

# **Cross-border Management: Institutions, Firms, and Industry Value Chains**

Department of Management & Global Business  
Rutgers Business School - Newark & New Brunswick

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Time: Wednesdays, 9:30-12:30

Place: 1 WP, Room 358

Course ID: 26.533.501

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## **COURSE OVERVIEW & OBJECTIVES**

This course explores challenges facing modern corporations in organizing activities that span multiple stages of the value chain. The course is broadly organized into two parts. In the first part, students are introduced to the theory of the firm, with a special emphasis on buyer-supplier relations and vertical integration. We consider these issues through different theoretical lenses, and students read foundational literature in transactions cost and knowledge-based paradigms. We examine firm boundaries both in product markets as well as in markets for knowledge and technology, and study how and when new and intermediate forms such as networks and relational contracting emerge as stable organizing principles. Where possible, research that examines these issues from an international perspective is included.

The second part of the course deals explicitly with firm boundaries and industry organization in a comparative perspective. We examine the role of institutions in generating variety across national contexts in the organizing principles of firms, industries and buyer-supplier relationships, with an emphasis on the organization of Japanese firms and firms in emerging markets.

Additional topics that will be covered as time permits build upon these two streams of research, and include: the roles of physical space and social networks in inter-firm knowledge flows; globalization and industry value chains; markets for technology and the division of innovative labor; outsourcing and firm-level performance.

The course is designed to be relevant to doctoral students across a variety of interests: strategic management, international business, organizational theory, and supply chain management. The literature we read draws primarily from economics, organizational sociology, and strategic management. While this course takes an international perspective, it does not directly ground students to theories of the multinational firm and foreign direct investment. These topics, which span vast literatures, are examined in depth in other doctoral courses. Instead, we focus on issues of firm boundaries (broadly) and buyer-supplier exchanges (specifically) in a comparative perspective. Therefore the course complements and connects to other courses in international business, strategy and organizational theory.

## Readings

I will upload articles to blackboard. Most readings are available for electronic download from the Rutgers library.

### **Recommended books:**

Depending on your budget and interest you may wish to purchase the following books. Not all will be included in the syllabus, but they pertain to the subject of the course and would be valuable additions to your library:

Oliver Williamson, *The economic institutions of capitalism*. New York : Free Press 1987.

Chandler, Alfred D. *Scale and scope : the dynamics of industrial capitalism*. Belknap Press of Harvard University, 1990.

Chandler, Alfred D. *The visible hand : the managerial revolution in American business* Cambridge, Mass. Belknap Press, 1977.

Ashish Arora, Andrea Fosfuri and Alfonso Gambardella. *Markets for technology : the economics of innovation and corporate strategy*. Cambridge, Mass. ; London : MIT Press, c2001.

### **Written Assignments**

Written assignments are designed to develop your critical and analytical skills. You will be expected not just to summarize papers but to be able to critique them, link them to other papers within and across sessions, assess their theoretical and/or empirical merit, and identify testable theoretical questions and/or gaps that provide opportunities for future research.

There are three types of written assignments:

- (1) Session essays
- (2) Assigned paper critiques
- (3) Unassigned paper critiques (optional)

For each class session, I will assign either an essay or a critique. In general, essays will be assigned for sessions where the readings are primarily theoretical and will ask you to link papers together, while critiques are assigned to sessions with primarily empirical tests of a theoretical paradigm, and will ask you to critique a single paper of your choosing.

You will turn in only **two essays and four critiques** over the course of the semester. However, in order to prepare for discussion I expect you to draft essays and critiques for all sessions, even though you will only turn in a subset. It is left to the student to select the essays and critiques they wish to turn in.

If you are presenting in a session, you may also turn in a written assignment in addition to your presentation to count towards your written assignments.

**Essays:** Essay questions are given in advance. Essays are short (approximately 4-6 pages, double spaced). Questions are designed to synthesize multiple readings in a session. If you do not turn in an essay on a day an essay is assigned, you are still expected to think through the essay question(s), write up your thoughts, and be prepared to discuss your answers in class.

**Assigned paper critique:** Turn in four critiques over the course of the semester. A critique covers a single paper assigned for that day. I will not assign specific questions for critiques - see below for guidelines. If you do not turn in your critique, you are still expected to have read all papers, thought critically about them, and drafted your thoughts in advance to prepare for class discussion. One of your four submitted critiques may be an unassigned paper critique. You may not turn in more than one critique per session.

**Unassigned paper critique:** If a topic is of particular interest to you, you may identify an unassigned paper not on the syllabus that you think is important and links to and extends the papers assigned for that day. The unassigned paper may be published or unpublished. I prefer that you select recent papers (within the last 5 years). Write a critique of that paper and (optionally) present it to the class. *Unassigned paper critiques must be approved by me in advance.* If you turn in an unassigned paper critique, you do not need to also turn in an assigned paper critique that day, although you are still expected to have read and discuss all the assigned papers.

### **Critiques – format and guidelines**

- Length: approximately 2-3 pages
- Reports should be bulleted or semi-bulleted outline format (e.g. main bullet points can be followed by explanatory text)
- Start with a concise description of the main point, empirical methodology (if applicable), and core findings
- Theoretical aspect: What main theoretical contributions does the paper make? What is the theoretical paradigm it seeks to advance? What are the core assumptions behind the authors' ideas? Are these plausible? Are there testable hypotheses that flow from the ideas? Any apparent weaknesses in the theory? Are there aspects of a different paradigm that are being contested in the current paper? Are the theoretical propositions *observationally equivalent* to propositions from a competing paradigm? If so, how could one design a test of one vs. the other?
- Empirical aspect: What key question does the paper address? What does it do particularly well, empirically or theoretically? How well do the measures capture the author's theoretical propositions? Are there *endogeneity/omitted variable issues* that may be driving their results? What are the boundary conditions of the papers' core propositions? Did you believe the results? Why or why not? What alternative explanations might drive their findings?
- Can we tie this paper to other papers to deepen/enrich the results? What further research questions does this paper suggest to you?

### **In class Presentations and discussion**

Two students will lead the discussion for each class session. Students will volunteer in advance and are expected to coordinate their presentations so they complement each other. Details to be discussed in class.

On days when essays are assigned, students present their ideas and generate discussion around major themes. On sessions when we discuss empirical papers, presentations should take the form of a synthesis and critique that tie the papers together and link to the theoretical paradigms we study.

All students are expected to actively participate in class discussion and be well prepared in advance.

## Term paper

You will turn in a paper at the end of the semester (date announced in class) that does one of the following:

1. Research proposal *across* theoretical paradigms: Discuss and contrast major theoretical paradigms in the theory of the firm, focusing on a specific, important difference that may be tested using data. Design a study to test between these competing theoretical viewpoints. Identify hypotheses, variables, dataset, and methodology.
2. Research proposal *within* a theoretical paradigm: Design a research proposal on a topic of interest to you (it should obviously involve issues related to the course, e.g. buyer-supplier relations, institutions and firm boundaries, comparative organizing principles, etc.). Your proposal should be based on a theoretical framework we study in the course. Identify hypotheses, variables, dataset, and methodology to test your ideas.

Papers should be about 15- 20 pages (rough guideline)

## Overview of Class Topics and Assignments

Class	Date	Topic	Discussion Leader(s)	Assignment
1	9/1	Introduction to the class	Class	
2	9/15	Theories of the firm: Foundational Literature		Essay
3	9/22	Boundaries of the Firm: Transactions Cost Paradigm		Essay
4	9/29			Critique
5	10/6	Boundaries of the firm: Knowledge based View		Essay
6	10/13			Critique
7	10/20	Innovation, firm boundaries and the division of innovative labor		Critique
8	10/27	Embeddedness, Trust and Relational Contracting		Critique
9	11/3	Organizing Principles: The case of Japan		Essay
10	11/10	Institutions and Organizing Principles		TBA
11	11/17			TBA
12	11/22	Networks, power and culture		TBA
13	12/01	Globalization and industry value chains		TBA
14	12/8			TBA

## Detailed Reading List

### **Class 1. Introduction and discussion**

Readings posted on Blackboard:  
Michael Porter, "What is Strategy?"  
Articles about Toyota.

Open discussion on following topics:

- Key points from Porter article about factors that create distinctive and sustainable competitive advantages. Why is operational effectiveness not strategy? What is positioning and what factors sustain a successful position? What are activity systems? What is the Growth Trap? How might the institutional environment affect strategic decisions about how fast and in what manner firms should grow?
- What were Toyota's distinctive competitive advantages?
- To what extent were Toyota's advantages (a) location specific and (b) dependent on inter-firm relationships (relationships with suppliers)
- How well did Toyota manage its growth? Did it face a Growth Trap?
- Toyota was well-regarded for quality. How can we explain the crisis in quality that led to the largest recall in its history?

### **Class 2. Theories of the firm: Foundational Literature**

In this session, we will read several foundational articles that helped spawn modern economic theories of the firm. The selections reflect different perspectives regarding: predictions about when firms will choose to use an external market (inter-firm trade) or internal market (intra-firm trade) in purchasing and selling goods and services; variables that critically affect this choice; the relevance of production costs vs. transactions costs in explaining vertical integration; information costs and the benefits of organizations; in economic problem(s) that firms and markets are optimally equipped to solve; the key functions of managers and entrepreneurs; the role of uncertainty in firm boundaries and decision-making. We also read two historical accounts.

After reading these selections, write an essay (about 5-6 pages) on one of the following topics:

- (1) George Stigler builds on Adam Smith's ideas of gains from specialization to develop a theory about when firms will find it efficient to vertically integrate rather than specialize in a single activity on the value chain and engage in inter-firm trade. Coase also develops a theory about when firms vertically integrate and when they choose to transact in the market, based on hazards of transacting in the market. On what key points do these perspectives agree, where do they differ? Your essay may discuss (but not necessarily be limited to) several of the points listed in the opening paragraph above. How might these differences lead to divergent predictions about the choice of markets vs. firms?
- (2) Compare the views of Ken Arrow with Coase and/or Alchian and Demsetz in terms of how they conceptualize the relative benefits (costs) of the price system versus organizations in carrying out exchange and production. What key variables are similar, which are different, in their frameworks? In your answer, discuss key differences in their assumptions about human behavior and the costs of information gathering in these perspectives.
- (3) Choose one theoretical perspective from the readings: Coase, Arrow, Stigler, Alchian and Demsetz. Identify the core arguments regarding market conditions, and firm specialization vs. integration strategies. Do the historical accounts as presented by Langlois & Robertson and

Alfred Chandler “fit” with the theoretical arguments you identified? Where do you see support and where do you see conflict between the historical data and the theory you chose?

#### Readings:

Adam Smith, Chapter 1-3, *The Wealth of Nations*. Source: Scanned chapters posted online.

George J. Stigler, *The Division of Labor is Limited by the Extent of the Market*, *The Journal of Political Economy*, Vol. 59, No. 3 (Jun., 1951), pp. 185-193 URL: <http://www.jstor.org/stable/1826433>

R. H. Coase, *The Nature of the Firm*, *Economica*, Vol. 4, No. 16 (Nov., 1937), pp. 386-405 URL: <http://www.jstor.org/stable/2626876>

Armen A. Alchian, Harold Demsetz, *Production, Information Costs, and Economic Organization*, *The American Economic Review* Vol. 62, No. 5 (Dec., 1972), pp. 777-795 URL: <http://www.jstor.org/stable/1815199>

Ken Arrow, 1974. *The Limits of Organization*, Norton: New York. Chapters 1 and 2. (scans uploaded to Blackboard).

F. A. Hayek, *The Use of Knowledge in Society*, *The American Economic Review*, Vol. 35, No. 4 (Sep., 1945), pp. 519-530. URL: <http://www.jstor.org/stable/1809376>

#### Historical Accounts:

Richard N. Langlois, Paul L. Robertson, *Explaining Vertical Integration: Lessons from the American Automobile Industry*, *The Journal of Economic History*, Vol. 49, No. 2, *The Tasks of Economic History* (Jun., 1989), pp. 361-375 URL: <http://www.jstor.org/stable/2124069>

Alfred Chandler, *The Visible Hand*, Chapters 2 (“The Traditional Enterprise in Production”) and 9 (“The Coming of the Modern Industrial Corporation”). Note: Scans will be uploaded to Blackboard.

### **Class 3. Boundaries of the Firm: Transactions Cost Paradigm**

The transactions cost paradigm originated with Ronald Coase, who won the Nobel Prize in economics in 1991 for his work done 50 years earlier. The paradigm was further developed and extended by Oliver Williamson, who also won the Nobel Prize in economics in 2009. Williamson is associated with the modern theory of transactions cost economics, which has been applied to numerous and varied problems in the economics of organization and governance. Williamson has written about the paradigm in a number of papers and books.

I have assigned three papers by Williamson. The first two, written in 1981, present the paradigm and develop it for different audiences: the first (*J of Econ Lit*) for economists, the second (*Am J of Sociology*) for organizational theorists. These two papers overlap to a considerable extent in presenting the basic paradigm, but diverge in their applications of the paradigm to specific organizational issues. The third paper (*ASQ*) extends the theory to accommodate hybrid forms of organization and gives a particularly rich discussion of authority relations inside firms.

Essays – write about one of the following:

1. The transactions cost paradigm has been criticized as failing to adequately explain forms of organization which are neither market trades nor internal hierarchies. He addresses this critique in his 1991 article. Briefly discuss the limitations of the existing model and how Williamson extends the model to accommodate hybrid governance in the 1991 article. Then, discuss what you think are the strengths and weaknesses of the expanded framework.
2. Whereas many economic theories treat the firm as the unit of analysis, the transactions cost framework focuses on the transaction as the unit of analysis and seeks to understand why firms exist at all. What key factors explain the comparative efficiency of firms over markets as efficient organizational solution to economic problems? Is the theory useful in explaining heterogeneity *across* firms in terms of their degree of integration vs market exchange at a given point in time?
3. How does Williamson treat uncertainty in his conception of the choice between firm and markets? In your view, are there alternative theories that predict different outcomes in the face of uncertainty?

Oliver E. Williamson, The Modern Corporation: Origins, Evolution, Attributes. *Journal of Economic Literature*, Vol. 19, No. 4 (Dec., 1981), pp. 1537-1568

Oliver E. Williamson, The Economics of Organization: The Transaction Cost Approach *The American Journal of Sociology*, Vol. 87, No. 3 (Nov., 1981), pp. 548-577

Oliver E. Williamson, 1991. Comparative economic organization: The analysis of discrete structural alternatives. *Administrative Science Quarterly*, 36 (2): 269-296.

Kirk Monteverde, David J. Teece, Supplier Switching Costs and Vertical Integration in the Automobile Industry, *The Bell Journal of Economics*, Vol. 13, No. 1 (Spring, 1982), pp. 206-213

Joskow, Paul L. 1987. "Contract Duration and Relationship-Specific Investments: Empirical Evidence from Coal Markets." *American Economic Review* 77, no. 1: 168-185.

For students who are not familiar with the basic paradigm, it is useful to supplement the papers with the following selected chapters from Williamson, 1985. *The Economic Institutions of Capitalism*:

Chapter 1, "Transaction Cost Economics" – especially "The World of Contracts"

Chapter 2, "Contractual Man"

Chapter 4, "Vertical Integration: Theory and Policy"

Chapters 7 and 8: "Credible Commitments, 1 and 2"

Chapter 11, "The Modern Corporation"

Essay: TBA

#### **Class 4. Transactions Cost Perspectives: Empirical Investigations**

Walker, G., & Weber, D. (1984). A Transaction Cost Approach to Make-or-Buy Decisions. *Administrative Science Quarterly*, 29(3), 373-391. (Pat)

M. Bensaou and Erin Anderson, Buyer-Supplier Relations in Industrial Markets: When Do Buyers Risk Making Idiosyncratic Investments? *Organization Science*, Vol 10 No. 4 July-August 1999 pp 460-481. (Genevieve)



Oxley, Joanne. (1999) "Institutional environment and the mechanisms of governance: the impact of intellectual property protection on the structure of inter-firm alliances", *Journal of Economic Behavior & Organization*, vol. 38:283-309. (Millie)

ACEMOGLU, DARON, SIMON JOHNSON, and TODD MITTON. 2009. "Determinants of Vertical Integration: Financial Development and Contracting Costs." *Journal of Finance* 64, no. 3: 1251-1290. (Guna)

### **Class 5. Boundaries of the Firm: Knowledge Based Perspectives**

Essay: The knowledge based theory of the firm adopts the view that firms are repositories of specialized skills, knowledge and routines that are difficult to transfer. Compare the views of Kogut and Zander, Grant, and Zollo and Winter. What are key similarities, and how do they complement each other/ (note; you may want to summarize your comparison in a graphic or table). How do they define knowledge and how do they link it to firm boundaries? Pick one of the core papers and discuss how the theory would lead to a different prediction(s) than the transactions based approach to explaining an important issue in 'the theory of the firm'.

In class we will discuss the Foss critique and whether Chandler's account of organizations capabilities fits with the definition of knowledge in the core papers.

Core papers;

Kogut, B. and Udo Zander, 1992. "Knowledge of the firm, combinative capabilities, and the replication of technology", *Organization Science* 3(3).

Kogut, B. and Udo Zander, 1996. "What do firms do? Coordination, identity and learning" *Journal of Organization Science* 7(5).

Robert M. Grant, Toward a Knowledge-Based Theory of the Firm, *Strategic Management Journal*, Vol. 17, Special Issue: Knowledge and the Firm(Winter, 1996), pp. 109-122.

Zollo, Maurizio and Sidney Winter. "Deliberate Learning and the Evolution of Dynamic Capabilities" *Organization Science* Vol. 13, No. 3, May-June 2002, pp. 339-351.

Critique and Application:

Nicolai J. Foss, "Knowledge-based Approaches to the Theory of the Firm: Some Critical Comments".

Chandler, Alfred. Chandler, A. D. (1992), "Organizational Capabilities and the Economic History of the Industrial Enterprise," *Journal of Economic Perspectives*, 6, 79-100.

### **Class 6. Boundaries of the Firm and Knowledge: Empirical Investigations**

Nicholas Argyres, Evidence on the Role of Firm Capabilities in Vertical Integration Decisions *Strategic Management Journal*, Vol. 17, No. 2 (Feb., 1996), pp. 129-150. Akiko

Poppo, L. and Zenger, T. (1998), Testing alternative theories of the firm: transaction cost, knowledge-based, and measurement explanations for make-or-buy decisions in information services. *Strategic Management Journal*, 19: 853-877. witaya

Constance E. Helfat and Ruth S. Raubitschek, Product Sequencing: Co-Evolution of Knowledge, Capabilities and Products, *Strategic Management Journal*, Vol. 21, No. 10/11, Special Issue: The Evolution of Firm Capabilities (Oct. - Nov., 2000), pp. 961-979 Genevieve

Jacobides, M. G. and Winter, S. G. (2005), The co-evolution of capabilities and transaction costs: explaining the institutional structure of production. *Strategic Management Journal*, 26: 395–413.

### **Class 7. Innovation, firm boundaries and the division of innovative labor**

Stefano Brusoni, Andrea Prencipe, Keith Pavitt. Knowledge Specialization, Organizational Coupling, and the Boundaries of the Firm: Why Do Firms Know More Than They Make? *Administrative Science Quarterly*, Vol. 46, No. 4 (Dec., 2001), pp. 597-621

Dieter Ernst, 2005. “Limits to Modularity: Reflections on Recent Developments in Chip Design” *Industry and Innovation*, Vol. 12, No. 3, 303–335

Takeishi, A. 2002. Knowledge Partitioning in the Interfirm Division of Labor: The Case of Automotive Product Development, *Organization Science*.

Arora, Fosfuri and Gambardella, 2001. Markets for technology and their implications for corporate strategy”, *Industrial and Corporate Change*, 10 (2).

Arora and Gambardella, 1994. “The Changing Technology of Technological Change”, *Research Policy*

### **Class 8. Embeddedness and Trust**

Brian Uzzi, Social Structure and Competition in Interfirm Networks: The Paradox of Embeddedness, *Administrative Science Quarterly*, Vol. 42, No. 1 (Mar., 1997), pp. 35-67

Akbar Zaheer and N. Venkatraman, Relational Governance as an Interorganizational Strategy: An Empirical Test of the Role of Trust in Economic Exchange. *Strategic Management Journal*, Vol. 16, No. 5 (Jun., 1995), pp. 373-392

Gulati, Ranjay, and Maxim Sytch. 2007. "Dependence Asymmetry and Joint Dependence in Interorganizational Relationships: Effects of Embeddedness on a Manufacturer's Performance in Procurement Relationships." *Administrative Science Quarterly* 52, no. 1: 32-69.

### **Class 9. Organizing principles: the Japanese Firm**

Discussion/essay questions (if you write an essay, you don't need to answer all of these questions but use them to motivate your thoughts):

What are the distinctive factors of Japanese organizations that challenge existing theories of the firm? Is Aoki suggesting a new paradigm, or is it an extension of existing paradigms? Put another way, can existing theories accommodate/explain Japanese organizing principles, or are additional variables suggested? If the latter, what would those be?

How do national institutions influence Japanese organizing practices, and are these specific to the Japanese context or can they be successfully adopted elsewhere? What factors might impeded their diffusion?

Aoki, M. 1990. “Toward an Economic Model of the Japanese Firm”, *Journal of Economic Literature*. 18(March):1-27.

Miwa, Yoshiro, and J. Mark Ramseyer. 2000. "RETHINKING RELATIONSHIP-SPECIFIC INVESTMENTS: SUBCONTRACTING IN THE JAPANESE AUTOMOBILE INDUSTRY." *Michigan Law Review* 98, no. 8: 2636.

Sako, Mari, and Susan Helper. "Determinants of trust in supplier relations: Evidence from the automotive industry in Japan and the United States", *Journal of Economic Behavior & Organization* 34, no. 3 (March 1998): 387.

### **Class 10. Comparative institutional analysis: Economists perspectives and critique**

North, Douglas. "Institutions", *Journal of Economic Perspectives*- Volume 5, Number 1-Winter 1991-pp. 97-112

Acemoglu, Daron, and Simon Johnson. 2005. "Unbundling Institutions." *Journal of Political Economy* 113, no. 5: 949-995.

Khanna, Tarun, and Yishay Yafeh. 2007. "Business Groups in Emerging Markets: Paragons or Parasites?." *Journal of Economic Literature* 45, no. 2: 331-372.

Kogut, Bruce and Charles Ragin (2006) "Exploring complexity when diversity is limited: institutional complementarity in theories of rule of law and national systems revisited" *European Management Review* 3, 44-59.

### **Class 11. Historical Accounts: Markets as Culture**

Dobbin, F. "Forging Industrial Policy", Chapter 1.

Abolafia,

Kogut, B. G. Walker, and J. Anand. 2002. "Agency and Institutions: National Divergences in Diversification Behavior." *Organization Science*.

Chandler,

Sabel and Zeitlin

### **Class 12. Systems approach : socio-political perspectives**

Soskice and Hall, "Varieties of Capitalism", Introduction.

Whitley, Richard. 2000. "The Institutional Structuring of Innovation Strategies: Business Systems, Firm Types and Patterns of Technical Change in Different Market Economics." *Organization Studies* 21, no. 5: 855.

Aguilera, R., & Jackson, G. (2003). THE CROSS-NATIONAL DIVERSITY OF CORPORATE GOVERNANCE: DIMENSIONS AND DETERMINANTS. *Academy of Management Review*, 28(3), 447-465.

### **Class 13. Comparative institutional analysis: Cross-national studies**

Steven Casper; Mark Lehrer; David Soskice, 1999. Can high-technology industries prosper in Germany? Institutional frameworks and the evolution of the German software and biotechnology industries” *Industry and Innovation*. Jun 1999.

Michelle Gittelman,. (2006) “National institutions, public–private knowledge flows, and innovation performance: A comparative study of the biotechnology industry in the US and France.” *Research Policy*.

Biggart, N and M. Guillen, 1999. “Developing Difference: Social Organization and the Rise of the Auto Industries in South Korea, Taiwan, Spain and Argentina”, *American Sociological Review*, 64:722-747.

Kogut and Walker, *Small Worlds* or Kogut and Zander, *Zeiss*

Richard Locke, and Wade Jacoby,

#### **Class 14: Diffusion and Globalization**