simon, Herbert A. (1947). Administrative Behavior. New York, NY: Macmillan. (See power point notes)

Simon, Herbert A. (1982). Models of Bounded Rationality: Behavioral Economics and Business Organization. Cambridge, Mass.: MIT Press. (See power point notes)

III. Transaction Costs Theory

Theory:

(*) Mahoney, Joseph T. (2005). “Transaction Costs Theory” (Chapter 2) in Economic Foundations of Strategy. Thousand Oaks, CA: Sage Publications.

Arrow, Kenneth J. (1974). The Limits of Organization. New York, NY: W. W. Norton. (See Power point notes).

Coase, Ronald H. (1988). The Firm, the Market and the Law. Chicago: University of Chicago Press. (See power point notes).

¹ * = Required reading.

Williamson, Oliver E. (1975). Markets and Hierarchies: Analysis and Antitrust Implications. New York, NY: Free Press. (See power point notes)

Williamson, Oliver E. (1985). The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting. New York, NY: The Free Press. (See power point notes)

Williamson, Oliver E. (1996). The Mechanisms of Governance. New York, NY: Oxford University Press. (See power point notes)

(* Coase, Ronald H. (1937). The nature of the firm. Economica, 4: 386-405.

(* Malmgren, H. B. (1961). Information, expectations and the theory of the firm. Quarterly Journal of Economics, 75: 399-421.

(* Ouchi, William G. (1979). A conceptual framework for the design of organizational control mechanisms. Management Science, 25 (9): 833-848.

(* Yao, Dennis A. (1988). Beyond the reach of the invisible hand: Impediments to economic activity, market failures and profitability. Strategic Management Journal, 9 (Summer): 59-70

(* Hennart, Jean-Francois (1993). Explaining the swollen middle: Why most transactions are a mix of “market” and “hierarchy.” Organization Science, 4 (3): 529-547.

(* Chi, Tailan (1994). Trading in strategic resources: Necessary conditions, transaction cost problems, and choice of exchange structure. Strategic Management Journal, 15: 271-290.

(* Argyres, Nicholas S. and Julia Porter Liebeskind (1999). Contractual commitments, bargaining power, and governance inseparability: Incorporating history into transaction cost theory. Academy of Management Review, 24 (1): 49-63.

Application: Multidivisionals

(* Armour, Henry Ogden and David J. Teece (1978). Organizational structure and economic performance: A test of the multidivisional hypothesis. Bell Journal of Economics, 9: 106-122.

Application: Vertical Integration:

(* Monteverde, Kirk and David J. Teece (1982). Supplier switching costs and vertical integration in the automobile industry. Bell Journal of Economics, 13: 206-213.

(* Anderson, Erin and David Schmittlein (1984). Integration of the sales force: An empirical examination. Rand Journal of Economics, 15 (Autumn): 385-395.

(*) Walker, Gordon and David Weber (1984). A transaction cost approach to make-or-buy decisions. Administrative Science Quarterly, 29: 373-391.

(*) Balakrishnan, Srinivasan and Birger Wernerfelt (1986). Technical change, competition and vertical integration. Strategic Management Journal, 7: 347-359.

(*) Mahoney, Joseph T. (1992). The choice of organizational form: Vertical financial ownership versus other methods of vertical integration. Strategic Management Journal, 13: 559-584.

(*) Poppo, Laura and Todd Zenger (1998). Testing alternative theories of the firm: Transaction cost, knowledge-based, and measurement explanations for make-or-buy decisions in information services. Strategic Management Journal, 19: 853-877.

IV. Property Rights Theory

(*) Mahoney, Joseph T. (2005). "Property Rights Theory" (Chapter 3) in Economic Foundations of Strategy. Thousand Oaks, CA: Sage Publications.

Libecap, Gary D. (1989). Contracting for Property Rights. New York, NY: Cambridge University Press. (See power point notes)

North, Douglass (1990). Institutions, Institutional Change and Economic Performance. New York, NY: Cambridge University Press. (See power point notes)

Barzel, Yoram (1989). An Economic Analysis of Property Rights. Cambridge, UK: Cambridge University Press. (See power point notes)

Eggertsson, Thrainn (1990). Economic Behavior and Institutions. Cambridge: Cambridge University Press. (See power point notes)

Hart, Oliver (1995). Firms, Contracts, and Financial Structure. Oxford: Clarendon Press. (See power point notes)

(*) Demsetz, Harold (1967). Toward a theory of property rights. American Economic Review, 57 (May): 347-359.

(*) Grossman, S. J. and Oliver D. Hart (1986). The costs and benefits of ownership: A theory of vertical and lateral integration. Journal of Political Economy, 94 (4): 691-719.

(*) Liebeskind, J. P. (1996). Knowledge, strategy, and the theory of the firm. Strategic Management Journal, 17 (Winter): 93-107.

V. Agency Theory

(*) Mahoney, Joseph T. (2005). "Agency Theory" (Chapter 4) in Economic Foundations of Strategy. Thousand Oaks, CA: Sage Publications.

Berle, Adolf A. and Gardiner C. Means (1932). The Modern Corporation and Private Property. New York, NY: Macmillan. (See power point notes)

Pratt, John W., and Richard J. Zeckhauser (1985). "Principals and Agents: An Overview" (pp. 1-35). In Principals and Agents: The Structure of Business, edited by John W. Pratt and Richard J. Zeckhauser. Boston, MA: Harvard Business School Press. (See power point notes)

Arrow, Kenneth J. (1985). "The Economics of Agency" (pp.37-51). In Principals and Agents: The Structure of Business, edited by John W. Pratt and Richard J. Zeckhauser. Boston, MA: Harvard Business School Press. (See power point notes)

Levinthal, Daniel (1988). A survey of agency models of organizations. Journal of Economic Behavior and Organization, 9: 153-185. (See power point notes)

Jensen, Michael and William Meckling (1976). Theory of the firm: Managerial behavior, agency costs, and capital structure. Journal of Financial Economics, 3 (October): 305-360. (See power point notes)

(*) Akerlof, George A. (1970). The market for 'lemons': Qualitative uncertainty and the market mechanism. Quarterly Journal of Economics, 84: 488-500.

(*) Alchian, Armen A. and Harold Demsetz (1972). Production, information costs, and economic organization. American Economic Review, 62: 777-795.

(*) Fama, Eugene F. (1980). Agency problems and the theory of the firm. Journal of Political Economy, 88 (2): 288-307.

(*) Eisenhardt, Kathleen M. (1985). Control: Organizational and economic approaches. Management Science, 31 (2): 134- 149.

(*) Walsh, James P. and James K. Seward (1990). On the efficiency of internal and external corporate control mechanisms. Academy of Management Review, 15 (3): 421-458.

(*) Zenger, Todd R. (1994). Explaining Organizational diseconomies of scale and R&D: Agency problems and the allocation of engineering talent, ideas, and effort by firm size. Management Science, 40 (6): 708-729.

(*) Sundaramurthy, Chamu, James M. Mahoney and Joseph T. Mahoney (1997). Board structure, antitakeover provisions, and stockholder wealth. Strategic Management Journal, 18 (3): 231-245.

VI Resource-based Theory/Dynamic Capabilities Theory and Real Options

Resource-Based/Dynamic Capabilities Theory

(*) Mahoney, Joseph T. (2005). “Resource-Based Theory, Dynamic Capabilities, and Real Options” in Economic Foundations of Strategy. Thousand Oaks, CA: Sage Publications.

Penrose, Edith T. (1959). The Theory of the Growth of the Firm. New York: John Wiley & Sons. (See power point notes)

Chandler, Alfred D. (1990). Scale and Scope: The Dynamics of Capitalism. Cambridge, MA: Harvard University Press. (See power point notes)

Itami, Hiroyuki and Thomas E. Roehl (1987). Mobilizing Invisible Assets. Cambridge, MA: Harvard University Press. (See power point notes)

Nelson, Richard R., and Sidney G. Winter (1982). An Evolutionary Theory of Economic Change. Cambridge, Mass.: Harvard University Press. (See power point notes)

(*) Evered, Roger and Meryl Reis Louis (1981). Alternative perspectives in the organizational sciences: “Inquiry from the Inside” and “Inquiry from the Outside.” Academy of Management Review: 6 (3): 385-395.

(*) Wernerfelt, Birger (1984). A resource-based view of the firm. Strategic Management Journal, 5: 171-180.

(*) Montgomery, Cynthia A. and Birger Wernerfelt (1988). Diversification, Ricardian rents, and Tobin’s q. Rand Journal of Economics, 19 (4): 623-632.

(*) Dierickx, Ingemar and Karel Cool (1989). Asset stock accumulation and sustainability of competitive advantage. Management Science, 35 (12): 1504-1511.

(*) Cohen, Wesley M. and Daniel A. Levinthal (1990). Absorptive capacity: A new perspective on learning and innovation. Administrative Science Quarterly, 35: 128-152.

(*) Leonard-Barton, Dorothy (1992). Core capabilities and core rigidities: A paradox in managing new product development. Strategic Management Journal 13: 111-125.

(*) Mahoney, Joseph T. and J. Rajendran Pandian (1992). The resource-based view within the conversation of strategic management. Strategic Management Journal, 13: 363-380.

(*) Amit, Raphael and Paul J. H. Schoemaker (1993). Strategic assets and organizational rent. Strategic Management Journal, 14: 33-46.

(*) Peteraf, Margaret A. (1993). The cornerstones of competitive advantage: A resource-based view. Strategic Management Journal, 14: 179-191.

(*) Henderson, Rebecca and Iain Cockburn (1994). Measuring competence? Exploring firm effects in pharmaceutical research. Strategic Management Journal, 15 (Winter): 63-84.

(*) Foss, Nicolai J. (1996). Knowledge-based approaches to the theory of the firm: Some critical comments. Organization Science, 7 (5): 470-476.

(*) Szulanski, Gabriel (1996). Exploring internal stickiness: Impediments to the transfer of best practice within the firm. Strategic Management Journal, 17 (Winter): 27-43.

(*) Helfat, Constance E. (1997). Know-how and asset complementarity and dynamic capability accumulation: The case of R&D. Strategic Management Journal, 18 (5): 339-360.

(*) Teece, David J., Gary Pisano and Amy Shuen (1997). Dynamic capabilities and strategic management. Strategic Management Journal, 18 (7): 509-533.

Real Options:

Trigeorgis, Lenos (1997). Real Options: Managerial Flexibility and Strategy in Resource Allocation. Cambridge, MA: MIT Press. (See power point notes)

(*) Bowman, Edward H. and Dileep Hurry (1993). Strategy through the options lens: An integrated view of resource investments and the incremental-choice process. Academy of Management Review, 18 (4): 760-782.

(*) Sanchez, Ron and Joseph T. Mahoney (1996). Modularity, flexibility, and knowledge management in product and organization design. Strategic Management Journal, 17 (Winter): 63-76.

(*) Folta, Timothy B. and Kent D. Miller (2002). Real options in equity partnerships. Strategic Management Journal, 23: 77-88.

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

(*) McGrath, Rita Gunther (1997). A real options logic for initiating technology-positioning investments. Academy of Management Review, 22 (4): 974-996.