

# RSM 392H1: STRATEGIC MANAGEMENT

University of Toronto Rotman School of Management Undergraduate Seminar

PROFESSOR: KEVIN A. BRYAN

Office: 95 St. George St. #7034

Office hours: Tuesday 2-330pm, or by appointment

[kevin.bryan@rotman.utoronto.ca](mailto:kevin.bryan@rotman.utoronto.ca)

TEACHING ASSISTANT: LIEN CHUEH

[lien.chueh@mail.utoronto.ca](mailto:lien.chueh@mail.utoronto.ca)

Course L0301 held Mondays 12-2 in RT142

Course L0101 held Mondays 2-4 in RT142

Course L0201 held Mondays 4-6 in RT142

First class Jan 9, Final Class Apr 3 | No class on Feb 20 due to Holiday

## COURSE SCOPE

Strategy as taught in this course is, fundamentally, a course in how to create more value from a business (via proper incentives, entry decisions, and innovation) and how to capture more of that value as profit (that is, to understand the sources of “market power”). We are looking to identify sources beyond “luck” which explain why firms with equally good products and equally competent employees nonetheless differ enormously in their profitability. In particular, we will study

1. what industry-level factors affect value creation and capture
2. how certain strategic choices “match” better than others
3. the ways in which a firm can influence its rivals’ behavior
4. when firms should grow, shrink, or expand in scope
5. the long-run sustainability of a firm’s competitive advantage
6. special topics for strategy in an entrepreneurial firm

I teach this content largely from an economics perspective, and we will use content you learned in introductory microeconomics, including basic game theory. For each class, you will read an academic article looking at a problem of firm strategy, as well as read a case; some of these cases draw on economic history, and many involve firms you will never have heard of. This is deliberate: we will not care about the specific problems firms in the cases face, but rather will attempt to suss out Platonic lessons related to why some firms become highly profitable and others do not.

We are in an upper-division course, and therefore I will demand rigorous logical application of theoretical ideas to cases. The application of theory to each case may not be entirely obvious, but I will expect all students to have thought seriously about the link before arriving at each class. Much of what will be taught

is usually considered “too advanced” for undergraduates, and much of it does not appear in any textbook, which is the main reason we will not be using one. However, in my experience, Rotman students at your level are able to interact with content at this level, and by moving beyond simple story-telling or overly simplified “frameworks”, you will be much better equipped to deal with serious strategic questions in your post-university career.

### REQUIRED READINGS

Course Package (cases + readings), required: see instructions on Blackboard for how to purchase and access your course package. There are a number of non-case readings for this course. All are linked in this syllabus and available via the University of Toronto’s online subscriptions.

### GRADING

You should expect the overall distribution of grades in this course to be similar to the average in Rotman Commerce courses as a whole.

### CLASS CONTRIBUTION (10%)

Strategic analysis is not accomplished through the routine application of formulas, but rather through reasoned analysis under conditions of limited information and uncertainty. One of the primary goals of this course is to help you develop the ability both to clarify your own position on a strategic question and to be able to articulate and defend it clearly.

You **must** be prepared for every class; this means you have done the assigned reading and thought about how to interpret it before arriving. Beyond your own learning, ensuring that you have done the reading is a sign of respect for your classmates.

It is my hope that all will feel comfortable contributing. This may be a different experience than you have had in previous classes, but exploring your ideas out loud by participating in the discussion will serve you well in other classes and in your future careers. I know that some of you may be shy or uncomfortable speaking publicly and/or English may not be your first language. If you are particularly worried about your in-class contributions, please check in within the first two weeks of the semester and I can work with you in creative ways to help you contribute. For example, I could coordinate with you on an in issue for you to raise in class or a question for you to answer. **There is, however, no alternative to participating in class discussions.** See the section on Preparing for Class for more specific details on what you should do to ensure you’ll feel comfortable when discussion starts.

Class contribution will be graded using the following criteria:

*Relevance:* Are you a good listener? Are your comments clearly related to the case and to the comments of others? Are your comments linked to the themes that the class is exploring together?

*Support:* Have you used specific data from the case and the readings to back up the assertions that you are making?

*Clarity:* Are your comments succinct and understandable?

*Quantity:* Do you participate on a regular basis?

It goes without saying, but you are expected to treat colleagues with respect: to disagree with an idea without discrediting the speaker; to helping others to articulate their points of view; and to use airtime judiciously. Please treat others as respected colleagues.

#### ARTICLE SUMMARIES (15%)

Before classes 2 through 12, aside from Midterm day, you are obligated to write two paragraphs summarizing the assigned readings. When there is a case and a non-case reading, you ought focus on answering the question, “In what way does the case elucidate issues raise in the non-case reading.” You should not spend much time on these summaries – they are simply a commitment device to ensure that you and your fellow students have prepared in advance for a fruitful in-class discussion.

#### IN-CLASS MIDTERM EXAM (35%)

An in-class midterm exam will take place on February 27. This will be an individual, closed book exam. The midterm exam will consist largely of short answer, written responses. I will provide more information on the structure of the exam in advance of the midterm date. The midterm will be graded and returned to you within two weeks.

#### FINAL EXAM (40%)

There will be a closed-book 3-hour individual final exam scheduled during the exam period. This exam will consist of multiple-choice, short-answer, and long-answer (i.e., paragraph) questions that span the entire semester’s coursework. I will provide you with more information on the structure of the exam by the final day of class.

#### ATTENDANCE OF OTHER SECTIONS

I teach three sections of this class on Monday. You must attend the section in which you are registered. In exceptional circumstances, however, you may be permitted to attend a different section (each section will cover the same material) *provided that you receive permission from me in advance.*

#### OFFICE HOURS AND EMAIL POLICY

If at any point you feel lost or having a problem regarding a particular concept, please come to my office hours. In general, you are encouraged to come to my office hours to discuss the course and how you can improve your understanding of the material. If you cannot meet during the regularly scheduled time (Tuesdays,

2-330pm), we will make arrangements for an alternate time.

Generally, it is best to ask questions in class, after class, or in office hours. If you need to reach me outside of class and office hours, however, you can send me an email. For administrative questions, you ought to contact the TA first.

### MISSED ASSIGNMENTS AND EXAMS

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. Provided that notification and documentation are provided in a timely manner, and that the request is subsequently approved, no academic penalty will be applied.

In such cases, students must notify Rotman Commerce on the date of the missed test (or due date in the case of course work) and submit supporting documentation (e.g. Verification of Student Illness or Injury form) to the Rotman Commerce Program Office within one week of the originally scheduled test or due date. Students who do not provide Rotman Commerce or the instructor with appropriate or sufficient supporting documentation will be given a grade of zero.

Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce will not accept a statement that merely confirms a report of illness made by the student and documented by the physician.

Students who miss the in-class midterm exam and provide the appropriate documentation will have their grade percentages reallocated. The 35% of your grade that would have been accounted for by the midterm will be allocated to your final exam. Thus, if you miss the midterm, your final exam will count for 75% of your grade.

### COURSE WORK & ACADEMIC HONESTY

Submission of Assignments – All assignments should be submitted via Blackboard, and article summaries are due before class begins. Late assignments will be given a score of zero. Please contact your TA if you are having technical problems submitting.

### ACCESSIBILITY

The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible: [disability.services@utoronto.ca](mailto:disability.services@utoronto.ca) or <http://www.accessibility.utoronto.ca>.

### ACADEMIC INTEGRITY

Below is the standard boilerplate about not cheating. I should warn you that I take cheating in my course very seriously. In the broadest sense, cheating means representing the work of others as your own, whether on exams or on homework.

## **DO NOT CHEAT IN THIS COURSE.**

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

The University of Toronto's Code of Behaviour on Academic Matters outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the Code of Behaviour on Academic Matters. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.

## BLACKBOARD

The online course page for this course is accessed through Blackboard. To access the course page, go to the UofT Portal login at <https://portal.utoronto.ca> and log in using your UTORid and password. Once you have logged in, look for the My Courses module where you'll find the link to all your course websites. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours. If the course does not appear, go to the Information Commons Help Desk in Robarts Library, 1st floor, for help, or explore the Portal Information and Help at <http://www.portalinfo.utoronto.ca/students> and review the Frequently Asked Questions.

## RECORDING LECTURES

You may feel free to record lectures in a manner that does not disturb other students if you wish; I only ask that you do not upload these recordings to the internet.

I will provide video recaps of important points we cover in class. Links to these videos will be provided on blackboard.

## CLASSROOM NORMS

Consistent with the general goal of mutual respect, students are reminded to:

*Arrive on time.* Late arrivals are disruptive to both lectures and class discussion, and show disrespect to those who are on time. Class starts 10 minutes after the hour.

*Minimize disruptions.* All cell phones should be turned off during class. It is particularly disrespectful of your classmates to use your phone/send texts/send emails during class. You will receive demerits in your class participation grade for disrupting your classmate's experience in this way.

*Get to know your classmates.* Please bring your name placards; even better, in the first few classes, please state your name when answering questions. I am hesitant to assign formal group projects, but of course part of a business environment is teamwork, hence we will encourage via in-class games as much mingling as possible.

*Focus on the class.* **Unless you have a very strong reason to need one, laptops will not be permitted in class**, as the course is discussion heavy; contact me personally with any questions on this count. There is good empirical evidence that notetaking on a laptop decreases how much conceptual content you remember: <http://www.vox.com/2014/6/4/5776804/note-taking-by-hand-versus-laptop>.

## WEEKLY SCHEDULE

### WEEK 1 – JANUARY 9 - INTRODUCTION

- Readings None
- Content The story of Hudson’s Bay, What is strategy anyway?, Ought firms try to make better products at lower prices?, advantage vs. sustainable advantage, the benefit of tradeoffs, the use and abuse of analogy, the syllabus and other administrative details

### WEEK 2 – JANUARY 16 – INDUSTRY ANALYSIS AND VALUE CAPTURE

- Readings HBS Case on Crown, Cork and Seal; Chapter 8 of Dranove et al ”Economics of Strategy”
- Content Basics of industry analysis, should you only enter industries you can monopolize, “Cooptition”, the dangers of naïve industry analysis, Five Forces vs. Valuenet; Weekly Formalism: Biform Games and Value Capture

### WEEK 3 – JANUARY 23 – DIFFERENTIATION

- Readings HBS Case on Samsung, “[Taking Industry Structuring Seriously](#)” by Makadok and Ross (appendix does not need to be read, as it is very technical)
- Content Vertical versus horizontal differentiation, differentiation in input markets, Differentiation vs. Low-cost strategy, Weekly Formalism: Cournot, Bertrand, and Limit Pricing with differentiated products

### WEEK 4 – JANUARY 30 – PRICING STRATEGIES

- Readings Kellogg writeup on “The Mother of All Pricing Battles”, HBS Case on Virgin Mobile, Chapter 7 of ”Principles of Pricing” by Vohra and Krishnamurthi; if your game theory knowledge is weak, read the Game Theory Appendix (Chapter 9) as well
- Content Why do we use set prices in the first place?, when do prices get competed down to zero profitability, what dynamic strategies can be used to keep inputs cheap and output expensive?, what causes price wars?, Weekly Formalism: Predatory pricing game

### WEEK 5 – FEBRUARY 6 – NEW PRODUCT ENTRY AND EXIT

- Readings Ivey Case on Porter Airlines, “[Industry Life Cycles](#)” by Klepper, ”Competition, Compatibility and Standards” by Farrell and Saloner
- Content Weekly Formalism: The industry life cycle, entry as a spinoff versus entry de novo, industry “shakeouts”, standardization and path dependence

### WEEK 6 – FEBRUARY 13 – THEORY OF THE FIRM

- Readings HBS Case on Arauco, ”Bringing the Market Inside the Firm” by Baker et al, Hand-out on Formal Theories of the Firm
- Content Why do firms exist anyway?, What should you make and what should you buy?, Why might it be profitable for two different firms to integrate, or to separate?,

## Weekly Formalism: Residual Control Rights

### WEEK 7 – FEBRUARY 27 – MIDTERM

Classes 8 through 12 will shift toward the internal organization of firms

#### WEEK 8 – MARCH 6 – INCENTIVES FOR WORKERS AND MANAGERS

- Readings HBS Case on Lincoln Electric, “[On the Folly of Rewarding A While Hoping for B](#)” by Kerr, “[Excellent Police](#)” by Fisman and Sullivan
- Content The agency problem (you can’t make your workers do whatever you say), Weekly Formalism: moral hazard vs. adverse selection, risk-sharing, multitasking, team incentives, China in the gaige kaifang period

#### WEEK 9 – MARCH 13 – RELATIONAL CONTRACTS

- Readings “[Management Practices, Relational Contracts, and the Decline of General Motors](#)” by Helper and Henderson, “[What do Managers Do?](#)” by Gibbons and Henderson
- Content If you cooperate based on future relationships, when are promises credible?, the rarity of formal contracts with supplier and other relationships, the persistent productivity differences across firms, Weekly Formalism: Precision on the Use of Formal Contracts

#### WEEK 10 – MARCH 20 – LEARNING CURVES AND EFFICIENT SCALE

- Readings HBS Case on Airborne Express, “[How Much Did the Liberty Shipbuilders Learn?](#)” by Thompson
- Content Bigger firms can have lower costs because of learning curves or increasing returns to scale, these lower costs may not result in higher profits, estimating extent of learning curve can be difficult, Weekly Formalism: Estimating Learning Curves

#### WEEK 11 – MARCH 27 – ENTREPRENEURSHIP

- Readings HBS Case on Netflix, “[Dynamic Commercialization Strategies](#)” by Marx, Gans and Hsu, “[More Entrepreneurs is Bad Public Policy](#)” by Shane
- Content The fundamental question for entrepreneurial firms, Is “Disruption” overrated?, What makes an entrepreneurial firm different anyway?, Who becomes entrepreneurs?, Weekly Formalism: The Minimum Viable Product

#### WEEK 12 – APRIL 3 – INNOVATION

- Readings HBS Case on GSK’s Acquisition of Sirtris, “[Are Patents Creative or Destructive](#)” by Nicholas
- Content What do scientists in a firm actually do?, absorptive capacity, complementary assets, how important is formal intellectual property versus alternatives?, review of content for Final Exam