

Columbia Business School

ECONOMICS OF ORGANIZATIONAL STRATEGY

B8215

Spring (A) 2014

Mon. and Wed., 12:30 – 2:00 pm
Office Hrs: Mon., 2:00 – 3:00 or by appt

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Overview of the Course

The success of any organization depends not only on having a well-designed product market strategy but also crucially on how that strategy is executed. Successful execution of strategy requires that the firm deal with two fundamental challenges:

(1) The coordination problem, i.e. getting everyone to work together to jointly pursue the goals of the organization, and (2) The incentive or agency problem, i.e. aligning the goals of employees with the goals of the firm. “Organizational strategy” is the set of practices that the firm uses to deal with the coordination problem and the incentive problem. The main premise of the course is that a successful organizational strategy can be a source of sustainable competitive advantage.

The specific topics covered in this course include recruitment and selection, the challenges and opportunities in using individual and team-based incentives to motivate and reward employees, the use of non-monetary incentives, objective and subjective performance evaluation, investments in human capital, executive compensation, job design and organizational structure, and executive span of control.

The course relies heavily on cases and examines a large number of companies in a diverse group of industries, including the not-for-profit sector. We will examine the organizational strategy decisions made by these companies and draw lessons from their experiences that can be applied to other companies.

Connection to the Core

This course builds on the concepts developed in Managerial Economics.

Course Materials

In addition to cases, the course uses readings from the economics and business literature. All of these materials will be distributed in a readings/casebook on the first day of class. One of the cases is a negotiation simulation.

Course Requirements and Assignments

A. Attendance and Participation (25%)

You are expected to attend all sessions and to actively participate in class discussions. This means that you have done the readings assigned for each class and that the comments you contribute to class discussions integrate material from the assigned readings. If you feel that you are preparing well but that I am not calling on you enough, please let me know so that I can address the problem. While I will mainly rely on voluntary participation, I may also use *cold-calling*. **On February 12, a negotiation simulation will be conducted in class and attendance on that day is therefore essential. If you will not be able to attend class that day, please inform me immediately.**

B. Written Assignments (40%)

There are two written **INDIVIDUAL** assignments that require you to analyze a case and answer a specific set of questions. To satisfy this requirement, select two of the four cases scheduled for **Classes 3, 6, 9 and 10** and answer the questions listed on the syllabus. The assignment is due at 9 pm the evening before the class on which the case will be discussed. All assignments must be in 12 point font, double-spaced, and cannot exceed three pages. Late assignments will incur a penalty.

C. Final Paper and Presentation (35%)

The final project is an opportunity for you to apply the knowledge from this course to a specific company with which you are familiar. You should work in **groups of three to five people**, with at least one person in the group having worked for that company or having access to “inside” information. Other sources are private equity and venture capital firms which are interested in having MBAs review companies they own or are considering as an investment. It is preferable to choose a small to midsize company. Each group will make a very brief presentation on the last day of class. The final paper is due on **March 13th at 5 pm**. The paper should describe the company’s organizational strategy and critically analyze the strengths and weaknesses of that strategy. Analysis, rather than description, is the focus of the paper. Recommendations for changes to the company’s organizational strategy should be grounded in thoughtful analysis that reflects your understanding of the concepts discussed in the course. Recommended length for the paper is 10 double-spaced pages, not including exhibits.

Classroom Conduct

This class will adhere to the Columbia Business School Honor Code and The Learning Contract. You are expected to arrive to class on time. Keep your name card visible during class sessions. Laptops, cell phones, and other electronic devices are **NOT** to be used in class. Failure to comply with this rule will impact your class participation grade.

COURSE OUTLINE

Class 1: January 29

Introduction to the Course: Linking Strategy and Organizational Choices

Case: The Portman Hotel Company (HBS)

Class 2: February 3

A] Strategies for Recruitment

Case: S.G. Cowen (HBS)

B] Introduction to the Economics of Incentive Pay

Readings: James N. Baron and David M. Kreps, *Strategic Human Resources*, 1999, pp. 245-248.

Class 3: February 5

Individual Incentive Plans

Case: Performance Pay at Safelite Auto Glass (A) (HBS)

Readings: Canice Prendergast, "Paying for Performance", in *Financial Times Mastering Strategy*, 2000.

Case Option #1: If you choose this case for one of your written assignments, submit your answers to the following questions no later than 9 pm on February 4th. Your answers must be double-spaced using 12 point font and cannot exceed three pages.

Answer the following questions:

1. Using the concepts covered in Class 2, explain why the PPP plan is likely to increase productivity at Safelite.
2. What are the arguments against implementing PPP at Safelite?
3. Given your answers in (1) and (2), would you recommend implementing PPP or a different type of incentive plan and why?

Class 4: February 10**Team Incentive Plans**

Case: Douglas Frank, “Continental Airlines: The Go Forward Plan”, INSEAD, 2009.

Case: Ann Bartel, Jonah Rockoff and Lesley Turner, “New York City Teacher Incentive Program: Agreeing on a Plan (A)”, *Columbia Caseworks*, May 2012.

Readings “Howard Schultz’s Memo: The Starbucks Chairman’s Message to Company Employees,” *Business Week*, January 8, 2008.

Materials for the February 12th negotiation will be distributed in class today

Class 5: February 12

Case: V-Cola (HBS)

Note this is a negotiation simulation. Confidential materials for your role will be distributed in class on February 10. Since these materials are confidential, they cannot be posted on Canvas. Please read the materials carefully before coming to class today.

Class 6: February 17**A] You Get What You Pay For**

Case: Arck Systems (HBS)

B] Multi-Dimensional Incentive Systems

Case: Ann Bartel and Maria Guadalupe, “MacAfee Building Supply: Improving Performance across Retail Stores (A)”, *Columbia Caseworks*, January 2009.

Case Option #2: If you choose this case for one of your written assignments, submit your answers to the following questions no later

than 9 pm on February 16. Your answers must be double-spaced using 12-point font and cannot exceed three pages.

Answer the following questions:

1. Explain why it is appropriate for MacAfee to use incentive pay.
2. Given the concerns raised in the case, what are your specific recommendations for modifying the current incentive plan? Be sure to explain how your recommendations will address these concerns.
3. What potential problems might arise if your plan is implemented?

Class 7: February 19

Implicit Incentives and Subjective Performance Evaluations

Reading: Donald Hastings, "Lincoln Electric's Harsh Lessons from International Expansion," *Harvard Business Review*, May-June 1999.

Case: Massachusetts Financial Services (HBS)

Class 8: February 24

Organizational Structure: Centralization and Outsourcing Decisions

A] Centralization Decisions

Case: British Petroleum (A1): Organizing for Performance at BPX (Stanford GSB, 1998).

B] Outsourcing Decisions

Readings: Robert Gertner and Marc Knez, "Vertical Integration: Make or Buy Decisions," in *Financial Times Mastering Strategy*, 2000.

Case: Crown Equipment Corporation: Design Services Strategy (HBS)

Class 9: February 26

HR Challenges at Various Stages of the Organizational Life Cycle

A] Guest Speaker: Kaye Foster-Cheek, Senior Vice-President, Global Human Resources, Onyx Pharmaceuticals

B] Compensation Strategies for Growing Start-ups

Case: Ann Bartel, “Betterment: Managing a Start-up’s HR Challenges”, *Columbia Caseworks*, January 2014.

Case Option #3: If you choose this case for one of your written assignments, submit your answers to the following two questions no later than 9 pm on February 25. Your answers must be double-spaced using 12-point font and cannot exceed three pages.

1. What recommendations would you make to CEO Jon Stein?
2. Explain the basis for your recommendation.
3. Discuss any possible problems that might arise should your recommendations be adopted.

(Note: The Betterment case may not be discussed until the start of our next class but, if you choose this case write-up, it is due at 9 pm on February 25)

Class 10: March 3

A] Non-Monetary Incentives

Readings: “Doing Well By Being Rather Nice,” *The Economist*, November 29, 2007.
“Motivating Without Money,” *Business Week*, April 24, 2009.

B] Organizational Strategy in the Not-for-Profit Sector

Case: Habitat for Humanity (HBS)

Case Option #3: If you choose this case for one of your written assignments, submit your answers to the following three questions no later than 9 pm on March 2. Your answers must be double-spaced using 12-point font and cannot exceed three pages.

1. Jeff Snider has said that his greatest wish is for “talented people”. What should Snider do to attract and motivate talent at Habitat’s headquarters?
2. What metrics should headquarters use to assess the performance of the affiliates and why?
3. Should Habitat modify its current organizational structure, i.e. should affiliates continue to have local autonomy?

Class 11: March 5**A] Executive Compensation**

Reading: Maria Guadalupe, "Executive Compensation: Rewards for Success or Unnecessary Excess?" *Columbia Caseworks*, June 7, 2011.

B] Span of Control and the Role of the CEO

Reading: Boston Consulting Group, "Shaping Up: The Delayed Look", 2004.

Class 12: March 10**Presentation of Group Projects**