

University of Illinois at Urbana-Champaign

**College of Business
Department of Business Administration**

BA 590 The Economics of Organization

Fall, 2005

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Introduction

In this course, on the Economics of Organization, we will focus on five prominent theories of organizations:

- Behavioral Theory
- Transaction Costs Theory
- Property Rights Theory
- Agency Theory
- Dynamic Resource-Based Theory

The course will be taught at a high level of rigor that may at times resemble a doctoral course. At the same time, we will emphasize case applications that will highlight the relevance of these theories of organization in practice. There will be an emphasis on pragmatic and action-oriented skills. The course will emphasize both cases and lecture/discussion sessions.

CASE ANALYSIS

An important component of the course is case analysis. A case is designed to provide you with data on real-life managerial problems, and case analysis is very useful as a simulation of actual managerial activity. The success of the case method, however, depends on your preparation and active participation.

Objectives of Case Analysis:

- [1] Increase your understanding of what managers should and should not do in guiding business to success.
- [2] Build your skills in conducting strategic analysis and gain in-depth experience in a variety of industries, competitive situations, and company circumstances.
- [3] Get valuable practice in diagnosing strategic issues, evaluating strategic alternatives, and formulating workable plans of action.
- [4] Enhance your sense of business judgment.

COURSE ORGANIZATION

Your class assignments are shown in the syllabus attached, and while subject to change, this syllabus should guide your work planning for the course. There will be no announcements in class concerning assignments, except those infrequent ones that may alter those in the attached syllabus.

TEACHING MATERIALS

TEXTS

Mahoney, Joseph T. (2005). The Economic Foundations of Strategy. Thousand Oaks, CA: Sage Publications.

Milgrom, Paul and John Roberts (1992). Economics, Organization and Management. Englewood Cliffs, NJ: Prentice Hall. (Both books can be obtained from the TIS Bookstore only)

CASES (available from TIS Bookstore):

Reading: Porter, Michael E. (1996). "What is Strategy?" Harvard Business Review [Reprint 96608]

Case #1	Wal-mart	9-794-024
Case #2	Southwest Airlines	9-694-023
Case #3	Matching Dell	9-794-024
Case #4	Pepsi Restaurants	9-794-078
Case #5	Sunrise Medical	9-794-069
Case #6	Viacom	9-398-086
Case #7	Andersen v. Andersen	9-800-064
Case #8	Barnes & Noble	9-798-063
Case #9	Nucor	9-793-039

COURSE POLICIES

Course Etiquette:

1. Be on time. Class begins at 8:30AM sharp.
2. Do not disrupt the class with side conversations during class.
3. Be respectful of others in the class. Listen, give attention, let other people talk, don't shout, and above all else do not sneer at others.
4. All cell phones and pagers should be turned off during class. Please do not leave and re-enter the class.
5. Using laptops in the classroom is a privilege, not a right. Laptops are to be used for class activities only. If you are seen net surfing or e-mailing during a class session you lose laptop privileges for the remainder of the course.

Course grade: Your class grade is a function of these elements:

	<u>Element</u>	<u>Grade Points</u>
I.	Seven Individual Assignments (10 points each)	70 points
II.	Nucor Cash Flow <i>Group</i> Assignment	50 points
III.	You miss no more than 5 sessions Or , you can write a ten-page paper.	30 points
IV.	Class Participation (Beyond Showing Up)	50 points
V.	Group Presentation	50 points
VI.	In-class exam #1 (closed-book)	125 points
VII.	In-class exam #2 (closed book)	125 points
		----- 500 points

Scale:	470-500	=	A
	460-469	=	A-
	450-459	=	B+
	430-449	=	B
	420-429	=	B-
	400-419	=	C+
	390-399	=	C
	380-389	=	C-
	350-379	=	D
	Below 350	=	F

I. (Seven) Individual One-page Assignments. (70 points)

You are expected to do all seven assignments based on the schedule shown on the attached syllabus. Assignments are due before class begins on the day of the case (so bring an extra copy for you to use). One purpose of the assignment is to enhance class discussion. ***There is no credit provided for late assignments.*** The assignment should be single-spaced, typed (with an 11-point font or larger). Please analyze the case and do not bring in outside material in your 1-page assignment. **Note you do not do a 1-page paper for the case that you are presenting.** Criteria for the **seven** 1-page assignments are:

(1) **Problem Statement:** A short paragraph that states the question (*in the form of a question*). Explain briefly in this paragraph **WHY** this question is important. (2 points)

(2) **Analysis.** In order to answer your question, you need to:

- Explain what variables are important for answering your question.
- Define each of these variables clearly.
- Explain the interrelationships among the variables. (E.g., higher advertising intensity (defined as advertising expenditures to sales) is predicted to lead to higher market share in the national brewing industry that is predicted to lead to economies of scale, which is predicted to lead to lower costs and a source of competitive advantage.) In other words, make your chain of reasoning explicit to the reader.

(5 points)

USE DATA IN THE CASE TO SUPPORT YOUR IDEAS!!

(3) **Recommendation(s).** You should make specific recommendations of courses of action.

- These recommendations must follow logically from the analysis! It helps if you explain why they follow from the analysis.
- As a final “reality check,” the suggested recommendations should be answers to the question raised in your first paragraph.

(3 points)

II. Nucor Group Assignment. (50 points)

A template will be provided for this assignment, based on the numbers provided in the case. You should provide:

- (a) Cashflow Analysis (10 points)
- (b) Scenario Analysis (changes within the model) (20 points)
- (c) Strategic Analysis (changes outside the model) (20 points)

III. Missing no more than 5 sessions Or writing a 10-page paper (30 points)

IV. (Meaningful) Class Participation. (50 points)

Active participation in the class is an essential part of the learning experience. We will be using cases and you must be prepared to discuss these cases. Meaningful participation means making a contribution to our discussion, not merely talking, and it does not mean repeating case facts or simply agreeing with what others have already said. Our interest is not "right" or "wrong," it is whether you have made a contribution to the development of the issues under study by the class, and whether you have moved the class forward. One clear way of making a contribution is to disagree with the comments of your classmates where needed; it is not the instructor's duty alone to decide whether a remark is of value. Failure to participate and disagree where needed penalizes you and the class in these ways:

- You lose incentive to prepare the case properly.
- You lose the chance to develop communication skills.
- You deprive all of us from your insights into the case.
- Your ideas go unevaluated by others.

V. Group Presentation. (50 points)

In the first half of the class, the instructor will discuss the case. In the second half of the class the assigned group will update the case and provide strategic analysis.

Presentation Evaluation:	(50 points)
- Substance of Presentation	(15 points)
- Clarity: Audibility, wording, flow of ideas	(05 points)
- Persuasiveness: Credibility, eye contact	(05 points)
- Use of visual aids: Clarity and readability	(05 points)
- Information clearly organized	(05 points)
- Management of time	(05 points)
- Equal division of time	(05 points)
- Ability to think on feet	(05 points)
VI. Mid-term Exam #1	(125 points)
VII. Mid-term Exam #2	(125 points)

These exams will be in-class, closed books exams. ***Please be aware that the two exams measure different skills than case analysis.*** The exams will test your understanding of the material provided.

COURSE SCHEDULE

SESSION #1 Wednesday, August 24th

- Course Introduction (Powerpoint Sets #1 - #5)
-

SESSION #2 Monday, August 29th

- **Read:** Porter, Michael E. (1996) What is Strategy?
-

SESSION #3 Wednesday, August 31

- **Read:** Wal-mart Case
 - **Write:** One-page assignment: Activity Map of Wal-mart
-

SESSION #4 Wednesday, September 7th

- **Read:** Southwest Airlines Case
 - **Write:** One-page individual assignment
 - Presentation for Group #1
-

SESSION #5 Monday, September 12th

- **Read:** Mahoney (2005) Chapter 1 Behavioral Theory of the Firm
-

SESSION #6 Wednesday, September 14th

- **Read:** Mahoney (2005) Chapter 2 Transaction Costs Theory
-

SESSION #7 Monday, September 19th

- **Read:** Milgrom and Roberts (1992) Chapter 1
 “Does Organization Matter?”
-

SESSION #8 Wednesday, September 21st

- **Read:** Matching Dell
- **Write:** One-page individual assignment
- Presentation for Group #2

SESSION #9 **Monday, September 26th**

- **Read:** Milgrom and Roberts (1992) Chapter 2
 “Economic Organization and Efficiency”
-

SESSION #10 **Wednesday, September 28th**

- **Read:** Milgrom and Roberts (1992) Chapter 3
 “Using Prices for Coordination and Control”
-

SESSION #11 **Monday, October 3rd**

- **Read:** Milgrom and Roberts (1992) Chapter 4
 “Coordinating Plans and Actions” and Chapter 5
 “Bounded Rationality and Private Information”
-

SESSION #12 **Wednesday, October 5th**

- **Read:** Pepsi Restaurants Case
 - **Write:** One-page individual assignment
 - Presentation for Group #3
-

SESSION #13 **Monday, October 10th**

- **Read:** Sunrise Medical Case
 - **Write:** One-page individual assignment
 - Presentation for Group #4
-

SESSION #14 **Wednesday, October 12th**

- **Read:** Milgrom and Roberts (1992) Chapter 6 “Moral Hazard and
 Performance Incentives”
-

SESSION #15 **Monday, October 17th**

- **Read:** Viacom Case
- **Write:** One-page individual assignment
- Presentation for Group #5

SESSION #16	Wednesday, October 19th
• Read:	Milgrom and Roberts (1992) Chapter 7 “Risk Sharing and Incentive Contracts”

SESSION #17	Monday, October 24th
•	Reading Day for Exam

SESSION #18	Wednesday, October 26th
•	MID-TERM EXAM #1

SESSION #19	Monday, October 31st
• Read:	Andersen v. Andersen Case
• Write:	One-page individual assignment
•	Presentation for Group #6

SESSION #20	Wednesday, November 2nd
Read:	Mahoney (2005) Chapter 3 Property Rights Theory

SESSION #21	Monday, November 7th
• Read:	Milgrom and Roberts (1992) Chapter 9 “Ownership and Property Rights” and Chapter 10 “Employment Policy and Human Resource Management”

SESSION #22	Wednesday, November 9th
• Read:	Milgrom and Roberts (1992) Chapter 11 “Internal Labor Markets, Job Assignments and Promotions” Chapter 12 “Compensation and Motivation” and Chapter 13 “Executive and Management Compensation”

SESSION #23 Monday, November 14th

- **Read:** Mahoney (2005) Chapter 5 Resource-Based Theory
-

SESSION #24 Wednesday, November 16th

- **Read:** Mahoney (2005) Chapter 5 Dynamic Capabilities
-

SESSION #25 Monday, November 28th

- **Read:** Barnes & Noble v. Amazon.com
 - **Write:** One-page individual assignment
 - Presentation for Group #7
-

SESSION #26 Wednesday, November 30th

- **Read:** Mahoney (2005) Chapter 5 Real Options
-

SESSION #27 Monday, December 5th

- **Read** Nucor Case
 - **Write:** Group Case Assignment
-

SESSION #28 Wednesday, December 7th

MID-TERM EXAM #2