

# RSM 392H1: STRATEGIC MANAGEMENT

University of Toronto Rotman School of Management Undergraduate Seminar

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Course L0201 held Mondays 11-1 in WO20

Course L0401 held Mondays 2-4 in WO20

First class Sep 9, Final Class Dec 5 | No class on Oct 14 due to Thanksgiving and Nov 4 due to Fall Term Break, makeup class on Dec 6

## COURSE SCOPE

Strategy as taught in this course is, about why some businesses are able to consistently turn a profit, and others are unable to do so. We are looking to identify sources beyond “luck” which explain why firms with equally good products and equally competent employees nonetheless perform so differently. In particular, we will study

1. why there are persistent differences in productivity and profit
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. how to motivate workers, managers, and suppliers
6. the role of beliefs in so-called “relational” contracts
7. 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 Quercus 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.

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 artic-

ulate their points of view; and to use airtime judiciously. Please treat others as respected colleagues.

#### WEEKLY ASSIGNMENT (10%)

Before classes 2 through 12, aside from Midterm day, you will have assigned readings, and I will ask a few straightforward questions online to ensure you have done the reading, and to get you to think about the link between theory and the case reading. You should not need to spend much time on these assignments– they are simply a commitment device to ensure that you and your fellow students have prepared in advance for a fruitful in-class discussion.

#### TOPICS IN THE NEWS (10%)

Before classes 4 through 12, aside from Midterm day, a different group of roughly six students will prepare a 10 minute presentation about how the theoretical content we saw in the previous class relates to an article in the business press. You will also prepare a write-up of 2-3 pages (again, as a group) to be handed in. For example, if we are discussing formal incentives for workers, you will look through the business press of your choice - this can be local newspapers like the Financial Post, international papers like the South China Morning Post, or news magazines. By *Saturday morning at 8 a.m.*, you must send me the article you propose, and I will have it posted on Quercus for other students to read. Your goal will be to briefly introduce what the firm or organization is doing, the alternatives they can pursue instead, and a theoretically-grounded argument about which option you feel is most appropriate. Other students in the class will then challenge your interpretation. You should feel free - indeed, I encourage you - to come to office hours as a group during your week so we can discuss how to prepare this.

#### IN-CLASS MIDTERM EXAM (30%)

An in-class midterm exam will take place on October 28. 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 two 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 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 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 30% 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 70% of your grade.

### 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: [accessibility.services@utoronto.ca](mailto:accessibility.services@utoronto.ca) or <http://www.studentlife.utoronto.ca/as>.

## 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.

## QUERCUS

The online course page for this course is accessed through Quercus. To access the course page, go to the UofT Portal login at <https://q.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.

## 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.

*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 – SEPTEMBER 9 - INTRODUCTION

- Readings None
- Content What is strategy? Why, and to what extent, do firms differ in their productivity and profitability? Why aren't all profits competed away from successful firms? Why are business cases difficult to learn from without theory?

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

- Readings HBS Case on Crown, Cork and Seal, "Notes on Value Capture Theory" handout, "The Right Game" by Brandenberger and Stuart, and "[Why do Management Practices Differ Across Firms and Countries](#)" by Bloom and van Reenen.
- Content How much do industries differ in their profitability? Is it best to enter "blue ocean" industries where you are a monopolist? Are rival firms always competitors? Why do some firms in a value chain earn large profits and some earn little?

### WEEK 3 – SEPTEMBER 23 – DIFFERENTIATION

- Readings HBS Case on Samsung, "[Taking Industry Structuring Seriously](#)" by Makadok and Ross (only pages 509-523; the appendix is very technical and is optional)
- Content What are vertical and horizontal differentiation? How can firms differentiate in their input markets? When is differentiating your product bad for profits? Should you always differentiate into higher-quality products?

### WEEK 4 – SEPTEMBER 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
- Content Why do we use prices in the first place? What other "mechanisms" can be used to transact, and when should they be used? When do prices get competed down to zero profitability? What causes price wars?

### WEEK 5 – OCTOBER 7 – NEW PRODUCT ENTRY AND EXIT

- Readings Ivey Case on Porter Airlines, "[Industry Life Cycles](#)" by Klepper
- Content When considering entry, does the age of an industry matter? Why do incumbents get entrenched in some industries? Why are new inventions adopted slowly? Why do some industries have frequent exit and entry of leading firms?

### WEEK 6 – OCTOBER 21 – THEORY OF THE FIRM

- Readings HBS Case on Arauco, Handout on Formal Theories of the Firm
- Content Why do firms exist anyway? Why did firms arise historically? What should you make yourself and what should you buy? When should firms merge or separate?

## WEEK 7 – OCTOBER 28 – MIDTERM

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

### WEEK 8 – NOVEMBER 11 – 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 Why can’t you make workers do what you want? Why did Chinese agriculture boom in the 1980s, and how does this relate to managing workers in a firm? Why are teams hard to motivate? When can strong incentives perversely make outcomes worse?

### WEEK 9 – NOVEMBER 18 – RELATIONAL CONTRACTS

- Readings “[Management Practices, Relational Contracts, and the Decline of General Motors](#)” by Helper and Henderson, “[Non-contractual Relations in Business: A Preliminary Study](#)” by Macaulay; optional reading for more technical detail: “[What do Managers Do?](#)” by Gibbons and Henderson
- Content Why are formal contracts so rare in business contexts? When can the promise of future business or promotions induce cooperation today? Why did General Motors decline in the 1980s instead of just copying Toyota’s practices?

### WEEK 10 – NOVEMBER 25 – LEARNING CURVES AND EFFICIENT SCALE

- Readings HBS Case on Airborne Express, Bessen chapter 2 “Skills of the Unskilled”
- Content Why do bigger or more experienced firms have lower unit costs? When are decreasing unit costs a source of strategic advantage? How do you know, empirically, the nature of the learning curve in your industry? What are the dangers of taking advantage of learning curves?

### WEEK 11 – DECEMBER 2 – ENTREPRENEURSHIP

- Readings NTU Case on Meituan-Dianping, “[Dynamic Commercialization Strategies](#)” by Marx, Gans and Hsu (pages 1-24; appendix can be omitted), “[More Entrepreneurs is Bad Public Policy](#)” by Shane
- Content Is “disruption” overrated? What makes an entrepreneurial firm different anyway? Who becomes entrepreneurs? Is the “MVP” model of entrepreneurship always best?

### WEEK 12 – DECEMBER 5 – INNOVATION

- Readings HBS Case on GSK’s Acquisition of Sirtris, “[Absorptive Capacity](#)” by Cohen and Levinthal
- Content What do scientists in a firm actually do? Why may scientists be useful even if they invent nothing? Why do the non-research assets of your firm affect what types of scientists you want? How important is formal intellectual property? We will also review for the final during this class.