

# **BROWN UNIVERSITY**

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**Fall 2007**  
**EC 178**  
**Competitive Strategy**

This course teaches analysis of strategic decisions facing an organization. The primary emphasis is on decisions at the line of business (rather than corporate) level, and the primary source of analytical method is economics. We cover traditional strategy topics such as capabilities and sustainability as well as modern game theory models of competition. A central integrating idea is anticipating the response of other actors in the economy and recognizing that often an organization's profits depend on the actions of other firms. We study nonprofits as well as for-profits. Class sessions are a mixture of applications (cases and other examples) and lectures.

I will be happy to discuss the course, your progress, or any other issues of concern to you, individually, or in groups. Also, please contact me if you feel you are having problems participating in class for any reason.

### ***Class participation/Attendance:***

Class participation counts for a significant fraction of your grade. One or the other of us will mark down a "zero" or "one" each class for each person called on; those not called on should anticipate that, to accommodate "one" in a large class may require one to volunteer.

### ***Case Discussion:***

An integral part of this course will require you to be familiar with the assigned theoretical material and be prepared to apply it to the assigned cases. Questions for each case will be handed out in advance of class. Responses will be prepared prior to the class when the assigned case is scheduled for discussion. Late response papers will not be accepted. Cases are available directly from Harvard Business School Publishing via electronic download.

[harvardbusinessonline.hbsp.harvard.edu](http://harvardbusinessonline.hbsp.harvard.edu)

### ***Midterm Examination***

A midterm examination will be administered as noted on the syllabus. It will test your understanding of strategic theory developed in course texts, class discussion, and in case studies discussed in class.

### ***Final Examination:***

The Final Examination will require you to focus on a dynamic case study that illuminates many of the strategic choices facing contemporary firms. The case will require you to assume the role of consultants, evaluate possible strategic choices, make recommendations to the firm's board of directors, and defend these recommendations based on theoretic models discussed in the course.

### ***Grading:***

Class Participation/Response papers	30%
Midterm Exam	35%
Final Examination	35%

### **Reading List**

The following required texts are available at the Brown University Bookstore:

Grant, Robert M. (2007) *Contemporary Strategy Analysis*, Sixth Edition, Oxford: Blackwell  
 Hax, Arnoldo C. and Dean L. Wildell (2001) *The Delta Project: Discovering New Sources of Profitability in a Networked Economy*.  
 Porter, Michael E. (1998) *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York: Basic Books

The following texts are recommended and are available at the Brown University Bookstore:

Barney, Jay B. (2006) *Gaining and Sustaining Competitive Advantage: Theory and Practice* Third Edition, New York: Addison Wesley  
 Macaffee, Preston R. (2002) *Competitive Solutions: The Strategist's Toolkit*: Princeton: Princeton University Press

The following texts are recommended for those wishing to strengthen their business economics background. They are available on line at Barnes and Noble.com or through special order by the Brown University Bookstore.

Carlton, D.W. and J.M. Perloff. (2004) *Modern Industrial Organization*. 4th edition, New York: Addison Wesley  
 Copeland, T.E., J.F. Weston and Kuldeep Shastri. (2004) *Financial Theory and Corporate Policy*, New York: Pearson  
 Nelson, R. and S. Winter (1994) *An Evolutionary Theory of Economic Change*, Cambridge: Harvard University Press

## Schedule

*Before each class you should read the assigned material and answer the associated preparation questions. Preparation questions will be distributed a priori one class prior to the due date. We are including additional readings in some books on course reserve to provide students additional depth of the economics of strategy. It is highly recommended that you attempt to read these articles. Students who allocate the additional time necessary to grasp the course material will find it highly rewarding. In taking the aforesaid approach you will gain a mastery of the concepts of strategy.*

## Sept 11

### **Introduction: to the Competitive Strategy, What is Strategy?**

Why do we study strategy?

The link between strategy and corporate governance

Ad hoc versus scientific management

Definitions of strategy

Hierarchical Definitions of Strategy and Management

Eclectic Definitions of Strategy and Strategic Management

Matching Definitions of Strategy and Strategic Management

Readings:

Coase R. H. 1937. "The Nature of the Firm." *Economica*, 4, pp.386-405 \*

Porter. op.cit, Chapter 1 "Structural Analysis of Industries" \*

Barney, op.cit Chapter 1

Grant, op.cit Chapter 1 \*

Porter, Michael E. "What is Strategy" (HBS 96608)

**Case Study:** Microsoft's Vega Project: Developing People and Products (HBS: 9-300-004) \*

## Sept 18

### **What is Performance? The Agent-Principal Relationship**

Performance in the Definition of Strategy

A Conceptual Approach to Defining Performance

Measuring Firm Performance

Review of Cost of Capital Analysis and Firm Hurdle Rates  
 Pareto Optimality for Stakeholder  
 Market Based Performance Metrics  
 Agency Theory

Readings:

McAfee. 2002. op.cit. Chapter 1, “Introduction”  
 Copeland et. al. 2004. op.cit. Chapter 2 “Investment Decisions: The Certainty Case” Chapter 7  
 “Market Equilibrium: CAPM and APT (handout)  
 Barney, op.cit Chapter 2 “What is performance”  
 Grant, op.cit Chapter 2\*  
 The Balanced Scorecard: Measures That Drive Performance (HBR Classic: R0507Q)  
 Comment R. And G. Jarrell. 1995. “Corporate Focus and Stock Returns,” *Journal of Financial Economics*, 37, pp. 67-87. \*  
 Jensen, M.C. and W.H. Meckling. 1976. “Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure.” *Journal of Financial Economics*, 3, pp. 305-360.  
 McAfee, op cit. Chapter 8  
 Hasson, Ralph. “How to Resolve Board Disputes More Effectively” (HBS product SMR228)

**Case Study:** Cooper Industries Corporate Strategy A & B (HBS 9-391-095, HBS 9-795-154) \*

**Sept 25**

**Industry Analysis: The Strategic Environment; Industry and Competitive Analysis**

The Attractiveness of an Industry  
 From Industry Analysis to Environmental Analysis  
 The Five Forces of Environmental Threats  
 Cost-Leadership Competitive Strategies  
 Segmentation Strategies  
 Examining the Five Forces

Readings:

Porter, op.cit. Chapter 2, 3 \*  
 Carlton and Perloff. 1999. op.cit. Chapter 2  
 Barney, op.cit, Chapter 3 “Evaluating Environmental Threats”  
 Grant, op cit. Chapter 3, 4 \*  
 McAfee. 2002. op.cit, Chapter 2

**Case Study:**

The Cola Wars Continue: Coke and Pepsi in 2006 (HBS 9-706-447) \*

## **October 2: Analyzing Resources and Capabilities**

The role of resources and capabilities in strategy formation

Firm resources

Organizational resource

What are core competencies?

How to Develop Core Products

From Core to End Products

The Allocation and Management of Core Competencies

Readings:

Carlton and Perloff 1999. op.cit. Chapter 2 “The Firm and Costs”, Chapter 3 “Competition”

McAfee op.cit. Chapter 3 “Firm Strategies”

Grant, op cit. Chapter 5 \*

Handout, Core Competencies (to be distributed prior to class) \*

### **Case Study:**

Southwest Airlines A & B (HBS: HR1A, HR1B) \*

## **October 9**

### **Competitive Strategies: Tacit Collusion**

Tacit Collusion and Competitive Advantage

Rareness of Tacit Collusion

Tacit Collusion and Organization

Readings:

MacAfee, op cit. Chapter 6,

Barney, op cit. Chapter 10, “Tacit Collusion”

Porter, op.cit Chapter 4, 5, \*

Areeda, Phillip and Donald Turner, (1980) “An Analysis of Anti-Trust Principles and Their Application,” in *Anti-Trust Law*, Boston: Little Brown (to be distributed prior to class)

Areeda, Phillip and Donald Turner (1975) “Predatory Pricing and Related Practices Under Section 2 of the Sherman Act,” *Harvard Law Review* \*

### **Case Study:**

General Electric vs. Westinghouse in Large Turbine Generators (HBS 9-380-128) \*

## October 16

### **Organization Structure and Management Systems; The Nature and Sources of Competitive Advantage**

Evolution of the Corporation  
 Principles of Organizational Design  
 Management Systems for Coordination and Control  
 The Emergence of Competitive Advantage  
 Sustaining Competitive Advantage  
 Competitive Advantage in Different Market Settings

#### Readings:

Grant, op cit. Chapter 6,7 \*  
 Barney, op.cit Chapter 5  
 Porter, Michael: “How Competitive Forces Shape Competitive Strategy” (HBS 79208) \*

#### **Case Study:**

Matching Dell A & B (HBS 9-799-158, HBS 9-704-476)\*

## October 23: Cost Advantage

Economies of Experience  
 Sources of Cost Advantage  
 The Value Chain as a Means to Analyze Costs  
 Managing Cost Reduction

#### Readings:

Grant, op cit. Chapter 8 \*  
 Barney, op cit. Chapter 7, “Cost Leadership”  
 Porter, op. cit. Chapter 6,7 \*

#### **Case Study:**

Eli Lilly and Co.: Manufacturing Process Technology Strategy—1991 (HBS 9-692-056)\*

## October 30

### **Competitive Strategies: Product Differentiation**

Product Differentiation Strategies  
 The Value of Product Differentiation-influences prices, influences costs  
 Analyzing Product Differentiation From the Supply Side  
 Analyzing Product Differentiation From the Demand Side  
 Using the Value Chain in Differentiation Analysis

### Readings:

Carlton and Perloff 1999.op.cit. Chapter 7 “Product Differentiation and Monopolistic Competition”  
 Caves, R.E. and P. Williamson. 1985. “What is Product Differentiation, Really?” *Journal of Industrial Economics*, 34, pp. 113-132. \*  
 McAfee. 2002. Chapter 4  
 Barney, op.cit. Chapter 8  
 Grant, op cit. Chapter 9 \*

### Case Study:

Charles Schwab: A Category of One (HBS 9-700-043) \*

### November 6: Industry Evolution

The Industry Life Cycle  
 Structure, Competition, and Success Factors Over the Life Cycle  
 Organizational Adaptation and Change  
 Competitive Advantage in Technology-Intensive Industries  
 Strategies to Exploit Technological Innovation  
 Implementing Technology Strategies

### Readings :

Portor, 1980. op.cit. Chapter 8, 10, 11, 12 \*  
 Grant, op cit. Chapter 10, 11\*  
 MacAfee, op cit. Chapter 5,

### Case Study :

Samsung Electronics (HBS 9-705-508)

### November 13:

#### Vertical Integration and Scope of the Firm

Transaction Costs and Scope  
 Costs and Benefits of Vertical Integration  
 Designing Vertical Relationships

### Readings:

Grant, op cit. Chapter 13 \*  
 Barney, op. cit. Chapter 6  
 Porter, op. cit. Chapter 14 \*

### Case Study:

Merck-Medco: Vertical Integration in the Pharmaceutical Industry (HBS 9-598-091) \*

## **November 19: Midterm Examination Administered**

### **November 27: Diversification and Strategy; Mergers and Acquisitions**

Trends in Diversification  
 Motivations for Diversification  
 Competitive Advantage from Diversification  
 Diversification and Performance  
 Mergers and Acquisitions to Attain Strategic Objectives

#### Readings:

Grant, op cit. Chapter 15, 16 \*  
 Barney, op. cit. Chapter 13, 15  
 Porter, op cit. Chapter 15,16, \*  
 MacAfee, op cit. Chapter 7

#### **Case Study:**

WPP--Integrating Icons to Leverage Knowledge (HBS 9-396-249) \*

## **December 4: The Delta Model: Another Approach**

Introduction to the Model  
 Bonding with the Customer  
 The Triangle Strategy Based Upon Bonding  
 Winning Through Costs and Features  
 Winning Through Customer Relationships  
 Winning Through Complementors  
 Aligning Execution with Strategy  
 Aligning Strategy Processes and Metrics

#### Readings:

Hax and Wildell, op cit. Chapters 1-7, 12

#### **Case Study:**

Saturn: A Different Kind of Car Company (HBS 9-795-010) \*

#### **Final Examination:**

To be scheduled by Registrar



