



**Econ 5180: Strategy and Organization**  
Spring 2023 Syllabus

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HKUST

**Time and Venue:**

Time: 9:30 – 12:50, Wednesdays, Feb 8 – Mar 29 (Exam on Mar 29)  
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

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

**Course credits:** 2 credits

**Course Description and Learning Goals**

This course uses economic analysis to examine competitive strategy and the design of organizations. The first half of the course focuses on market competition and strategies, while the second half considers the relationships within the firm as well as the boundaries of the firm. The learning objectives include:

- Predict competitors' actions and reactions using game-theoretic methods. In the context of oligopoly markets, analyze the strategic effects of business strategies.
- Analyze organization design and organization scope, including topics about incentives, allocation of decision rights, horizontal mergers, and vertical integration.
- Identify the linkage between organization structure and strategies.
- Effectively communicate economic intuition about organization strategies to people in academia and the private sectors.

**Study Groups and Case Study Method**

**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 cases, examples and some simple models – this is the essence of **the case study method**. 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 which 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 five components:

- 1. Final Exam (55%):** The final will be an in-class exam on **Mar 29**.
- 2. The First Group Assignment (10%):** On **Feb 22**, each group please submit answers to a few questions (to be distributed).
- 3. The Second Group Assignment (10%):** Each group please submit a short report on the case “P&G Organization” on **Mar 8**. The report should be in PowerPoint format and have no more than 10 slides.
- 4. The Third Group Assignment (10%):** On **Mar 22**, each group please submit answers to a few questions (to be distributed).
- 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 and Classroom Etiquette**

The HKUST Academic Integrity and Honor Code apply to this course. In particular, the group assignments must be strictly your group's original work and the exam must be your own work. And you should not get any course material from the classes in previous years.

**Students are expected to arrive for class on time and the instructor will start the class according to the 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. You are welcome to bring your laptop or iPad to class. However, you may not engage in distracting behavior such as surfing the Web or instant messaging.

If the class is held online (via Zoom), **anyone attending the class online should turn on the video/webcam and mute the mic.** We will make arrangements so that students will have opportunities to contribute to class discussions: you can use the "raise hand" function on Zoom and then our TA or I may call your name for sharing. Please be patient if there are technical/internet problems or if you are not called due to time constraints.

### **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](http://canvas.ust.hk). *Readings in italic are optional and not required.*

	Topic	Reading and preparation before class	
Day 1 (Feb 8)	<b>Competitive Strategy I:</b> Strategic Decisions	Background Notes "ECON Review for Strategy" <i>Optional: BDSS, Chapters 5 and 7</i>	
Day 2 (Feb 15)	<b>Competitive Strategy II:</b> Entry and Foreclosure	Case and WSJ News on "Netflix"	
Day 3 (Feb 22)	<b>Competitive Strategy III:</b> Asymmetric Information	Case on "Rural Taobao" <b>First Assignment Due</b> <i>Optional: BDSS, Chapter 10</i>	
Day 4 (Mar 1)	<b>Organization Strategy I:</b> Incentives	Case on "Aperture Investors" <i>Optional: BDSS, Chapter 12</i>	
Day 5 (Mar 8)	<b>Organization Strategy II:</b> Decision Rights	Case on "P&G Organization" <b>Second Assignment Due</b> <i>Optional: BDSS, Chapters 13 and 14</i>	
Day 6 (Mar 15)	<b>Horizontal Merger</b> <b>Vertical Relationship I:</b> Hold-up	<i>Optional: BDSS, Chapters 2 and 3</i>	R
Day 7 (Mar 22)	<b>Vertical Relationship II:</b> Price and Quality Distortions	Case and Updates on "UNIQLO" <b>Third Assignment Due</b> <i>Optional: BDSS, Chapter 4</i>	
Day 8 (Mar 29)	Exam		

### **Case Preparation Questions**

Please think of these questions before class (no need to submit any written answers).

#### **Day 2 Case on Netflix**

1. In what ways did Netflix's DVD-by-mail business act as a disruptive innovation to video rental stores like Blockbuster? Why did Blockbuster have less incentive (than Netflix) in investing in the new DVD-by-mail business?
2. What strategies could firms use to maintain their leadership or innovation incentives?
3. Netflix faces more and more competition in the digital delivery market. Read both the case and the WSJ article "Netflix Signals No Acquisition Plans" (July 20, 2021). What do you think the company should do?

#### **Day 3 Case on Rural Taobao**

1. To build trust between sellers and buyers, Taobao has set up a rating system that allows buyers to rate sellers. However, quite some sellers still do not care about ratings and they sell low-quality (or overpriced) products. Besides design caveats of the rating systems, what are the possible economic reasons for the (partial) failure of the rating system?
2. Taobao offers a "rebate-for-feedback" (RFF) program, which gave sellers "the option of selecting items for which they set a rebate value...Sellers choose which of their items will adopt the RFF, for how long it will be offered, and the form and monetary value of rebates." Why would Taobao allow sellers to "buy" feedback?
3. Think of the key features of Rural Taobao 1.0 and 2.0. Why did these models fail to work? What do you think should be the business model for Rural Taobao?

#### **Day 4 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 5 Case on P&G Organization**

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. P&G changed its organization structure again in 2019 (see the following article; also available on canvas). Why are the key changes in P&G organization in July 2019? What is your evaluation of this structure?

<https://seekingalpha.com/article/4223211-p-and-g-largest-organizational-change-in-20-years>

### **Day 7 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://digital.hbs.edu/platform-rctom/submission/uniqlo-digitalization-and-supply-chain-transformation/#Session>