

Columbia Business School

ECONOMICS OF ORGANIZATIONAL STRATEGY

B8215

Spring (A) 2016

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

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TA:

Overview of the Course

Many managers and organizations now recognize that a critical source of competitive advantage often comes not from having the most ingenious product design, the best marketing strategy, or the most state-of-the-art production technology, but rather from having an effective system for obtaining and managing the organization's human assets. A number of developments, including firms' shifts to knowledge workers, rapid technological change, increased global competition, tight labor markets in some sectors, and experiments with new organizational arrangements, are making the firm's internal organizational strategy increasingly important for senior managers and for entrepreneurs. Some commentators contend that in today's economy, with such open access to information, technology, capital, and other resources, adroit human resource management may be one of the few remaining sources of competitive advantage.

The course focuses on the implementation of policies that enable the organization to achieve competitive advantage through people. The specific topics covered are 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, 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 8, 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 11** 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 9th 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.

D. Classroom Conduct

This class will adhere to the Columbia Business School Honor Code and The Columbia Business School Core Culture (“Present”, “Prepared”, “Participating”). 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 27

Introduction to the Course: Linking Strategy and Organizational Choices

Case: The Portman Hotel Company (HBS)

Class 2: January 29

A] Strategies for Recruitment

Case: LinkedIn and Modern Recruiting (A) (Stanford GSB)

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 1

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 January 31st. 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 3**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.

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

Materials for the February 8th negotiation will be distributed in class today

Class 5: February 8

Case: V-Cola (HBS)

Note this is a negotiation simulation. Confidential materials for your role will be distributed in class on February 3. Since these materials are confidential, they cannot be posted on Canvas. Please read the materials carefully before coming to class today.

Class 6: February 10**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 9. 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 15

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 17

HR Analytics

Class 9: February 22

HR Challenges at Various Stages of the Organizational Life Cycle

A] Guest Speaker - TBA

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 21. 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 21)

Class 10: February 24

Organizational Structure

Case: Millennium Pharmaceuticals (A) (HBS)

Class 11: February 29

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 #4: 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 February 28. 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 12: March 2

Presentation of Group Projects