

University of Chicago
Graduate School of Business

Strategy and Structure:
Markets and Organizations

Business 39001

Winter 2009

Wednesday 8:30-11:30 (Harper Center)

Wednesday 6:00-9:00 (Gleacher Center)

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Office Hours: By Appointment

Harper Center 324

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Managers, executives, and entrepreneurs face a common problem: how to create a strategy that sets and achieves the firm's goals. This includes shaping the identity of the organization, choosing and defining the market for its products or services, and setting the scope of the firm's activities. This course will develop the tools needed to analyze industries, firm competencies, and competitive advantage in order to create a firm's strategy: skills necessary to be a successful general manager.

For the general manager, management is less about the day-to-day operations of the firm, and more about positioning the firm, articulating a vision, and designing the firm to achieve competitive advantage. The general manager's two most important responsibilities are (1) deciding which business to pursue in order to create value, and (2) structuring the organization to achieve its strategic objectives.

A general manager must understand how the firm can create value. Where does your competitive advantage come from? Among the many opportunities for creating value, understanding which are uniquely well suited to your firm, and how your firm can exploit them, requires skill and a deep understanding of how the firm works and why it is successful.

Many sources of competitive advantage vanish overnight. Sustaining your advantage depends on the social organization of the firm. The structure of the firm brings everything together to create value: the opportunities of the market, the skills of the employees, and the core organizational processes. The routines and capabilities built into the organization allow it to sustain its advantage in the face of change—defections of key employees, changes in market conditions, etc.

Organizational design is therefore crucial for sustainable advantage. Choices about organizational design are fraught with both opportunity and danger. Poor design decisions can easily destroy value—and often do. At the same time, a well-organized firm can create value in seemingly hopeless situations, when sources of value seem few and far between. The organization of the firm itself can be a source of value, but achieving this is more rare.

In this course, we will cover material that speaks to the central tensions faced by the general manager when setting the firm's direction. In particular, we will assess the role of external conditions and firm routines in the creation of value. Other topics include the appropriate scope of the firm, different means of coordination and control, and the role of culture and informal structures. We will use cases and background readings to identify firms that are (or are not) well organized to create value, and to shed light on the key issues in organizational design.

Text:

Saloner, Shepard and Podolny, 2001. Strategic Management. John Wiley & Sons.

Course Schedule

Week 1 (1/7): Strategy Identification and Evaluation

Case: Wal-Mart Stores, Inc.

Reading: Saloner, Shepard and Podolny, Strategic Management, Chapters 1 and 2.

Week 2 (1/14): Competitive Advantage: Sources and Sustainability

Cases: Apple Computer
Dell Computer Corp.

Reading: Strategic Management, Chapter 3

Week 3 (1/21): Creating Competitive Advantage: The Boundaries of the Firm

Cases: Saturn
Thermo Electron

Readings: Strategic Management, Chapter 4
Podolny, Roberts & Hannan, Note on "The Nature and Purposes of the Firm."

Week 4 (1/28): Creating New Markets: Niche Strategies and Growth

***** Group project proposals due *****

Cases: Network Appliance (A)
Facebook

Reading: Strategic Management, Chapter 7.

Week 5 (2/4): Establishing an Identity: Authenticity and Culture

Cases: Scharffen Berger Chocolate Maker
Employee Recognition at Intuit

Readings: Carroll, Hannan & Pólos, Note on "Organizational Identity: The Case of Microbrewing."

Week 6 (2/11): Midterm Examination in Class (GSB ID# necessary)

Week 7 (2/18): Organizing for Economies of Scope

Cases: Maytag
Major Home Appliance Industry in 1984
Johnson & Johnson Hospital Services

Reading: Barney, "Diversification Strategies"

Week 8 (2/25): Technology Strategy: DSIR's and Market Alignment

Case: Intel Corporation
Hewlett-Packard: The Flight of the Kittyhawk

Reading: Strategic Management, Chapter 12
Podolny, Roberts & Hannan, Note on "Complementarity and Fit"

Week 9 (3/4): Explorers vs. Exploiters: Loose Coupling and Slack

Case: 3M: Profile of an Innovating Company

Reading: Strategic Management, Chapter 5
Podolny, Roberts & Hannan, Note on "Organizational Inertia and Change"

ARC-Analysis of IDEO (in class)

Week 10 (3/11): Strategy and Structure; Student Presentations

Case: GE's Two-Decade Transformation: Jack Welch's Leadership

Friday March 13th, 5:00 pm: Group Project Due

Course Requirements and Grading

There are four basic requirements for the course:

- Weekly write-ups (10%)
- Participation in class discussion (25%)
- In-class midterm (25%)
- Final group project (40%)

Please note that this class **cannot** be taken **pass/fail**.

Class Participation:

This course depends heavily on case discussions. Cases expose the ambiguities that are part and parcel of any decision, and the issues involved in going from principles to practices. Case discussions also develop the skills of persuasion, analysis and listening that are key to the success of any general manager.

You must prepare for class and participate in order for the course to be successful. Preparation for class involves a) reading the assigned cases and background materials thoroughly and b) reviewing and answering for yourself the case preparation questions. If you have not carefully thought about the study questions, you are not prepared for class. You are welcome to discuss cases with other students *currently* enrolled in the class, but the analysis must be your own. In preparing for case discussions, consulting students who have previously taken the class, consulting teaching notes prepared by anyone, prior slides or notes from any class, or any other material (with the exception of what you would otherwise read in the business press) constitutes **a violation of the honor code at the GSB.**

You can contribute to the class discussion in different ways: through clarifying questions, relevant personal experiences and critical evaluations of the argument and evidence. Your participation can take three specific forms.

- Identifying the key issues in the case, drawing on your reading of the case and the supplementary material.
- Concisely explaining and justifying your preferred course of action.
- Listening to the contributions of your classmates and engaging them in a constructive dialogue.

Your participation will be evaluated after each class. I will use a four-point scale: (0) missed class, (1) attended class, (2) participated in the case discussion, or (3) made a significant contribution to the case discussion. “Significant contributions” can take a variety of forms, including moving the discussion forward, making insightful comments and connections to course materials, etc. **The quality of your contribution is far more important than the quantity.** Note that repeated absences can have large negative effect on the overall participation grade.

I expect you to be prepared for class each week. **I will often cold call on people. If, for some reason, you are not adequately prepared for class and do not wish to be called on, please tell me prior to the beginning of class.** Given the size of the class, it is not feasible for you to participate every week; however, to get the most out of the class and to be ready for cold calls, you should be highly prepared for every session.

Write-ups:

Write-ups are due prior to each class, and must be submitted in a hard copy at the beginning of class, or emailed to me or your TA before the beginning of class. For each case, I will provide case discussion questions on Chalk. You may choose one case, and you must answer the bolded questions for that case in your write-up. Write-ups should

be under 750 words. You should be thoughtful and succinct. You may discuss the case with other members of the class but the analysis and write-up must be your own.

The objectives of the write-ups are to increase your ability to implement the tools and frameworks introduced in the course and to better prepare the class as a whole for a valuable and informative discussion of each case. Therefore putting substantial thought and effort into the write-ups will likely improve your participation grade. In each write-up, you must also make **at least one** explicit connection with one of the assigned supplementary readings. The idea is not necessarily to quote the supplementary readings but to use them to increase the value of your work.

Midterm:

The midterm exam will be an individual, written exam administered in class in Week 6. The exam will consist of short answer questions and an analysis of a case that will be distributed during the midterm. You will be allowed to bring one 8 ½ x 11 sheet of paper with notes (front and back). Please be sure to bring your **GSB ID #** to class for the exam, which will be graded anonymously. Also, to stay within **the Honor Code**, please do not consult any prior cases or midterms used in 39001. And if for any reason you have had any prior exposure to the case I choose for the midterm, please let me know after I hand it out, and I will give you a new case, no questions asked.

Group Project:

Your final will be a group project. For this project, you should analyze a situation where a firm has either attempted to restructure or reposition itself strategically in response to changes in its environment, or where an entrepreneur is starting a new firm and positioning it within an environment. You may work in a self-selected group of between 4-5 members. Groups of 3 or 6 must be approved by me; no one will be allowed to work in groups of less than 3 or greater than 6 members.

Relevant topics include, but are not limited to:

- Significant changes in strategy, such as entering new markets
- Large-scale organizational restructuring / downsizing
- Constructing a market
- Implementing a merger

You may analyze strategic changes or initiatives that have been completed. You may also analyze strategic changes that have only recently been initiated, but are still being implemented. You may not analyze strategic changes that you think will or should occur.

How you approach the project will depend on whether or not the change has been completed:

- If you choose to analyze a strategic change that has been completed, your job is that of an historian skilled in organizational analysis. You should document what

happened and explain why things went right or why things went wrong. It is important for you to include an analysis of the risks posed at the time that decisions were made if things went “right,” and of the benefits expected at the time decisions were made if things went “wrong.”

- If you choose to analyze a strategic change in progress, your job is that of a consultant. You should develop clear and reasonable suggestions about how the strategic change should be implemented internally, based on your understanding of how the firm works and your knowledge of principles of organizational behavior. You should include an analysis of the potential upside and downside of any course of action, depending on environmental unknowns that may arise in the future.

Analyzing a work in progress is often much more exciting than doing a careful history. But it is also much more risky. It is too easy to fall into idle speculation, wave your magic wand, and forget about the organizational and strategic constraints faced by the firm. To combat this, keep asking yourself: Why might our suggested course of action fail? What are the barriers to successful implementation? Projects that take these issues seriously will be more successful.

Each project must consist of two sections:

Part 1: Strategic Analysis: Why did they do it? (3-4 pages)

Part 2: Organizational Restructuring/Repositioning: How did/should they do it? (7-8 pages)

You should write the project to take best advantage of the information at your disposal, and may therefore choose to emphasize some parts more than others. While you must master the facts of the case, the goal of the project is to demonstrate your ability to understand and use the lessons from the course: **you must relate strategy to structure and vice-versa**. A thoughtful *analysis* is essential; projects that are simple statements of facts and events will not be successful. You may use both primary and secondary data as you see fit.

You may study any case that interests you and your fellow group members. *However, a project will not be considered successful unless it contains a thorough and thoughtful consideration of structural changes **within** the firm.* Therefore, choose the firm carefully, with an eye toward being able to gather useful information on the internal consequences of the strategic change. I highly recommend choosing a firm about which one or more group members have personal knowledge: your current or former employer, a competitor, a supplier or customer, etc. Famous cases (Quaker/Snapple; Sony/Columbia Pictures; etc.) often generate poor projects.

Groups should feel free to meet with me to discuss their projects. I may be able to suggest productive avenues of analysis, useful sources of the data, etc. You are free to form groups as you wish. However, the composition of groups cannot change after week 7, unless all group members agree. In preparation for the assignment, I will ask each group to submit a brief proposal (no more than a page) at the start of class in Week 4.

We will have a section-wide vote to determine three presenters who will present their group's findings in our last session. The class should choose based on people whose comments during case discussions have been particularly valuable over the course of the quarter.

The final paper is due Friday, March 13th by 5:00 pm. You may drop off the paper in my mailbox at HPC, at the Gleacher Main desk, or you may email it to me at epontikes@chicagogsb.edu. Not including tables and figures, the paper should not exceed 12 double-spaced pages of text with standard margins and 12-point fonts.

Grading Policies

- In accordance with the policy of the GSB, I will have a maximum grade point average of 3.33.
- Grading is done on a curve; all grade components are normalized to have a mean of zero and a standard deviation of one (i.e., "z-scores" are computed).
- Thus your final grade is determined by your performance relative to other students in the class.
- All requests for re-grading must be submitted *in writing* within one week of the receipt of the grade. The request must include an explanation of why you believe the grade to be in error. Grades can go up or down after a re-grade.
- Class participation grades *cannot* be contested.
- There is no distinction made between excused and unexcused absences: both result in a zero participation grade for that day.
- In computing the class participation score, I will drop each person's lowest score over the course of the quarter.

Honor Code

Students in my class are required to adhere to the standards of conduct in the GSB Honor Code and the GSB Standards of Scholarship. The GSB Honor Code also requires students to sign the following GSB Honor Code pledge, "I pledge my honor that I have not violated the Honor Code during this examination," on every examination.