

Management 298A
Thursdays 12:00 - 3:00pm, B513

Special Topics in Management Theory:
Market Entry

Professor Marvin Lieberman
Room B415
(310) 206-7665
email: marvin.lieberman@anderson.ucla.edu
Faculty Support: Patricia Smith, B502, Tel. 206-6912

If you plan to take this course, or plan to come “shopping” to the first class, please send the instructor an e-mail. Required readings for the first class will be sent to you via e-mail.

Course Description

This course will survey the literature on market entry, broadly defined. In essence, the theme of market entry provides a thread to draw together a variety of important papers in strategic management and related fields of economics and organizational sociology. Topic areas to be covered include: industry evolution, advantages of incumbents versus entrants, disruptive technology, entrepreneurship and spinoffs, first-mover advantages, entry barriers, strategic entry deterrence, real options, determinants of market structure, and . Moreover, since market entry essentially defines the scope of established firms, we will briefly visit topics that fall within the domain of corporate strategy, including diversification, vertical integration, international expansion, and choice of entry mode.

Obviously, in a 10 week course it is impossible to cover this vast range of topics in detail. The relative emphasis on the various topic areas will depend, in part, on student interest. Therefore, I will set the final structure of the course after the first class session on January 8.

Course Requirements

Students are to demonstrate mastery of basic concepts covered in the course through active participation in class discussions, in-class presentation of assigned articles, writing a sole-authored term paper exploring some aspect of this syllabus, and by making a presentation on the paper-in-progress.

Class participation

Every week, each student will be assigned to present a required reading to the class. To prepare, the student will write a two page memo, consisting of: 1) a summary of the article, 2) a brief critique of the article, and 3) a discussion of unanswered questions and future research directions. Assigned students are expected to bring enough copies of the memo for each member of the class.

In addition to the presentation of assigned readings, students are expected to read all the required readings prior to coming to the class and actively engage in class discussions.

Term paper

In addition to the weekly presentations, all students will be required to pick one of the seminar topics and prepare a 10 to 20 page paper. The paper should review some aspect of the literature (going beyond the assigned readings), identify unresolved or controversial issues, and propose a research strategy to deal with these. I must approve the topic ahead of time, and you need not limit yourself to a narrow interpretation of the issues covered in the course. This written assignment is intended to help you to find thesis topics and to prepare for the field exam. The last session of this course will be devoted to the presentation of the in-progress term paper.

Course Evaluation

The course grade will be weighted as follows:

Class participation and presentation of assigned readings	50%
Term paper and presentation of paper-in-progress	50%

COURSE TOPICS AND READING LIST

WEEK 1

1. BASIC FACTS ABOUT ENTRY

P.A. Geroski. 1995. What do we know about entry? *International Journal of Industrial Organization*. **13**(4) 421-440.

E.R. Biggadike. 1976. *Corporate Diversification: Entry Strategy and Performance*. Harvard University Press, Cambridge, MA. Pages 38-41,48-66, 191-193.

C.E. Helfat and M.B. Lieberman 2002. The birth of capabilities: market entry and the importance of pre-history. *Industrial and Corporate Change*. **11**(4) 725-760.

T. Dunne, Mark J. Roberts, and Larry Samuelson. 1988. Patterns of Firm Entry and Exit in U.S. Manufacturing Industries. *Rand Journal of Economics*. **19**(4) 495-515.

Optional: R.E. Caves. 1998. Industrial Organization and New Findings on the Turnover and Mobility of Firms. *Journal of Economic Literature*. **36**(4) 1947-1982.

2. INDUSTRY EVOLUTION

Overviews

*Klepper, S. (1997). "Industry Life Cycles." *Industrial and Corporate Change* **6**(1): 145-182.

*R. Agarwal, Bayus, B.L. 2002. The Market Evolution and Sales Takeoff of Product Innovations. *Management Science*. **48**(8) 1024-1041.

WEEK 2

Theoretical Models

Optional: B. Jovanovic. 1982. Selection and the Evolution of Industry. *Econometrica*. **50**(3) 649-670.

B. Jovanovic, MacDonald, G.M. 1994. The Life Cycle of a Competitive Industry. *The Journal of Political Economy*. **102**(2) 322-347.

S. Klepper. 1996. Entry, Exit, Growth, and Innovation over the Product Life Cycle. *The American Economic Review*. **86**(3) 562-583.

Lippman, S. A. and R. P. Rumelt (1982). "Uncertain Imitability: An Analysis of Interfirm Differences in Efficiency under Competition." *The Bell Journal of Economics* **13**(2): 418-438.

Empirical Studies

Agarwal, R. and M. Gort (1996). "The Evolution of Markets and Entry, Exit and Survival of Firms." *The Review of Economics and Statistics* **78**(3): 489-498.

Klepper, S., and Elizabeth Grady (1990). "The Evolution of New Industries and the Determinants of Market Structure." *Rand Journal of Economics* **21**(1): 27-44.

Organizational Ecology Perspective

(For a brief introduction, see: http://en.wikipedia.org/wiki/Organizational_ecology)

J. Baum and T. Amburgey: Organizational Ecology. In Baum, ed., *Companion to Organizations*, Blackwell, 2002.

Sorenson, O. (2000). "The Effect of Population-Level Learning on Market Entry: The American Automobile Industry." *Social Science Research* **29**(3): 307-326.

WEEK 3

3. DISRUPTIVE TECHNOLOGY / PRODUCT GENERATIONS / INCUMBENTS VS. ENTRANTS

Christensen, C. M., and J. L Bower (1995). Bower and Christensen, "Disruptive Technologies: Catching the Wave," HBR January-February.

M. Tushman and P. Anderson (1986). Technological Discontinuities and Organizational Environments *Administrative Science Quarterly*, Vol. 31, No. 3), pp. 439-465.

W. Mitchell. 1989. Whether and When? Probability and Timing of Incumbents' Entry into Emerging Industrial Subfields. *Administrative Science Quarterly*. **34**(2) 208-230.

Klepper, S. & Simons, K. (2000). Dominance by birthright: Entry of prior radio producers and competitive ramifications in the U.S. Television Receiver Industry. *Strategic Management Journal*.

Carroll, G. R., L. S. Bigelow, et al. (1996). "The Fates of De Novo and De Alio Producers in the American Automobile Industry 1885-1981." *Strategic Management Journal* **17**: 117-137.

King & Tucci (2001). Incumbent entry into new market niches: The role of experience and managerial choice in the creation of dynamic capabilities. *Management Science*, **48**(2): 171-186.

Optional: R.M. Henderson, Clark, K.B. 1990. Architectural Innovation: The Reconfiguration of Existing Product Technologies and the Failure of Established Firms. *Administrative Science Quarterly*. **35**(1) 9-30.

WEEK 4

4. ENTREPRENEURIAL vs. ESTABLISHED FIRMS (including spinoffs)

Alvarez, S. A., Jay B. Barney (2007). "The Entrepreneurial Theory of the Firm." *Journal of Management Studies* **44**(7): 1057-1063.

Alvarez, S. A., Jay B. Barney (2007). "Discovery and creation: alternative theories of entrepreneurial action." *Strategic Entrepreneurship Journal* **1**(1-2): 11-26.

Zucker, LG, MR Darby and MB Brewer (1998). "Intellectual Human Capital and the Birth of US Biotechnology Enterprises," *The American Economic Review* **88**(1): 290-306.

R. Agarwal, Echambadi, R., Franco, A., Sarkar, MB. 2004. Knowledge transfer through inheritance: spin-out generation, development, and survival." *Academy of Management Journal*. **47**(4) 501-522.

Gompers, P., J. Lerner and D. Scharfstein (2005). "Entrepreneurial Spawning: Public Corporations and the Genesis of New Ventures, 1986 to 1999." *The Journal of Finance* **60**(2): 577-614.

Optional: Klepper, S. and S. Sleeper (2005). "Entry by Spinoffs." *Management Science* **51**(8): 1291-1306.

Kogut, B. and U. Zander (1992). "Knowledge of the Firm, Combinative Capabilities, and the Replication of Technology." *Organization Science* **3**(3): 383-397.

James G. March. "Exploration and Exploitation in Organizational Learning," *Organization Science*, Vol. 2, No. 1, Special Issue: Organizational Learning: Papers in Honor of (and by) James G. March. (1991), pp. 71-87.

Natarajan Balasubramanian, "Incumbent-Entrant Asymmetries and Learning by Doing," working paper.

WEEK 5

5A. ENTRY AND MOBILITY BARRIERS (readings below optional)

R.E. Caves, Porter, M.E. 1977. From Entry Barriers to Mobility Barriers: Conjectural Decisions and Contrived Deterrence to New Competition*. *The Quarterly Journal of Economics*. **91**(2) 241-261.

R. Gilbert (1989). Mobility Barriers and the Value of Incumbency. In Schmalensee and Willig, eds., *Handbook of Industrial Organization*.

H. Demsetz. 1982. "Barriers to Entry." *American Economic Review*, Vol. 72, No. 1 (Mar. 1982), pp. 47-57.

5B. STRATEGIC ENTRY DETERRENCE (readings optional except Smiley,1988; Lieberman,1987)

R. Smiley. 1988. Empirical Evidence on Strategic Entry Deterrence. *International Journal of Industrial Organization*. **6**(June) 167-180.

J. Tirole (1989). *The Theory of Industrial Organization*. MIT Press. Pages 305-328.

Excess Capacity / Investment

A. Dixit. 1980. The Role of Investment in Entry-Deterrence. *The Economic Journal*. **90** 95-106.

D. Fudenberg, and J. Tirole. 1983. Capital as a Commitment: Strategic Investment to Deter Mobility. *Journal of Economic Theory*. **31** 227-250.

J. Gelman, and S. Salop. 1983. Judo Economics: Capacity Limitation and Coupon Competition. *Bell Journal of Economics*. **14** 315-325.

M.B. Lieberman. 1987. Excess Capacity as a Barrier to Entry: An Empirical Appraisal. *Journal of Industrial Economics*. **35**(June) 607-627.

M.B. Lieberman. 1987. Post-Entry Investment and Market Structure in the Chemical Processing Industries. *Rand Journal of Economics*. **18**(Winter) 533-549.

Niche Filling

R. Schmalensee. 1978. Entry Deterrence in the Ready to Eat Breakfast Cereal Industry. *Bell Journal of Economics*. **9** 305-327.

Reputation and Predation

Milgrom, P., and D. J. Roberts (1982). "Predation, Reputation, and Entry Deterrence." *Journal of Economic Theory* **27**(2, August): 280-312.

Learning Curve

Lieberman, M. B. (1989). "The Learning Curve, Technology Barriers to Entry, and Competitive Survival in the Chemical Processing Industries." *Strategic Management Journal* **10**: 431-447.

Switching costs

Incumbent Reactions – Strategic Substitutes and Complements

Fudenberg and Tirole AER 84

Bulow, J. I., J. D. Geanakoplos, et al. (1985). "Multimarket Oligopoly: Strategic Substitutes and Complements." *The Journal of Political Economy* **93**(3): 488-511.

6. ENTRY AND MARKET STRUCTURE

Sutton, J. (1991). Sunk Costs and Market Structure: Price Competition, Advertising, and the Evolution of Concentration. Cambridge, Mass., MIT Press.

T.F. Bresnahan, Reiss, P.C. 1991. Entry and Competition in Concentrated Markets. *The Journal of Political Economy*. **99**(5) 977-1009.

Optional: T.F. Bresnahan, Reiss, P.C. 1990. Entry in Monopoly Markets. *The Review of Economic Studies*. **57**(4) 531-553.

Optional: S.T. Berry. 1992. Estimation of a Model of Entry in the Airline Industry. *Econometrica*. **60**(4) 889-917.

WEEK 6

7. WELFARE IMPLICATIONS (Excess Entry, Efficiency)

Mankiw, N. G. and M. D. Whinston (1986). "Free Entry and Social Inefficiency." *The RAND Journal of Economics* **17**(1): 48-58.

S.T. Berry, Waldfoegel, J. 1999. Free Entry and Social Inefficiency in Radio Broadcasting. *The RAND Journal of Economics*. **30**(3) 397-420.

Camerer, C. and D. Lovallo (1999). "Overconfidence and Excess Entry: An Experimental Approach." *The American Economic Review* **89**(1): 306-318.

Anne Marie Knott and Hart E. Posen. "Is Failure Good?" *Strat. Mgmt. J.*, **26**: 617–641 (2005).

Optional: Chad Syverson, Lucia Foster and John Haltiwanger (2008). "Reallocation, Firm Turnover, and Efficiency: Selection on Productivity or Profitability?" *American Economic Review*.

8. REAL OPTIONS AND ENTRY

Folta TB, O'Brien J. 2004. "Entry in the presence of dueling options." *Strategic Management Journal* **25**(2): 121-138.

Adner and Levinthal. "What is Not a Real Option: Considering Boundaries for the Application of Real Options to Business Strategy," *Academy of Management Review*, 2004, Vol. 29, No. 1, 74–85.

WEEK 7

9. AGGLOMERATION OF ENTRY IN SPACE AND TIME

J. Myles Shaver and Fredrick Flyer. "Agglomeration Economies, Firm Heterogeneity, and Foreign Direct Investment in the United States." *Strat. Mgmt. J.*, **21**: 1175–1193 (2000).

Lieberman and Asaba. "Why Do Firms Imitate Each Other?" *Academy of Management Review*, 2006, Vol. **31**, No. 2, 366–385.

10. FIRST-MOVER ADVANTAGES

Lieberman and Montgomery (1988). "First-Mover Advantages." *Strategic Management Journal* **9**(Summer): 41-58.

Lieberman and Montgomery (1998). "First-Mover (Dis)Advantages: Retrospective and Link with the Resource-Based View." *Strategic Management Journal* **19**(12): 1111-1125.

Golder and Tellis (1993). "Pioneer Advantage: Marketing Logic or Marketing Legend?" Journal of Marketing Research **30**(2): 158-170.

Suarez and Lanzolla (2007). "The role of environmental dynamics in building a theory of first-mover advantages." Academy of Management Review.

Jonathan D. Bohlmann • Peter N. Golder • Debanjan Mitra. "Deconstructing the Pioneer's Advantage: Examining Vintage Effects and Consumer Valuations of Quality and Variety," Management Science, Vol. 48, No. 9, September 2002 pp. 1175–1195.

Ron Adner and Rahul Kapoor. "Value Creation in Innovation Ecosystems: How the structure of technological interdependence affects firm performance in new technology generations." INSEAD working paper, April 29, 2008.

Raj Echambadi, Barry L. Bayus and Rajshree Agarwal, "Entry Timing and the Survival of Startup and Incumbent Firms in New Industries, working paper, July 2008.

ENTRY BY ESTABLISHED FIRMS

WEEK 8

11. Diversification

Rumelt, R. P. (1991). "How Much Does Industry Matter?" Strategic Management Journal **12**(3): 167-185.

Edward H. Bowman and C. E. Helfat. (2001). "Does corporate strategy matter?" Strategic Management Journal **22**(1): 1-23.

Optional: Rumelt, R. P. (1982). "Diversification Strategy and Profitability." Strategic Management Journal **3**(4): 359-369.

Montgomery, C. A. and B. Wernerfelt (1988). "Diversification, Ricardian Rents, and Tobin's q." The RAND Journal of Economics **19**(4): 623-632.

Villalonga, B. (2004). "Does diversification cause the "diversification discount?" Financial Management **33**(2): 5-27.

Bernardo & Chowdhry, "Resources, Real Options and Corporate Strategy" Journal of Financial Economics, 2002

Optional: Villalonga, "Diversification Discount or Premium?" Journal of Finance 2004

Optional: Lang & Stulz, "Tobin's Q, Corporate Diversification and Firm Performance," JPE 1994

Optional: Whited & Colak, "Spin-offs, Divestitures, and Conglomerate Investment" Review of Financial Studies 2007

Optional: Maksimovic & Phillips, "Do Conglomerate Firms Allocate Resources Inefficiently Across Industries? Theory and Evidence" Journal of Finance 2002

WEEK 9

12. Vertical Integration

Francine Lafontaine and Margaret Slade. "Vertical Integration and Firm Boundaries: The Evidence," *Journal of Economic Literature* Vol. XLV (September 2007), pp. 629–685.

Optional: Grossman, S. J. and O. D. Hart (1986). "The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration." *Journal of Political Economy* **94**(4): 691.

Note: International Market Entry not covered except for book excerpt

WEEK 10

13. Mode of Entry: Acquisition vs. Internal Development vs. Alliance

Lee and Lieberman, "Acquisition vs. Internal Development as Modes of Market Entry," mimeo.

14. Corporate Entrepreneurship

Dushnitsky and Lenox. "When do incumbents learn from entrepreneurial ventures? Corporate venture capital and investing firm innovation rates." *Research Policy* 34 (2005) 615–639.

Optional: Dushnitsky and Lenox. "When do firms undertake R&D by investing in new ventures?" *SMJ*, 26: 947–965 (2005).

Optional: Dushnitsky and Lenox. "When does corporate venture capital investment create firm value?" *Journal of Business Venturing*, 2006.

Optional: Henry Chesbrough, Making sense of Corporate Venture Capital, HBR March 2002.

15. Other Issues – Multimarket Contact

Heather A. Haveman and Lynn Nonnemaker, "Competition in Multiple Geographic Markets: The Impact on Growth and Market Entry," *Administrative Science Quarterly*, Vol. 45, No. 2 (Jun., 2000), pp. 232-267.