Interactions and Relationships of Business

BE 520

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I. Course Description:

This class will explore the relationships within and between firms. Beginning with the theory of the firm literature, the class will focus on the ownership of assets and the separation of ownership and control. The focus will then shift to the economic literature on relationships and organization of human capital with a focus on teams and the information flows within and between teams. What constitutes a team? What are the benefits/costs of operating within a team? How do different locations, different cultures and different objectives affect the relationships that develop? How and why are franchising arrangements used? Some of the legal implications of different organizational forms will be explored in the context of two important antitrust cases. Finally, some hybrid organizational forms will be considered. For example, what are the motivations for and roles of business groups that are often observed in different countries around the world?

II. Course Structure:

The class will meet once per week during the Winter A term. These classes will go over the literature as well as specific cases. Sometimes the case is actually written up as a case (e.g., Aravind, Mzansi, GM); in other instances, it will be based on the examples from the readings (e.g., Toyota, franchising, the stock exchanges). You will be asked to be prepared to answer a set of questions for each class (see section V. of the syllabus) based on the literature and the case for that class.

The additional component of the course will be one on one or team meetings in which the final project will be discussed and evaluated. The project will involve an in depth analysis of a particular part of a firm and its internal and external relationships. In addition to analysis based on the topics covered in the class, the project will include recommendations as the organization moves forward. The project will be due at the end of the Winter B term.

III. Evaluation:

Class participation	25%
Test	25%
Project	50%

IV. Course Outline:

The readings for this course will be drawn from the list below each section. The specific pages and questions you will be responsible for are listed in the next section of the syllabus. The "other readings" from the list below are listed for those interested in particular topics. Each section of the course will revolve around specific examples. In some instances, the examples are not formally written up as cases, but in the readings listed, there is enough information to serve as the basis for the discussion.

1) Introduction: Markets, firms and teams
   a) Why do transactions take place within a firm instead of through the market
      i) Protection of IP?
      ii) Quality Control?
      iii) Scale economies?
      iv) Double monopoly mark up?
   b) Why don't all transactions take place within a firm
      i) Separation of ownership and control
      ii) Moral hazard more generally
      iii) Economic solutions

Case: Targeting the Unbanked: Mzansi at Standard Bank

Readings in coursepack:

Coase, Ronald "The Nature of the Firm: Origins, Meaning and Influence" *Journal of Law Economics and Organization* 1988.

Buttrick, John, "The Inside Contract System" *Journal of Economic History* Summer 1952 pp 205-221.

Other readings:

Coase, Ronald "The Nature of the Firm" *Economica* 1937 386-405.

2) Teams and Information Flows – Relationships between individuals
   a) The role of teams within a firm
   b) The relationship between teams within a firm
   c) The relationship between teams between firms

Case: Growing a Health Care Facility, GM (to be distributed)

Readings in coursepack:

Alchian, Armen and Harold Demsetz "Production, Information Costs and Economic Organization" *American Economic Review* 1972 777-795.

Azoulay, Pierre "Acquiring Knowledge Within and Across Frim Boundaries: Evidence from Clinical Development" NBER Working Paper 10083, November 2003

Christensen, Clayton, "Value Networks and the Impetus to Innovate", Chapter 2 in *The Innovator's Dilemma*

Brett, Jeanne, Kristin Behfar and Mary Kern "Managing Multicultural Teams" *Harvard Business Review* November 2006.

Katzenbach, Jon and Douglas Smith "The Discipline of Teams" *Harvard Business Review* July-August 2005

Evans, Philip and Bob Wolf "Collaboration Rules" *Harvard Business Review* July-August 2005

Fischer, Bill and Andy Boynton "Virtuoso Teams" *Harvard Business Review* July-August 2005

Malone, Thomas, "Is Empowerment Just a Fad? Control, Decision Making and IT" *Sloan Management Review*, Winter 1999.

"On the Hot Seat" *Fortune* January 22, 2007

"Shining Examples" *The Economist* June 17 2006.

"Manufacturing Complexity" *The Economist* June 17 2006.

"Working Together When Apart" *Wall Street Journal Business Insight Report* June 16-17 2007

Greiner, Larry "Evolution and Revolution as Organizations Grow" *Harvard Business Review* May-June 1998 (1972 reprint)

Other readings:

Demsetz, Harold "The Theory of the Firm Revisited" *Journal of Law, Economics and Organization* Spring 1988, 141-161.

Bolton, Patrick and Mathias Dewatripont "The Firm as a Communication Network" *Quarterly Journal of Economics*, November 1994 809-839.

Mookherjee, Dilip "Decentralization, Hierarchies, and Incentives: A Mechanism Design Perspective" *Journal of Economic Literature*, June 2006.

Gibbons, Robert "Team Theory Garbage Cans and Real Organizations: Some History and Prospects of Economic Research on Decision-Making in Organizations" *Industrial and Corporate Change* Vol 12 number 4 753-787.

Malone, Thomas *The Future of Work* 2004

Kogut, Bruce and Udo Zander "Knowledge of the Firm and the Evolutionary Theory of the Multinational Corporation" *Journal of International Business Studies* November 2003 516-529.

Hamilton, Barton, Jack Nickerson and Hideo Owan "Team Incentives and Worker Heterogeneity: An Empirical Analysis of the Impact of Teams on Productivity and Participation," *Journal of Political Economy*, 2003.

Lazear, Edward and Kathryn Shaw, "Personnel Economics: The Economist's View of Human Resources" *Journal of Economic Perspectives*, Fall 2007, 91-114.

Darling, Marylin, Charles Perry and Joseph Moore, "Learning in the Thick of it" *Harvard Business Review* July-August 2005 84-92.

Ichniowski, Casey and Kathryn Shaw, "Beyond Incentive Pay: Insiders Estimates of the Value of Compelemetary Human Resource Management Practices" *Journal of Economic Perspectives Winter* 2003 155-180.

3) Relationships with physical assets
   a) Asset specificity
   b) GM – Fisher Body
   c) Evidence

Readings in Coursepack:

Klein, Crawford and Alchian "Vertical Integration, Appropriable Rents and the Competitive Contracting Process" *Journal of Law and Economics* 1978, 297-326.

Coase, Ronald "The Conduct of Economics: The Example of Fisher Body and General Motors" *The Journal of Economics and Management Strategy* Summer 2006 255-278.

Klein, Benjamin "The Economic Lessons of Fisher Body-General Motors" *International Journal of the Economics of Business* August 2007

Other readings:

Williamson, Oliver "Vertical Integration: Theory and Policy," Chapter 4 in *The Economic Institutions of Capitalism*, 1975.

Baker, George and Thomas Hubbard "Make Versus Buy in Trucking: Asset Ownership, Job Design, and Information" *American Economic Review* June 2003 551-572.

Masten, Scott, James Meehan and Edward Snyder, "The Costs of Organization" *Journal of Law, Economics and Organization* Spring 1991 1-25.

Masten, Scott, James Meehan and Edward Snyder "Vertical Integration in the US Auto Industry" *Journal of Economic Behavior and Organization* 1989 265-273.

4) Examples:
   a) Franchising
      i) Prevalence
      ii) Variance of contractual relationships between different Franchise Contracts
      iii) Franchising versus wholly owned subsidiaries
   b) Toyota
      i) The role of teams
      ii) When does Toyota outsource
      iii) What are the information flows

Readings in course pack:

Evans, Philip and Bob Wolf "Collaboration Rules" *Harvard Business Review* July-August 2005

"Lessons from Toyota's Long Drive" *Harvard Business Review* July-August 2007

Liker, Jeffrey, *The Toyota Way (selections)*

The Economics of Franchising Blair, Roger and Francine LaFontaine (chapters 2, 3 and 8)

Lafontaine, Francine and Patrick Kaufmann, "The Evolution of Ownership Patterns in Franchise Systems" *Journal of Retailing* 1994 97-113.

5) Market power implications of organizational structure and the law
   a) Integration
   b) Territorial restraints
   c) Price restraints
   d) Non-price restraints

Readings:

Besen, et al. "Vertical and Horizontal Ownership in Cable TV: Time Warner – Turner" in *Antitrust Revolution*

Lynk, William, "Jefferson Parish – Tying and Exclusive Dealing" in *Antitrust Revolution*

Other readings:

White and Kwoka, "Economic and Legal Context" *Antitrust Revolution*, 1999.

Note for a Roundtable on Vertical Mergers presented by USDOJ and FTC at an OECD conference in February 2007

6) Blurring the boundaries -- Cross market integration
   a) Groups
   b) NASDAQ and market makers
   c) Patent pools
   d) R&D and marketing spillovers
   e) Competitive rules joint ventures

Readings in Coursepack:

Brodley, J.F., "Antitrust Law and Innovative Cooperation" *Journal of Economic Perspectives* 1990.

Clyde, Schultz and Zaman "Trading Costs and Exchange Delisting: The Case of Firms that Voluntarily Move from the American Stock Exchange to Nasdaq," *Journal of Finance*, 52, 1997, pp.2103-2112.

Other readings:

Khanna, Tarun, and Yishay Yafeh. "Business Groups in Emerging Markets: Paragons or Parasites?" *Journal of Economic Literature* June 2007 331-372.

Khanna, Tarun and Yishay Yafeh "Business Groups and Risk Sharing around the World" *Journal of Business* 2005 301-340.

Clyde and Reitzes "Can Mergers to Monopoly, Price Fixing, and Market-Division Agreements Raise Welfare?", *International Journal of the Economics of Business*, 11, 2004, pp 69-90.

Clyde and Reitzes "Is it Efficient to Impose Costs on Small-Volume Equity Traders?" *International Journal of the Economics of Business*, 6, 1999, 81-92.

V. Readings and Questions:

Class 1 (Jan 9):

Read:

Buttrick (skim)

Mzansi Case

Questions:

Why don't all transactions take place within a firm?

Why don't all transactions take place across the market?

What defines a firm?

When do you want to organize economic activity within a firm as opposed to across the market?

Case: Mzansi

What is the best way for Standard Bank to access the low income population?

Class 2: Firms (Jan 16 - continued)

Read:

Alchian and Demsetz 777-783

Azoulay p 1593-1599

Christensen, Chapter 2

Questions:

What is AD's reason for organizing through a firm?

Is this consistent with Azoulay's argument?

Christensen's?

What are the key determinants of when activity will take place within a firm based on this?

What are the key determinants to the boundary of a team?

Case: Developing a Health Care Facility: Aravind

What functions does Aravind want to take on?

Why those functions?

What is the role of the partner institution?

How should the other parts of the supply chain be developed?

How should the different hospitals interact within UP?

What should be the relationship between Aravind's UP operation(s) and its hospitals in Tamil Nadu?

Class 3: Teams (Jan 23)

Read:

Katzenbach and Smith "Discipline of Teams"

Greiner "Evolution and Revolution as Organizations Grow"

Malone "Is Empowerment Just a Fad?"

Questions:

What is a team? (the answer must be one that is operational – providing guidance as to when you want to organize as a team and when you don't)

What are the different types of teams according to K and S? Can you think of other examples?

How would you expect the different types teams to differ in character? (examples in Greiner, Google, K&S)

How does the definition and determination of team relate to firm definition?

What happens to the teams in the different stages of growth according to Greiner?

What is the nature of information flows at the different stages?

Does Malone's argument related to teams at all?

How have changes in the costs of information flows changed the optimal organization of firms? Teams? (see Malone, Shining Examples article, manufacturing complexity article – why does Boeing work with arms-length suppliers in developing their new jet instead of an internal team of suppliers – what makes it more efficient to do this across the market instead of within the firm?)

Corporate leaders will often talk about the inportance role of a firm's culture? What is culture in the context of team, information flows, and firms? Does it matter? If so, how should it be operationalized?

Case: GM(1) (to be distributed in class)

Are the four questions the right questions to ask?

What factors determine the answer to each of these questions (or the questions you believe to be the correct questions)?