



**Econ 5180: Strategy and Organization**  
Spring 2024 Syllabus

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**Time and Venue:**

Time: 9:00 – 12:20, Tuesdays, Feb 6 – Apr 2 (No class on Feb 13)  
Venue: LSK G003

**Instructor:**

Xinyu Hua ( [xyhua@ust.hk](mailto:xyhua@ust.hk) ; 2358-7609; LSK Room 6076)  
**Email is always a great way to reach me.**  
**Office Hours:** By appointment

**TA:**

Emily Chen ( [eckuan@ust.hk](mailto:eckuan@ust.hk) )

**Course Web Site:** [canvas.ust.hk](https://canvas.ust.hk)  
**Course credits:** 2 credits

**Course Objectives and Intended Learning Outcomes**

This course uses economic analysis to examine the design and scope of organizations, as well as their relationship with firms' competitive strategy. Students would be able to:

- Analyze various trade-offs in the design of incentives, the allocation of decision rights, and the transformation of organization structure.
- Evaluate different strategic choices on organization scope, such as horizontal mergers, vertical integration, and conglomerate diversification, as well as their impacts on firms' decision-making.
- Identify the linkage between organization design and competitive advantage.
- Effectively communicate economic intuition about organization strategies to people in academia and the private sectors.

## Study Groups and Learning Activities

**Each group should have no fewer than three but no more than seven people.**

The approach toward teaching and learning strategy and organization is primarily inductive. That is, you will learn many concepts and topics outlined above largely through lectures, cases, examples, and some simple models. The goal is to carefully study specific business situations and decisions to extract broader principles, which will then be available to you in a wide variety of business contexts.

Good cases are necessarily complex and ambiguous. In preparing for case discussions, you may find sorting through this complexity and ambiguity to be frustrating. The problems presented in the case discussion may not have one correct answer. However, there will generally be a set of insights and solutions that are better than others. **For case discussions to be a valuable learning experience, please make sure you read the cases assigned (on Canvas) and think of the case preparation questions (at the end of the syllabus) before coming to each class.**

## How Will You Be Graded?

The grade is made up of four components.

**1. Final Exam (55%):** The final will be an in-class exam on **Apr 2**.

**2. Individual Assignment (5%):** On **Feb 27**, please submit short answers to a few questions, based on your reading of the two cases “P&G Organization 2005” and “The P&G Company and the Biggest Corporate Proxy Fight in US Corporate History.”

**3. The First Group Assignment (10%):** On **Mar 5**, each group please submit answers to a few questions (to be distributed).

**3. The Second Group Assignment (15%):** On **Mar 26**, some groups will **submit a report** on the case “Revitalizing Dell” and the other groups will submit a report on the case “Enterprise”. The report should be in PowerPoint format with no more than 20 slides. During the class on Mar 26, **each group will be invited to share the main points briefly** (not a formal presentation but informal sharing for a few minutes).

**5. Class Contribution (15%):** Attendance, preparation, and participation are essential in this class. Active engagement means that you are *listening carefully* to the comments of other students and seeking opportunities to make comments that move the class discussion forward. Class participation will be evaluated also on (1) the effort and incentives to prepare and participate in class discussion, and (2) the evaluation of the content.

## What Materials Will We Use?

The key materials are the lecture notes, cases, and additional readings, to be uploaded on the course site. You should not distribute these materials outside our class.

The following textbook is just for reference but not required: The Economics of Strategy, 7<sup>th</sup> Edition, by David Besanko, David Dranove, Mark Shanley, and Scott Schaefer (listed as BDSS below), published by Wiley.

### **HKUST Honor Code, Classroom Etiquette, and Policies on AI**

The HKUST Academic Integrity and Honor Code apply to this course. Also, you should not get any course material from the classes in previous years.

**Students are expected to join the class on time and the instructor will start the class according to schedule.** Students should demonstrate respect for the instructor and fellow students during the class period. Please try to avoid side conversations when your classmates raise questions or give comments.

For the exam, individual assignment and the preparation of case discussions, generative AI products are NOT allowed. For the group assignments, you can use generative AI products, for example, to search and organize information or data. However, you should state clearly which part of your report is generated by AI and which part is purely based on your group analysis.

### **Brief Course Outline and Readings**

The table below gives an approximate outline of the course. Cases can be found on the course site: canvas.ust.hk. *Readings in italics are optional and not required.*

	Topic	Reading and preparation before class
Day 1 (Feb 6)	Principal-Agent Framework <b>Incentive Contracts I:</b> Agency and Risk	<i>Optional: BDSS, Chapter 12</i>
Day 2 (Feb 20)	<b>Incentive Contracts II:</b> Multi-task, Multi-agent, and Internal Labor Market	Case on “Aperture Investors” <i>Optional: BDSS, Chapter 12</i>
Day 3 (Feb 27)	<b>Decision Right and Organization Structure</b>	<b>Individual Assignment Due</b> Cases on “P&G Organization” and “P&G Proxy Fight” <i>Optional: BDSS, Chapters 13 and 14</i>
Day 4 (Mar 5)	<b>Horizontal Merger and Conglomerate Diversification</b>	<b>First Group Assignment Due</b> <i>Optional: BDSS, Chapter 2</i>
Day 5 (Mar 12)	<b>Vertical Relationship I:</b> Market Power	Case on “UNIQLO” <i>Optional: BDSS, Chapters 3 and 4</i>
Day 6 (Mar 19)	<b>Vertical Relationship II:</b> Hold-up and Alternatives	Case on “Jumia Nigeria” <i>Optional: BDSS, Chapters 3 and 4</i>
Day 7 (Mar 26)	<b>Organization and Competitive Advantage</b>	Cases on “Revitalizing Dell” and “Enterprise” <b>Second Group Assignment Due</b> <i>Optional: BDSS, Chapter 9</i>
Day 8 (Apr 2)	Exam	

## **Case Preparation Questions**

Please read the cases and think of these questions before class.

### **Day 2 Case on Aperture Investors**

1. Most mutual fund companies charge a fee based on AUM (asset under management) and pay their portfolio managers based on AUM. This incentive scheme may motivate managers to expand fund size. Would this strategy and the larger AUM tend to increase or decrease fund performance (excess returns)? Why?
2. The new fund, Aperture Investors, charges a fee based on profit rates (i.e. excess returns). Would this strategy be successful or not?

### **Day 3 Cases on “P&G Organization 2005” and “P&G and Corporate Proxy Fight”**

1. Why did the US organization structure of P&G shift from (decentralized) product grouping in the 1950s to a matrix in the 1980s? Why did the European organization structure shift from geographic grouping in the 1950s to product (category) grouping in the 1980s? For each organization structure, think of its pros and cons.
2. What is your evaluation of Organization 2005?
3. Following the proxy fight that started in 2017, P&G changed its organization structure again in 2019. David Taylor, CEO of P&G, said “the design eliminates the 3-way matrix and moves to one axis: sector business units.” Each of the six sector business units (SBU) takes all of the P/L, sales, and cost responsibilities for larger geographic markets. Corporate resources are reduced significantly and shifted closer to markets. What is your evaluation of the structure?

### **Day 5 Case on UNIQLO**

1. In a vertical relationship between an upstream supplier and a downstream distributor, do you see potential distortions in price and quality, which may destroy value? How does UNIQLO solve these distortions?
2. H&M, Zara, and UNIQLO use different strategies to avoid potential price and quality distortions. Why do you think that these firms choose different strategies?
3. Please read the following update about UNIQLO’s usage of digitalization in managing the vertical relationship. Why (and how) did UNIQLO invest in digitalization?

<https://d3.harvard.edu/platform-rctom/submission/uniqlo-digitalization-and-supply-chain-transformation/>

### **Day 6 Case on Jumia Nigeria**

1. What are the opportunities and challenges for e-commerce in Nigeria?
2. Jumia's original business model was that of an online retailer, that is, a reseller in the vertical relationship. What must be done to make the reseller model work? What are the drawbacks of the model?
3. Jumia decided to shift from the reseller model to a marketplace model, that is, similar to Amazon and Alibaba. Is it the right decision? Why or why not?

### **Day 7 Case on Enterprise**

1. Organization Strategies: What are the differences between Enterprise and other car rental firms in organization strategies, such as the allocation of decision rights, incentive schemes, and hiring policies?
2. Niche Advantage: Which market does Enterprise focus on? In what ways did the Enterprise car rental experience match the needs of customers in that market? How did its organization strategies help create and sustain its Niche advantage?
3. Growth and Post-merger integration: Enterprise acquired two other firms, National and Alamo, which used to focus on the airport market. After these acquisitions, would you suggest Enterprise apply its organization strategies to these acquired firms at the airport market or not?

### **Day 7 Case on Matching Dell and Updates in 2018**

Note that Dell's direct sales model removes resellers in the vertical relationship.

1. Benefit Advantage: When you think of Dell's competitor throughout this case, note that it really consists of the **combination** of a PC manufacturer and a reseller. From late 1990s to the mid-2000s, did Dell enjoy benefit advantages (providing more benefits to consumers, except for a lower price) over competitors? How did its organization strategies help create and sustain its benefit advantage (if any)?
2. Cost Advantage: From late 1990s to the mid-2000s, did Dell enjoy cost advantage over competitors? How did its organization strategies help create and sustain its cost advantage (if any)?
3. After the mid-2000s, what has changed in the PC industry? Why did Dell lose its competitive advantage?

**Remark:** In the class discussions, but not required for the assignment, we will try to calculate Dell's C advantage, over the team of HP and a reseller, in selling a PC with

the same specifications and the same delivery date to a corporate customer, respectively in year 1998, 2004, 2008, and 2018. You may find Exhibits 7 and 9, as well as pages 3, 4, and 6 to have useful data. If needed, you can also assume that the firm's annual capital cost is 12%. Besides the information provided in the case, other industry reports also revealed that Dell's average days of inventory were 7 days in 1998 while the average price of all components was decreasing by 1% per week that year. Note also that the (unit) cost of goods sold (COGS) = Price \* (1-Margin).

### **Dell Case: Updated Information for the year 2018**

- Dell's **average selling price** of personal computers, including both desktops and laptops in 2018 (Source: Statista.com): **\$633**
- Dell's **gross margin** in 2018 (Source: Annual report): **26%**
- Dell's **percentage of sales through direct channels** (Source: Annual report and online summaries): About **49%** (that is, 51% of sales were from indirect channels)
- Dell's **Average Days of Inventory** for 6 months ended in April 2019 (Source: gurufocus.com): **16 days**
- Lenovo's **Average Days of Inventory** for 6 months ended in April 2019 (Source: Annual report and earnings announcement): **36 days**
- **Price changes of major components** in 2018 (over the last year): Let's assume that the average price of components decreased by about **20% per year**. This assumption is based on the following observations: during that period, RAM prices dropped by about 10% per year, SSD prices dropped by about 30-50% per year, and CPU prices also decreased a lot (Source: techlapse.com)