



# **Rotman** Commerce UNIVERSITY OF TORONTO

## **Course Outline**

### **RSM 481H1S**

Outsourcing and the Organization of Firms

Winter 2015

Course Meets: Wednesday, 12:00-2:00, WO 35

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Instructor: Professor Ig Horstmann. RT 8013  
E-Mail: [ihorstmann@rotman.utoronto.ca](mailto:ihorstmann@rotman.utoronto.ca)  
Phone: 416-978-1888  
Office Hours: W, 3:00-4:00 or by appointment

### **Course Scope and Mission**

At least as important to the modern firm as product innovation is the problem of organizational innovation. The latter sort of innovation involves questions of which activities should be done “in house” and which should be outsourced and purchased, either under contract or in a straight market transaction. The purpose of this course is to provide students with a simple framework for addressing the issue of organizational innovation and for understanding how the environment in which a firm operates determines its organizational/outsourcing decisions. The course draws upon insights from both Business Economics and Strategic Management. Utilizing a combination of economic analysis and cases, the course studies why some organizational forms are more effective and others less effective in a given business environment.

### **Course Prerequisites**

ECO 204Y1/206Y1; ECO 220Y1/227Y1/(STA220H1, STA255H1)/(STA 257H1, STA 261H1)

### **Evaluation and Grades**

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well he or she has command of the course materials. Grades will be determined as follows:

		<u>Due Date</u>
Mid Term Exam	50%	February 25
Final Exam	50%	During Faculty of Arts & Science Final Examination period

Please note that clear, concise, and correct writing will be considered in the evaluation of your work. You may lose points for writing that impedes communication: poor organization, weak paragraph development, excessive wordiness, hard-to-follow sentence structure, spelling mistakes and grammatical errors. Students who require additional support and/or tutoring with respect to their writing skills are encouraged to visit the Academic Success Centre

([www.asc.utoronto.ca](http://www.asc.utoronto.ca)) or one of the College Writing Centres ([www.writing.utoronto.ca/writing-centres](http://www.writing.utoronto.ca/writing-centres)). These centres are teaching facilities – not editing services – where trained staff can assist students in developing their academic writing skills. There is no charge for the instruction and support.

### **Missed Assignments/Midterms**

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 **48 hours** 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 0 (zero) for the missed test or course deliverable.

**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.**

**No make-up exam will be provided for the mid-term exam. Students missing the mid-term for a documented reason will have the final exam re-weighted to 80% of the grade. In addition the student will be required to submit a case analysis of the mid-term case that will count for the remaining 20% of the grade.**

### **Accessibility Needs**

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**

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* <http://www.governingcouncil.utoronto.ca/policies/behaveac.htm> 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.

### **Email**

At times, the course instructor may decide to communicate important course information by email. As such, all UofT students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up AND properly entered on the ROSI system. For more information please visit <http://help.ic.utoronto.ca/category/3/utmail.html>

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

### **Blackboard and the Course Page**

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 [www.portalinfo.utoronto.ca/students](http://www.portalinfo.utoronto.ca/students) and review the Frequently Asked Questions.

### **Recording Lectures**

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Blackboard materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in anyway. It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

## Class Materials

There is no text book for this course. All reading materials and course notes will be available on the course web site.

## Course Outline:

### 1. The Firm and Market Transactions: Pro's and Con's

- The Pro's: Markets and Efficiency – class notes
- The Con's: Market Failures – class notes
  - i. Transaction Costs
  - ii. Specific Investments
  - iii. Unobservables

### 2. Transaction Costs, Control and Firm Organization

- An Overview of Transaction Cost – class notes
- Coase, R., "The Nature of the Firm". *Economica* 1937, pp. 386 – 405.
- Case: The Soft-Drink Industry – Muris, Scheffman and Spiller, "Strategy and Transaction Costs: The Organization of Distribution in the Carbonated Soft Drink Industry". *Journal of Economics and Management Strategy*, 1992, pp.83 – 128.

### 3. Specific Investments, the Hold-Up Problem and the Firm

- An Overview of Specific Investments and the Hold-Up Problem – Williamson, O., *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*. New York: Free Press. Chapters 2.
- Klein, B. *et al.*, "Vertical Integration, Appropriable Rents and the Competitive Contracting Problem". *Journal of Law and Economics*, 1978, pp. 297 – 326.
- Coase, R., "The Acquisition of Fisher Body by General Motors", *Journal of Law and Economics*, April 2000, pp. 15-31.
- Freeland, R., "Creating Hold-Up Through Vertical Integration: Fisher Body Revisited", *Journal of Law and Economics*, April 2000, pp. 33- 66.
- Casadesus-Mansell, R. and D. Spulber, "The Fable of Fisher Body", *Journal of Law and Economics*, April 2000, pp. 67- 104.
- Klein, B., "Fisher-General Motors and the Nature of the Firm", *Journal of Law and Economics*, April 2000, pp. 105-141.

### 4. Incentives and Firm Organization

- Overview of Incentive Contracting – class notes
- Case: TGI Friday franchise contract
- Case: Franchising: LaFontaine, F. and M. Slade, "Retail Contracting: Theory and Practice". *Journal of Industrial Economics*, 1997, pp. 1 – 25.

### 5. Firm Organization and Coordination

- Overview – class notes
- Case: Boeing 787: The Dreamliner, (*HBS 9-305-101*).
- Stigler, G., "The Division of Labor is Limited by the Extent of the Market". *Journal of Political Economy*, 1951, pp.185 – 193.
- Alchian, A. and H. Demsetz, "Production, Information Costs and Economic Organization". *American Economic Review*, 1972, pp. 777 – 795.

## 6. Firm Organization in a Global Environment

- Case: *Nike in China*, (HBS 9-386-065).
- Global Supply Chains – “Global Supply Chains: An Exploratory Survey of Management Practice and Challenges”. Research paper, global production.com
- The Multinational Enterprise - Markusen, J., “The Boundaries of Multinational Enterprises and the Theory of International Trade”. *Journal of Economic Perspectives*, Spring 1995, pp. 169 – 189;
- “*The Kangaroo Hops North...*” 1993. Melbourne: McIntosh & Co.
- Joint Ventures and Strategic Alliances – Oxley, J., “Appropriability Hazards and Governance in Strategic Alliances: A Transactions Cost Approach”, *Journal of Law Economics and Organization*, 13 (1997), pp. 387-409.
- Case: *The Walt Disney Co.: The Entertainment King*, (HBS 9-701-035).