



Econ 5180: Strategy and Organization

Department of Economics
Spring 2025 Syllabus

Time, Venue, and Webpage:

Time: 9:30 – 12:50, Thursdays, Feb 6 – Mar 27
Venue: Room 3, 31/F, Tower 1, Millennity
Course Page: canvas.ust.hk
Credit: 2 credits
Prerequisite: ECON 5110 or ECON 5130 or ECON 5210

Instructor:

Xinyu Hua (xyhua@ust.hk ; 2358-7609; LSK Room 6076)
Office Hours: By appointment

TA:

Pang Tsoi (pangtsoi@ust.hk)

Related Program Intended Learning Outcomes

Students would be able to:

- Explain firms' and individuals' behaviors in given economic and industry environments using an understanding of theories and knowledge from microeconomics.
- Present economic insights or their empirical findings to industry people using both economic and business languages; and use various approaches including graphs, diagrams, figures, etc. to enrich their communication.

Course Intended Learning Outcomes

This course uses economic analysis to examine the design and scope of organizations, as well as their relationship with firms' 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 and market relationships

- Present economic insights or their empirical findings to industry people using both economic and business languages; and use various approaches including graphs, diagrams, figures, etc. to enrich their communication.

Study Groups and Case Reading

Each group should have no fewer than three but no more than six 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. 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 studies 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 the following components.

- 1. Final Exam (60%):** The final will be an in-class exam on **Mar 27**.
- 2. Individual Assignment (6%):** On **Feb 20**, 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 (12%):** On **Feb 27**, each group please submit answers to a few questions (to be distributed).
- 3. The Second Group Assignment (12%):** On **Mar 20**, each group please submit answers to a few questions (to be distributed).
- 5. Active Engagement in Class Discussion (10%):** 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.

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](#), 7th 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. If you cannot join a particular class meeting, please let me know in advance. **Missing more than two of the class meetings from Feb 6 to Mar 21 will result in grade reduction by one level (e.g. from A- to B+).**

For the exam and individual assignment, 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.

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 Incentive Contracts I: Risk, Performance Measure	<i>Optional: BDSS, Chapter 12</i>
Day 2 (Feb 13)	Incentive Contracts II: Multi-task, Multi-agent, and Internal Labor Market	Case on “Xibei” <i>Optional Case on “Aperture Investors”</i> <i>Optional: BDSS, Chapter 12</i>
Day 3 (Feb 20)	Decision Right and Organization Structure	Individual Assignment Due Cases on “P&G Organization” and “P&G Proxy Fight” <i>Optional: BDSS, Chapters 13 and 14</i>
Day 4 (Feb 27)	Horizontal Relationship I: Mergers	First Group Assignment Due Case on “China’s Joyson Group” <i>Optional: BDSS, Chapter 2</i>
Day 5 (Mar 6)	Horizontal Relationship II: Diversification Vertical Relationship I: Information	Case on “Revitalizing Dell” <i>Optional: BDSS, Chapters 3 and 4</i>
Day 6 (Mar 13)	Vertical Relationship II: Efficiency	Cases on “UNIQLO” and “SHEIN” (pages 1-9 only) <i>Optional: BDSS, Chapters 3 and 4</i>
Day 7 (Mar 20)	Vertical Relationship III: Foreclosure Review	Second Group Assignment Due
Day 8 (Mar 27)	Exam	

Case Preparation Questions

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

Day 2 Case on Xibei

1. How does Xibei motivate employees along their career paths through the design of short-run and long-run incentives? Pay attention to the higher-than-market wage, human capital training, and promotion.

Day 3 Cases on P&G

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? Also, what is the special feature of Organization 2005? For each organization structure, think of its pros and cons.
2. 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 4 Case on China’s Joyson Group

1. What are the potential synergies from the merger between Joyson and Preh? Any potential challenges to their post-merger integration?
2. How did Joyson’s post-merger integration approach differ from the classic approach?

Day 5 Case on Matching Dell

1. From late 1990s to the mid-2000s, Dell enjoyed competitive advantage over other PC firms. How did its organization strategy (i.e. the direct-sales model) create and sustain competitive advantages?
2. After the mid-2000s, what has changed in the PC industry? Why did Dell lose its competitive advantage?

Day 6 Cases on UNIQLO and SHEIN

1. In a vertical relationship between an upstream supplier and a downstream distributor, do you see potential distortions in price that may destroy value? How does UNIQLO solve these distortions?
2. Why do H&M, Zara, and UNIQLO use different strategies to avoid potential price distortions in the vertical relationships?
3. SHEIN outsources design and production to independent designers and producers. How does SHEIN achieve faster production cycles than Zara?