

Organizational Structure and Strategy  
MGP 201B  
Winter 2008

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Class Details: Sacramento WP: Thurs. 6-9 p.m., OCM 2 (Jan. 8 to Apr. 12)  
Bay Area WP: Sat., 9-12 & 1-4, BIRSCH 1503 (Jan. 17, 31, Feb. 14, 28, Mar. 14)

This course is about the evaluation, formulation, and implementation of firm strategy. You will learn about why some firms survive and prosper while others do not, and develop the critical analysis and communication skills necessary to create firm strategy.

This course covers theories of strategy that are both prescriptive (what firms ought to do strategically) and descriptive (how firms actually act strategically and why). You will learn several analytical frameworks that explain firm survival and success, and provide the basis for the critical evaluation of business strategy.

An important part of this course will also be the study of the formulation and implementation of strategy within firms. As you will discover, strategic management is more than simply making recommendations. Making strategy is a messy, emergent process affected by the economic, political, and social context of the firm and its environment. The course will have a substantial component focusing on the formulation of strategy to help you improve your ability to operate within those realities.

Readings

Robert M. Grant. 2002. Contemporary Strategic Analysis, 6th Edition. (PAPERBACK). Publisher: Wiley-Blackwell; 6 edition (June 15, 2007). ISBN-10: 1405163097. ISBN-13: 978-1405163095.

Packet of cases and readings.

Overview

#	Topic	Due	Case	Reading
1	Introduction	- Assign groups - Choose firm	N/A	-Syllabus -Rosenzweig, "Halo Effect" -Grant, Ch 1&2
2	Industry structure	- Firm description - Group contract	Cola Wars	Grant, Ch 3&4
3	Competence	- Firm industry structure - Individual case	WalMart 2003, 2005	-Porter, "What is Strategy?" -Grant, Ch 5&7
4	Structure	- Firm competencies	ISI A and B	-Mintzberg, "Organizational design" -Grant, Ch 6
5	Boundaries	Firm fit between structure and strategy	Re-do Cola Wars, WalMart	-WalMart-Costco articles -Perrow, "Transaction cost" -Grant, Ch 8&13
6	External ties	Individual case	Airbus (articles)	-Airbus articles -Grant, Ch 9&15
7	Global strategy		- Walmart, 2007 - Wumart	-Biggart and Hamilton, "Limits of firm-based theory"
8	Decision making		Late Shift (DVD)	-Bazerman, "Decisions without blinders" -Jackall, "Moral mazes" -Carter, "Late Shift" p. 1-30
9	Mission		Honda (A)	-Eccles and Norhia, "Strategy as a language game"
10	Present	Group project		

Grant = Contemporary Strategy Analysis

\*Cases are all found in the reading packet for the course.

**Class 1 -- Introduction to strategy**

This class introduces the idea of strategy, what a class can offer, the major pitfalls in strategic thinking, and the format of the class.

Rosenzweig, Phil. 2007. The Halo Effect. Chapters 8 and 10. Free Press: New York.

**Class 2 -- Industry structure**

This class focuses on the analysis of industry structure.

Yoffie, David B. Cola wars continue: Coke and Pepsi in 2006. HBSP#9-706-447.

Questions for Cola Wars case:

- Why do Coke and Pepsi have independent bottlers that bottle other soft drinks? Why do the bottlers make lower margins?
- What would be the obstacles to any other firm becoming a third player as large as Coke and Pepsi? Why is there not room for three major soft drink firms?
- How does this industry have an attractive structure for firms within the industry? How is it unattractive?

- How has the current rivalry helped Coke and Pepsi's profits? Hurt their bottom line?
- What are the reasons for Coke's lead over Pepsi in size? Will that persist in the future?

### Grant, Chapter 3

- What is perfect competition, oligopoly, duopoly, and monopoly? How do they differ?
- What are the five forces of Porter's framework for industry analysis? What are examples of each these?
- How are buyer and supplier power related?
- How does (generally) increasing concentration in an industry affect buyer/supplier power? How does (generally) increasing concentration among buyers or suppliers for an industry affect the profitability of an industry?
- What is an economy of scale? What is minimum efficient scale?
- What are barriers to entry? Give examples of both nonmaterial and technological barriers to entry.
- What is a switching cost? Give both a cash and non-cash example.
- How does the threat of possible retaliation affect industry attractiveness? How does a firm establish a threat of retaliation to potential entrants?

### Grant, Chapter 4

- What is an industry segment?
- Explain, and give an example, of each of these dimensions for doing a segment analysis:
  - Product
  - Customers
  - Service (see Porter on variety, needs, access)
- What is an industry group?
  - Explain, and give an example, of each of these dimensions for doing a group analysis:
  - Generic strategies (cost, differentiation, focus)
- How are industry boundaries, segments, and strategic groups different? Are there clear indicators of where to draw the lines between them? If not, why not? When might you use a segment analysis rather than a group analysis?

### Class 3 -- Firm competencies

This class investigates how a firm's competencies can be a source of competitive advantage. A written case analysis of the Wal-Mart case, answering the questions below, is due.

Porter, Michael. 1996. What is strategy? Harvard Business Review, November-December. HBR# 96608.

Ghemawat, Penjak, et. al. 2003. WalMart stores in 2003. HBSP# 9-704-430.

Yoffie, David B. 2005. WalMart, 2005. HBSP# 9-705-460.

### Questions for Wal-Mart case analysis

What, if any, of Wal-Mart's capabilities are sources of competitive advantage in the discount retailing industry? Specifically, given the range of things that Wal-Mart does well, do any of these lead to increased bottom line performance that cannot be matched by competitors? Be specific in explaining why, and note that Wal-Mart has large, established, and competent competitors trying to match Wal-Mart's performance.

Porter, "What is Strategy?"

- Porter makes an argument about uniqueness, tradeoffs, and sustainability of competitive advantage. Make sure you understand each part:
  - Positioning by differentiation of activities --> success
  - Strategy is about choice of unique activities firm will do
  - Sustainable position requires trade-offs – why?
  - Fit between activities within the firm sustain position – why?

Grant, Chapter 5

- What are resources of a firm? Give three types, and examples of each.
- What are capabilities? How are they related to resources?
- What is benchmarking?
- What are the three factors that determine the strategic value of a firm's resources or capabilities?
- What is meant by a sustainability of an advantage? What determines sustainability?

Grant, Chapter 7

- What is a competitive advantage?
- Why are there not competitive advantages in perfectly competitive markets? Why not?
- What makes an advantage sustainable or durable?
- What are the factors that affect sustainability and durability?
- Why is the adoption of one of the generic strategies (cost, focus, differentiation) a potential source of competitive advantage?

Class 4 -- Organizational structure and strategy

This class focuses on the interaction between organizational structure and strategy; how strategy requires the right organizational structures to succeed, and the existing organization structure sets the boundaries on the range of strategies for a firm.

Mintzberg, Henry. 1981. Organizational design: fashion or fit? Harvard Business Review, January-February. HBR# 81106.

Applegate, Lynda and Goldman, Kirk. 1997. Internet Securities, Inc.: Building a Business in Turbulent Times (A). HBSP # 9-398007

Applegate, Lynda and Goldman, Kirk. 1997. Internet Securities, Inc.: Building a Business in Turbulent Times (B). HBSP# 9-803-013

Question for ISI case

How do you think ISI should build its organization for the future, and why? Make specific recommendations about how to change the organization and explain why each is important. This will require defining strategic goals for the firm, as the type of organization depends upon the strategy of the firm.

Also remember that most organizing choices are tradeoffs; no form of organization can do all things (e.g., you can't be both decentralized and centralized at the same time). So try to be clear about why you believe the tradeoffs you are choosing are superior.

Mintzberg on structuring organizations and Grant, Chapter 6

- Mintzberg defined six types of organizations: Simple structure, machine bureaucracy, professional bureaucracy, divisionalized firm, adhocracy, missionary. What are the defining characteristics of each?
- How would you classify each of these organizations in terms of Mintzberg's types of organizations: General Electric, Accenture (consulting firm), Goldman Sachs (investment bankers), Wal-Mart, U.S. Post Office, the University alumni association, a hot dog stand, and your study group?
- What kind of organization do you work for, or have worked for, given Mintzberg's types of organizations? Given that type of organization, what does Mintzberg predict is the key part of the organization? Do you agree or disagree with that prediction for your firm?
- What is a matrix organization, and what are an advantage and disadvantage of that form relative to a single hierarchy form of organization?
- Define and give an example of each of the following types of coordination and control mechanisms: mutual adjustment, direct supervision, standardization of work processes, outputs, skills, and norms.

#### Class 5 – Setting organizational boundaries: integration and differentiation

This class focuses on how firms set their boundaries in terms of vertically up and down the value chain, and horizontally in terms of differentiation across multiple markets, places, etc. It examines the theory, the myths, and the realities of this process.

Times, May 4, 2005.

Greenhouse, Steven. 2005. How Costco became the Anti-Wal-Mart. New York Times, July 17, 2005.

Perrow, Charles. 1986. Complex organizations: A critical essay. "Transaction cost economics", p. 236-257. McGraw Hill: New York.

#### Organization of Pepsi, Coca Cola, and WalMart

- What advantages do these firms gain from their current arrangement of vertical integration? Is it the most efficient setting of boundaries? Why or why not?
- Why are Pepsi and Coca Cola vertically integrated and differentiated in exactly the same ways? Is this good or bad for the firms?
- How does WalMart control up and down the value chain in ways that are similar to owning the businesses? Why do they choose not to integrate?

#### Perrow on transaction costs, efficiency and effectiveness of firm boundaries

- What is the theoretical basis for setting firm boundaries within economics? How do you know what will be the most efficient and effective arrangement?
- What does Perrow say is the problem with the assumptions about the control given by markets and owning a firm within economic theory?
- What are the alternative factors that influence the boundaries of a firm independent of efficiency? Are these rational forces, or irrational and should be removed?

#### Grant, Chapter 8

- What is a cost strategy? What are some of the sources of cost advantage?
- What is the relationship (generally) between cost and market share?

#### Grant, Chapter 13

- What is vertical integration? Backward integration? Forward integration?

- Vertical integration eliminates problems with buyer and supplier power. What, however, are the drawbacks to vertical integration? Why don't firms do unlimited integration?
- What are some examples of relationships between suppliers and buyers that are neither vertical integration nor anonymous exchange? What are their advantages? Drawbacks?

### Class 6 -- Inter-firm relations and cooperation

This class examines cooperative relationship between firms. It investigates the strategic challenges to starting, maintaining, and ending, a collaborative or cooperative relationship with another firm.

Hartley, Robert F. 2003. Management mistakes and successes. John Wiley & Sons. 7th ed. (Chapter 16, "Boeing Loses Dominance to Airbus" p. 222-233)

Aris, Stephen. 2004. Close to the sun: How Airbus challenged America's domination of the skies. New York: Agate. (p. 49-64; 195-208)

Meyer-Larsen, Werner. 2000. Germany, Inc. New York: John Wiley. (p. 218-227)  
2004, "In Focus: Noël Forgeard of Airbus", July 19, CNN International.com.

Branson, Richard. 2005. "Noël Forgeard: Taking Airbus to a Higher Plane". Time, April 18.

Boxell, James, et al. 2005. "Cockpit Crisis", Financial Times (London Edition), June 15, Comment and Analysis, p17.

Done, Kevin and Spiegel, Peter. 2005. "EADS chiefs put focus on teamwork", Financial Times (London Edition), Sept. 14, Companies International, p33.

Clark, Nicola and Bennhold, Katrin. 2006. "For Airbus, turbulence at the helm", The International Herald Tribune, June 16, News, p1.

Clark, Nicola. 2006. "Co-chief of EADS refuses to step aside", The International Herald Tribune, June 29, Finance, p14.

Pae, Peter. 2006. "Two execs quit amid Airbus woes", Los Angeles Times, July 3, p C1.

Leggett, Theo. 2006. "Profile: Noël Forgeard", BBC News.com, July 2.

Landler, Mark. 2006. "Politics joins production as problem for Airbus", New York Times, July 4, p C1.

Matlack, Carol et al. 2006. "Wayward Airbus", Business Week, October 23, p46.

#### Question for Airbus case

In perfectly and hilariously clear hindsight, how would you have organized Airbus to maximize its market effectiveness? Remember to consider the fact that different countries and firms had different capabilities, and that there are some political realities that cannot be avoided. For instance, you should not recommend that the French leave and sell it all to Germany – pride and investments would preclude that.

#### Grant, Chapter 9

- What is a differentiation strategy?

- How can a firm use a differentiation strategy when it is selling a commodity (i.e., a product that is identical in all performance aspects across producers)? (Hint: Think coffee.) What are the sources of differentiation? How does differentiation relate to customer perceptions?
- How does a focus strategy differ from a differentiation strategy?

#### Grant, Chapter 15

- What is diversification? Related vs. nonrelated?
- What are some of the motives for diversification by firms?
- What are the potential competitive advantages from diversification?
- What are the potential drawbacks to diversification in general? Specific to unrelated diversification?

#### Class 7 -- Global strategy and firm organization

This class demonstrates the range of possible, appropriate, and effective relationships between firms, ranging from arm's length competition to close cooperation. The class also investigates the role of culture in strategy, and implementing strategy in a global context.

Biggart, Nicole and Hamilton, Gary. 2004. "On the limits of a firm-based theory to explain business networks: The Western bias in neo-classical economics". Chapter 7 in *The Strategy Reader*, Susan Segal Horn (ed.), Second edition. Blackwell: Oxford.

Yoffie, David B. and Slind, Michael. 2007. *WalMart, 2007*. HBSP# 9-707-517.

Wang, Hong Iris, et al. 2007. *Wumart stores: China's response to Wal-Mart*. HBSP# HKU635.

#### Walmart, 2007 and Wumart cases

- What new challenges is WalMart facing? How are challenges domestically affecting international operations and strategy?
- What are the differences between the Wumart and WalMart strategy in China?
- Compare the competencies of Wumart and WalMart in terms of efficiency and effectiveness of executing their strategy. What are the advantages and disadvantages for each?
- What advantages over WalMart does Wumart gain from being a native firm?

#### Biggart and Hamilton on institutions and economy

In Biggart and Hamilton's piece on the institutional basis of economies, they describe two different models for organizing an economy: the neoclassical model of the West, and the Asian models based on the business network. How do these models differ in terms of assumptions about:

- the relationship between markets and social order
- relationships between firms
- and the costs and benefits to society of cooperation and competition.

#### Class 8 -- Strategic decision making

This class uses an in-class video of a real world strategic decision-making process to examine the social and political processes by which strategy is set and changed in large corporations.

Bazerman, Max H. and Chugh, Dolly. 2006. *Decisions without blinders*. HBSP# R0601G

Jackall, Robert. 1988. *Moral Mazes: Bureaucracy and managerial work*, HBR #83507

Carter, Bill. 1994. *The Late Shift: Letterman, Leno, and the network battle for the night*. New York: Hyperion. (p. 1-32).

Each student should bring a "cheat sheet" summary of the readings (as described below) to help guide viewing and our discussion.

#### Preparation for Late Shift video case

- Make a "cheat sheet" to remind you about Johnny Carson, David Letterman, Jay Leno, John Agoglia, Warren Littlefield, Bob Wright, Helen Kushnick, and Robert Morton – who are they, what is their job and how are they related in the structure of NBC?
- Make a "cheat sheet" of the cognitive biases in the Bazerman article. It should be 1-2 page description that is a handy reference for in-class exercises.
- Make a "cheat sheet" of the political influences on decision making by executives from the Jackall reading. It should be 1-2 page description that is a handy reference for in-class exercises.

#### Class 9 -- Formulation and implementation of strategy

The final case analysis for the course examines how strategy is formulated and evolves over time as it is implemented. It also examines how certain features of strategies make them more or less useful in adapting to changing conditions.

Christiansen, Evelyn T. and Pascale, Richard Tanner. 1983. Honda (A). HBSP # 9-384-049.  
Eccles, Robert G. and Nohria, Nitin. 1992. 'Strategy as a language game', *The Strategy Reader*, Oxford: Blackwell: (Chapter 3, p 50-72) Excerpted from *Beyond the hype: Rediscovering the essence of management*. 1991. Harvard Business School Press.

#### Honda Case

What is the key lesson from the success of Honda to emulate? What is the key lesson about what to avoid in the example of the failure of Honda's competitors?

#### Class 10 -- Final group presentations

Final group projects are due and there will be in class exercises and presentations.

## Course Requirements

Group analyses of a firm's strategy (150 points): Everyone in class will be assigned a group that will analyze a single publicly traded firm over the course of the class. The group analyses will be an application of concepts to a real world example.

The firm chosen by the group must be in a turnaround situation; it must be performing poorly when compared to the past. The strategic recommendations will be focused on making changes to improve performance. Specific format and requirements for the paper will be provided later in the course, but it will be a 10 to 12 page paper.

Each group will present its strategy for their firm. Presentations will be between two groups, not before the whole class so there will be more chance for feedback. Each team will grade the other team during the presentation.

The group project will affect your individual performance in two ways. First, you will be graded by your fellow group members on your effort and support of the group's work; if you fail to be involved, you will be marked down on this portion of your grade. Second, if you are not involved in the analyses you will do poorly on the quiz on your company on the last day.

Group analyses of a firm (50 points): For the first few weeks the group has to turn in a short written analysis that applies the concept of the previous week to their firm. The specifics of the assignments will be given later in class. All papers should follow the format for papers to help spare the eyes and improve the comments of the instructor.

Class Participation (150 points): The class discussion is an important chance to learn so it is taken seriously. In class you can learn from your fellow students and practice the verbal skills of communication and dialogue.

If you are absent from a class without an excuse (see policy below), your participation grade for the day will be zero. You need to participate actively. If you attend every class but are not engaged, your grade will be a "C". An "A" or a "B" will be earned by activity in the classroom.

Given that there are unexpected and uncontrollable events in everyone's life, one class can be missed without any penalty to your grade (except the final group presentations).

I will cold call (ask you to speak even if you have not volunteered). **BE PREPARED FOR DISCUSSION EVERY CLASS.**

Listen to what other students are saying and respond to them directly.

Be civil, courteous, and professional at all times. Disagreement is helpful when discussing a complex issue, but keep the conflict at a professional, not personal, level.

Pay attention to the discussion. Part of participation is making an active audience for others.

Participation grades will be reduced for unprofessional comments, lack of attention, or ignoring your fellow students' comments.

Individual case analyses (100 points): There are two individual case analyses due prior to the discussion of the case. The specific question for guiding that analysis is given for those weeks. The schedule indicates the week each paper is due. These papers should be 3-4 pages, double spaced, 12 point font (less than 1000 words).

When writing, analyze or argue; do not repeat facts. Tell the audience something they don't know even after they have done the readings. Either take a position about what should be done (i.e., "SmithCo should not merge with another company because it will conflict with their corporate strategy of stable growth") or give insightful analysis about the issue ("The power in this industry lies in the hands of the suppliers because they are concentrated and their products are not substitutable"). In all cases, use facts to support your analysis and arguments.

Final group project paper and presentation (150 points): The written portion of the final group project will have three representations of a firm strategy your group has developed for your firm. The first will be a one page or less direction document, the second is a graphical illustration of the strategy key points, and the third is a more detailed, 5 page description of the strategy. The project will require paring down the analyses of the entire class to the most important elements to guide the firm to act in an uncertain future.

Grading Conversions: Grades will be on percentage scale of A+ (98% and above), A (93% and above), A- (90% and above)...failing (64% and below).

## Course Policies

### Absences

Attendance is necessary for participation, and participation is critical to your learning, so the class participation for any missed class is zero. There is no way to make-up participation, as it requires being in class. Please attend all classes.

Given that there are extenuating circumstances in life, a student is allowed one (1) absence without penalty, with the exception of the final group project presentations. There will be no excused absences other than those defined by University policy. Absences that will not be excused include (but are not limited to) work schedules, business trips, interviews, airline or other travel delays due to anything other than severe and unpredictable conditions, and non-emergency events such as weddings, anniversaries, family vacations, etc.

### Late Class Assignments

Papers are due at the beginning of class. Case paper analyses cannot be accepted late because a student would have the advantage of class discussion in doing their analysis. The final group project will also not be accepted late because there will be class discussion of those projects the final day of class as well that require the paper to be finished.

If you have a foreseeable excused absence, any excused late papers must still be prepared BEFORE the class discussion of those topics to be turned in for a grade. In the rare cases where you have an excused and unforeseen absence, you will be required to do an independent, makeup assignment of equal difficulty.

### Late Final Group Projects and Missing the Final Class Day

Any final group project turned in late will be immediately marked down. This will be dealt with on a case-by-case basis, but at the very least, any late project will be marked down a full letter grade.

If anyone misses the discussion and presentation of final group projects, that person will receive a zero for that portion of the grade if it is an unexcused absence. In the rare case it is an excused absence, then the student will have to schedule a make-up time for a presentation to the instructor.

### Collaboration, Helping, Cheating, and Dishonesty

One of the goals of this course is to encourage students to communicate with each other, and to help each other learn. Learning management is a process of communication, debate, and argument, not a set of isolated exercises to be performed in private. The limitation to collaboration and helping, however, is when a student is no longer carrying the burden of learning. Some students are particularly adept at using the guise of collaboration and helping as a means to merely exploit others, and not do their own work. You may discuss case analyses, but you cannot copy from another's analyses, or use their written analyses as a basis for your own paper. This subverts the meaning of education, and the potential value it has for improving our minds and our community discussions.

Academic honesty is very important. The instructor will energetically investigate any failure to follow the academic honesty standards of the University.

Particularly important is the issue of misrepresentation or plagiarism. In the era of Internet information it takes discipline to document one's sources for written work. Students are reminded that they must be particularly scrupulous in this regard.

#### Written Assignment Requirements and Format

Papers are turned in as hardcopy; no emails.

Use a 12-point font, DOUBLE SPACED, 1" margins all around. Always have page numbers. Staple papers only; no binding, folders, clips, or anything other than plain paper that will weigh down the instructor even further than usual.

Always put your name on the front page. A title sheet is only necessary for the final paper (which will not count towards the page limits).

Do not put your social security number on your paper or any other information that is confidential. Your papers are not treated as confidential information, so protect yourself.

Do not exceed stated lengths; beyond those lengths will not be graded. Exhibits (graphs, tables, pictures, etc.) are not counted against the page length (within reason).

Exhibits, or any numerical analyses, should always have a clear title explaining the exhibit, and footnotes stating clearly any assumptions or additional data created for the exhibit. If the reader cannot replicate your exhibit from the notes, then it is not sufficient.

Any cited references or other material that is not the author's should be clearly cited in a bibliography that follows a widely accepted format. The bibliography does not count towards page limits.

#### Accommodations for Students with Disabilities

There will be accommodations made for students with disabilities, in accord with university guidelines.