

## **CPSG404: COMPETITIVE STRATEGY**

### **COURSE OVERVIEW**

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Note that there is an assignment for the first class. In addition, please read this document carefully. It contains important information about assignments and norms. We will not cover all of this material in class.

### **Course Perspective**

This course teaches analysis of strategic decisions facing an organization with an emphasis on applying game theory. This is not a comprehensive course on strategy or game theory but rather a topics course on particular aspects of game theory as it relates to strategy. A central integrating idea is anticipating the response of other actors in the industry and recognizing that often an organization's profits depend on the actions of other players. Strategic moves sometimes involve competition and other times cooperation and we will discuss both. The main analytical tool will be modern game theory models of competition. Class sessions are primarily applications – cases and other examples. Our perspective is that of the general manager who has overall responsibility for the performance of the firm or of a business unit within the firm. Many of the cases deal with differences between the business environment in China and the U.S. or firms operating across both regions. As we go through the course we will explicitly compare the effect of the two environments on firms' strategies.

## Course Requirements

### Textbook:

There is no specific textbook for the course. I have assigned readings from various sources for each topic. If you wish to consult other sources on game theory or strategy I recommend the following:

Besanko, Dranove, Shanley and Schaefer, *Economics of Strategy*, 4<sup>th</sup> edition, Wiley, 2007.

Saloner, G., A. Shepard, and J. Podolny (2001). *Strategic Management*.

Dixit, A. and B. J. Nalebuff (1991). *Thinking Strategically: The Competitive Edge in Business, Politics, and Everyday Life*.

Gibbons, R. (1992). *Game Theory for Applied Economists*.

### Grading:

Class Participation:	40%
Written Assignments:	20%
Group Project:	40%

Detailed information on each of these requirements is provided after the course schedule.

### Background:

The necessary background for the course was covered in the “Managerial Economics” course in Module 1 and the “Strategic Management” course in Module 3.

## Course Schedule

### Session 1: Commitment and Credibility (March 28)

*Note: Assignment questions for this session are at the end of the syllabus.*

**Reading:** BDSS,<sup>1</sup> Chapter 11 (pages 343 – 356 only) and Chapter 12 (pages 403 – 415 only).

**Case:** Wal-Mart Stores, Inc., HBS Case 9-794-024.  
Wal-Mart in China, *Harvard-Asia Pacific Review*, Winter 2007, Vol. 9. No. 1, 46 – 49.

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<sup>1</sup> “BDSS” refers to Besanko, Dranove, Shanley and Schaefer, *Economics of Strategy*, 4th edition, Wiley, 2007.

**Session 2: Globalization and Localization (March 31)**

**Reading:** BDSS, Chapter 3 (pages 123 – 131 only).  
Saloner, G., A. Shepard, and J. Podolny (2001). *Strategic Management*, Chapter 13 (pages 329 – 344 only).

**Case:** Blizzard Feels the Heat in China: Choosing a Local Partner for *World of Warcraft*, CGKGSB Case (to be distributed).

**Session 3: Strategy Game (April 1)**

**Reading:** BDSS, Chapter 6 (pages 208 – 217 only) and Chapter 8 (pages 251 – 252 only).

**Case:** Shrimp Game.

**Session 4: Repeated Interaction (April 25)**

**Reading:** BDSS, Chapter 10 (pages 312 – 318 only).

**Case:** Cola Wars Continue: Coke and Pepsi in 2006, HBS Case 9-706-447.

**Session 5: Strategy Transferability (April 28)**

**Reading:** BDSS, Chapter 8 (pages 252 – 270 only).

**Case:** The Battle for China's Carbonated Beverage Industry (A), CKGSB Case (to be distributed).

**Session 6: Horizontal Relationships (May 4)**

**Reading:** BDSS, Chapter 5 (pages 166 – 177 only).

**Case:** BitAuto, CKGSB Case (to be distributed).

**Session 7: Incomplete Information (May 6)**

**Reading:** Mankiw, N. G., "Asymmetric Information," *Principles of Economics*, pages 484 – 490.

**Case:** Baidu: Searching for Truth, CKGSB Case.

## **Session 8: Project Presentations (May 9)**

### **Evaluation**

#### ***Class Participation:*** (individual)

You are responsible for the material in each case. I will cold call students to discuss the case, but will also seek volunteers to speak in class. Quality of class participation is more important than quantity. Consider the following questions when assessing the quality of your participation:

1. Are the points relevant to the discussion? Are they linked to the comments of others and to the themes of the class? Do they significantly advance the discussion?
2. Does the speaker sustain a line of argument or point of view through a significant part of the class session, or is it an isolated comment?
3. Do the comments add to our understanding of the situation? Are they incisive? Do they cut to the core of the problem? Avoid comments that simply repeat case facts.
4. Is there a willingness to challenge, in a constructive way, the ideas that are being expressed? Playing “devil’s advocate” often exposes new perspectives and provokes interesting debate. Such contributions are particularly valued.

Preparation for a case study involves more than just having read the case. You should be prepared to offer original and thoughtful analysis in which your claims are supported by evidence, logic, and possible calculations. Many students find it helpful – and I encourage you – to discuss the case with your classmates prior to the class. The most effective way to prepare for class is to try to answer the preparation questions for each class after you have read the case and the readings.

Because a case-oriented course relies on class participation for its success, attendance at every class is extremely important. Students who miss class will not receive class participation credit for that class. I do not allow or require “make-up” work for a missed class. If you must miss class, most handouts will be available at the class website.

#### ***Written Assignments:*** (groups)

There will be two written assignments for the class. These will be related to preparation for your final group presentation. The first assignment will be due on April 25 and will define the industry, the pair of firms, their major competitors, and a preliminary idea of the cross-country differences. The second assignment will be due on May 4 and will contain all the necessary background information for your presentation.

***Group Project:*** (groups)

The project will ask your group to explicitly compare a matched set of firms – one operating in the U.S. or Europe and the other in China – and to analyze how the two environments affect their strategy. For example, you might compare eBay in the U.S. to Taobao in China or Expedia in the U.S. to Ctrip in China. Another alternative is to examine a firm operating across both countries and analyze how the two environments affect its strategy in both regions. The analysis should focus specifically and only on differences that affect the firms' strategies.

You should choose a single pair of organizations for the object of your analysis so that you can make specific comparisons. The two firms should be as closely matched as possible. Since your project should focus on the effects on strategic interaction, I recommend choosing a pair of firms in an industry with relatively few major competitors (four or fewer) in each country. If you have contacts at a firm it is useful to engage them in your project, however this is not necessary. Your project can be based entirely on publicly available information. The final output of the project is a presentation to me during the last class on May 9. This presentation will consist entirely of analysis – no background information. I will have all the background information from your written assignments (see above).

The main goal of the project is to make you think carefully about how strategic interaction is affected by the environment in which the firm operates and apply this to an industry setting that interests you. Research on the details is essential, but the key to a successful paper is to analyze, not just describe.

If you have any doubts about your topic, please talk to me. Do not choose a strategic issue that is featured in a case that has been used in a course at CKGSB. If you are thinking of presenting on a topic that is related to a project or paper for another course at CKGSB you must talk to me first.

### **Honor Code Issues**

My goal is that each individual student gains valuable learning through this course. Since some of the assignments in this course are accomplished in groups, here is my policy on group work for my class:

1. I encourage you to discuss the cases in preparing for class with any student. However, I expect you to present in class case analyses that you personally participated in preparing.
2. For the written assignments and group project, it is important that you demonstrate how well you and your group members understand the course concepts. For this reason, do not consult with students outside of your group for these.

## Assignment Questions for First Class

### **Wal-Mart Stores, Inc. Wal-Mart in China**

Please prepare the following questions for discussion in class. You do not need to hand in your answers but should come to class prepared to discuss them:

1. How was Wal-Mart successful early on (roughly through the mid-1970s when it went public)? What is its competitive advantage at this time and how sustainable is it?
2. How has Wal-Mart's competitive advantage changed by the end of the case? Using the template posted on BB, quantify the sources of Wal-Mart's competitive advantage as of 1993.
3. What is the effect of Wal-Mart's use of "everyday-low-prices" (page 4 of the case) on competition? How should its competitors respond to this?
4. How transferable are Wal-Mart's competitive advantages to China?