Overview

Organizational capability is increasingly believed to be a critical—perhaps the critical—source of competitive advantage. Firms everywhere are advised to use aggressive incentives, to be fast, to be flexible, and to be networked. What underlies this advice? Have we become smarter or has something in the environment changed that explains why firms need to organize their businesses differently now than before? When should organizations outsource and when should they produce internally? When should firms diversify or merge? Can one maintain the creativity and enthusiasm characteristic of a small firm inside a large one? When should one even try?

This course provides some of the economic tools that have proved helpful answering these organizational and strategic questions. The three core concepts from organizational economics that will be emphasized are: incentives, control rights, and relational contracts. These will be integrated with some of the main tools from strategy and industrial organization. Specifically, the course will utilize, deepen, and integrate three first-year courses: microeconomics (15.010), organizational processes (15.311), and strategy (15.900). For example, from microeconomics we take the ideas of incentives and game theory, from OP we take organizational structure and culture, and from strategy we take industry structure and core capability. These discussions also prepare the way for complementary courses, such as marketing strategy (15.834) and technology strategy (15.912).

After discussing the three core organizational economics concepts, we turn to applications: organizational design and performance, corporate strategy (multiple units under one roof), and extended enterprises (multiple units under multiple roofs). The course topics and approach are therefore appropriate for those considering management consulting, as well as for general managers who seek to understand and influence the design and performance of their organizations.

I want to stress that while the perspective I will take is distinctly economic (which roughly means that people try to organize themselves in ways that maximize the total...
surplus to be shared), other perspectives from sociology, psychology, etc. are most welcome in the class discussions. Economics falls far short of explaining all that is going on in firms and between firms. But I hope you will find that economics can be surprisingly powerful and useful in shedding light on key features of organization.

The classes consist of a mix of lectures and cases. The lectures are mostly in the beginning, but I will throughout provide additional conceptual frameworks for thinking about the cases. Instructions for cases are explained in more detail later. The deliverables for this course are three case write-ups and a final paper.

The Schedule below is subject to change if we end up needing more time (or less) time for some subject or if I find as we go along that it would be better to use a different case. The cases and readings are all available on Stellar.

Schedule and readings

General readings


PART I: Foundations

Class 1: Tue. Feb. 5 Introduction to Incentives

Lecture Note 1 “Agency Theory” Sections 1-4

Class 2: Thu. Feb 7 Piece rates

Recall Lincoln Electric from 15.311

Case: Performance Pay at Safelite Autoglass (A) and (B) (HBS 9-800291/2)

Class 3: Tue. Feb. 12 Multi-tasking


Lecture Note 1 “Agency Theory” Sections 4-7


Class 4: Thu. Feb. 14 Incentives and Relationships

Case: Brainard, Bennis & Farrell (HBS 9-485-037)

Lecture Note 2 “Relational Contracts”


*** NO CLASS ON TUE. Feb. 19—MONDAY CLASS SCHEDULE ***

Class 5: Thu. Feb. 21 Control Rights - Vertical

Team composition and top five case choices for executive summaries due by e-mail to Trevor Frankel before class.

Case: Nokia Corporation, Innovation and Efficiency in a High Growth, Global Firm, (Stanford GSB IB-23, revised 07/07)


Lecture Note 3 “Control Rights”


Class 6: Tue. Feb. 26 Control Rights – Horizontal

Case: Globalization “The CEMEX Way”, (MIT Sloan 09-039)

Lecture Note 4 “Make, Buy, or Cooperate?”

Part II: Cases

Class 7: Thu. Feb. 28 Innovation Imperative

Case: Cisco Systems: Acquisition Integration and Manufacturing (A) and (B) (HBS 9-600-015/016)
**Class 8:**  **Tue. Mar. 5**  **Corporate Venturing**

**Case:** Xerox Technology Ventures (HBS 9-295-127)
Further reading: Thermo Electron (HBS 9-292-104)

**Class 9:**  **Thu. Mar. 7**  **Incentives-Cooperation Trade-Off**

**Case:** British Petroleum (A), (Stanford GSB, S–16A)

**Class 10:**  **Tue. Mar. 12**  **Matrix Organization**

**Case:** ABB’s Relay Business: Building and Managing a Global Matrix (HBS 9-394-016)

**Class 11:**  **Thu. Mar. 14**  **Unstructured Organization**

**Case:** Sun Hydraulics Corporation (A and B) and (C) (HBS 9-491-119 and -125)

**Administration**

There are two types of assignment in this course: four case write-ups and a final paper. All assignments should be 12pt, single-spaced, with margins large enough to allow comments.

1. **Three ‘executive summary’ case write-ups**
   - In groups of maximum 3 students. The groups should remain the same for all four write-ups.
   - Maximum 2 pages of text and 2 exhibits.
   - See note on “Executive summary case write-ups” for details on content.
   - Please sign up for specific cases (from Classes 6 through 11) by sending an e-mail to Trevor Frankel (frankel.trevor@gmail.com), copying all the team members, before class on February 20, listing your preferences across the five cases (from which we will try to choose your top three).
• Due date is 5pm the day before class, by email to both Trevor and me.
• I may occasionally call on people to present their positions.

2. Final paper
• In groups of maximum 3 students. Groups can differ from those used for case write-ups.
• Maximum 10 pages text and 5 exhibits.
• See attached note on “Final Paper” for details on content.
• Before class on February 27, please e-mail Trevor your company, general subject, and team composition.
• Hard and soft copy (the latter to Trevor and to me) due anytime on March 24.

Both types of assignment in this course are type-3 teamwork, as defined in the Academic Standards section below. That is, each team member must contribute substantially to each deliverable.

Grades will be determined by weights of 45% for the executive summaries (including participation on those days), 25% for participation on other days (including attendance and professional standards), and 30% for the final paper.

Executive-Summary Case Write-ups

The goal of the write-up is to take a clear position on an issue, support your position, and note any caveats or potential problems.

Topic
Usually, the topic of the write-up is the central question of the case: what should this company/person do? You can deviate from this topic if you have good reasons to do so, such as personal (and interesting) experience with a particular facet of the case or a clear and interesting position on an important subsidiary issue. In either case, the issue you explore must be directly related to the organizational aspects of the case. If you deviate from the central question, you should state this up front, before the summary statement, with your reasons for doing so. For example, you might write: “Instead of the central question ‘Should they buy company X or build an alliance,’ we discuss the question ‘What are the key conditions to make a potential merger a success,’ since one of us lived through this situation just before coming to Sloan.”

Format
The format of the write-up consists of 3 parts:
1. Summary/Recommendation
2. Supporting argument
3. Caveats and potential problems
Your write-up must start with a **ONE SENTENCE SUMMARY** that states your basic position. The sentence should be as concise as possible. Shorter is better; this is an exercise in synthesis. The rest of the write-up argues why that position is correct. At the end, you should list concisely (as a list) the 4 or 5 caveats or potential problems with your recommendation. A (partial) example of such write-up is on the next page.

**Use**

I will often call upon someone to present his or her ideas. This does not mean that your write-up was good or bad, only that it is useful for the discussion. *On the days that you prepared an executive summary, you should be helpful in the discussion, by pushing it into interesting directions, not by monopolizing it.* That is, your participation on these days should be reflected not in the quantity or duration of your comments, but in their impact. Participating in this way is an important aspect of your grade for an executive summary.

**Example of Executive-Summary Case Write-up**

Team: Ms. Jones and Mr. Smith

**Executive summary on ‘Matrix Inc.’**

NOTE: We will deviate from the general question XXX because YYY.

**Summary**

This company should fire its CEO and merge the two divisions into the new structure presented in the attached exhibit.

**Argument**

There are three reasons why the CEO should be replaced:

1. xxx
2. yyy
3. zzz

**Issues and caveats**

- Many top managers have personal links with the CEO and might leave.
- It is imperative to find a replacement who will really change the culture.
- The animosity between the divisions will probably hinder cooperation in the new unified structure.
Final Paper

The purpose of the final paper is to study (preferably) a corporate strategy issue or (alternatively) a broad organizational problem. Either way, the project should exercise the concepts and frameworks introduced in the course.

A useful way to think about the project is to take the issue and put yourself in the position of the CEO or of his/her consultant. The question is: how should the company deal with (or should the company have dealt with) this issue?

In doing the analysis, you should

• Concisely describe the company and its industry
• Carefully describe the relevant facts
• Clearly state the issue (preferably in one short sentence)
• Possibly describe the actual way the company dealt with the issue
• State your position (in one short sentence), argue it, and note caveats and potential problems.

Note that some pieces of this format are the same as the executive summary case write-ups (although you should spend more time on caveats and potential problems than just making a list). The difference between the executive summaries and the final paper is in the first pieces of the format: you write the whole case yourself. (You can leave out the “Mr. Smith leaned back in his chair and reminded himself how it all started,” as well as the one-pager on the company’s history going back to 1869.)

Again, the ideal topic is one from corporate strategy: mergers, acquisitions, alliances, joint ventures, outsourcing, spin-offs, globalization, and so on. You can consider either the organizational issues caused by designing and managing one specific governance structure or you can evaluate alternative structures. An example of a good topic is post-merger integration and the problems it causes. As with the executive summaries, you can deviate from the corporate strategy governance issues if you have a company with a particularly fascinating organization or a company that went through a big crisis.

Given the nature of the beast, it is important that you have access to information about the internal workings of the firm. Ideally, one or more of your team members should have worked at the company (and this is mandatory if the topic deviates from corporate strategy). Some form of prior experience substitutes for the outreach and fieldwork familiar from the team project in 15.311. There will not be time for outreach or fieldwork for the final paper in this course.

This is the general description of the final paper. But what I really want is that you do something (related to class) that really interests you, so I’m open to alternative suggestions if you are passionate about them.
The MIT Sloan Mission  
http://mitsloan.mit.edu/about/mission.php

The mission of the MIT Sloan School of Management is to develop principled, innovative leaders who improve the world and to generate ideas that advance management practice.

Values@MIT Sloan  
https://sloanpoint.mit.edu/administration/values/Pages/default.aspx

The MIT Sloan Mission statement (above) provides the context for core values that express who we are at our best. These core values include **integrity, respect, collaboration, innovation**, and **positive impact**. We invite all members of our community – students, staff, faculty, alumni – to practice these values in all the ways we work together, both inside and outside of the classroom.

MIT Sloan Policy on Classroom Behavior

In order to create a productive learning environment and to ensure mutual respect it is essential that the norms and rules of classroom etiquette and behavior reflect the highest standards. It is also important that these norms be consistently enforced by the faculty across all classes. Although in the final analysis each faculty member is responsible for his or her own classroom, there are significant negative consequences for other faculty and for the School if rules are not consistent and are not enforced. Therefore it is the policy of the MIT Sloan School that

- Students are expected to arrive promptly on time and to stay for the entire class.

- Faculty are expected to begin and end class on time.

- Laptops and e-readers not be open in the classroom except with explicit permission of the faculty (e.g., when used to deliver an e-course pack or otherwise used as part of the instructional program or when required by students because of physical or other challenges)

- Cellphones and PDAs are not be used or permitted to ring in the classroom.

- Students are expected to attend all classes.

It is expected that faculty will articulate how these rules apply in their class as well as how the rules will be enforced.
MIT Sloan Career Development Office Recruiting Policy

Students are required to schedule campus interviews outside of scheduled class times and to make every attempt to schedule second round interviews and site visits outside of class times. Classes missed for such activities are not excused absences and may count against your participation grade.

ACADEMIC HONESTY – INTEGRITY IN PRACTICE

As a member of the MIT Sloan academic community, you are expected to uphold the highest standards of academic integrity. Violations of academic integrity include, but are not limited to, cheating, plagiarism, unauthorized collaboration, and facilitating academic dishonesty. Please see the document Academic Integrity at the Massachusetts Institute of Technology: A Handbook for Students for further discussion of this topic. These standards are also discussed below, specifically regarding plagiarism, individual work, and team work.

It is your responsibility to make yourself aware of MIT’s rules of academic integrity and to adhere to them. When students are found to have violated academic standards, disciplinary action will result. Possible consequences include grade reduction, an F grade, a transcript notation, delay of graduation, or expulsion from MIT.

This discussion of academic integrity below is not exhaustive, and there may be areas that remain unclear to you. If you are unsure whether some particular course of action is proper, it is your responsibility to consult with your professor and/or teaching assistant for clarification.

Plagiarism
Plagiarism occurs when you use another’s intellectual property (words or ideas) and do not acknowledge that you have done so. Plagiarism is a very serious offense. If it is found that you have plagiarized -- deliberately or inadvertently -- you will face serious consequences, as indicated above.

The best way to avoid plagiarism is to cite your sources - both within the body of your assignment and in a bibliography of sources you used at the end of your document.

Materials gathered through research via the Internet must be cited in the same manner as more traditionally published material. Lack of such citation constitutes plagiarism.

To review rules of citation: http://libguides.mit.edu/content.php?pid=80743&sid=598642

Individual Assignments
Many assignments in MIT Sloan courses are expected to be done individually. The information below outlines what is meant by “individual” work. These rules should be observed unless otherwise defined by the instructor.
When you are asked to do *individual* work, you are expected to adhere to the following standards:

- Do not copy all or part of another student’s work (with or without “permission”).
- Do not allow another student to copy your work.
- Do not ask another person to write all or part of an assignment for you.
- Do not work together with another student in order to answer a question, or solve a problem, or write a computer program jointly.
- Do not consult or submit work (in whole or in part) that has been completed by other students in this or previous years for the same or substantially the same assignment.
- Do not use print or internet materials directly related to a case/problem set unless explicitly authorized by the instructor.
- Do not use print or internet materials without explicit quotation and/or citation.
- Do not submit the same, or similar, piece of work for two or more subjects without the explicit approval of the two or more instructors involved.

Please note that many classes will require a combination of team work and individual work. *Be sure that you follow all the guidelines for individual work when a faculty member identifies an assignment as an individual one.*

**Team Assignments**

When you are asked to *work in teams*, there is a broad spectrum of faculty expectations. Three general types of appropriate collaboration on team assignments are described below. The instructor will indicate in the syllabus what his/her expectations are. If there is any uncertainty, it is the student’s responsibility to clarify with the professor or TA the type of team work that is expected.

**Type 1 collaboration:**

The professor states that collaboration is allowed, but the final product must be individual. An example of this might be a problem set.

- You are allowed to discuss the assignment with other team members and work through the problems together.
- What you turn in, however, must be your own product, written in your own handwriting, or in a computer file of which you are the sole author.
- Copying another’s work or electronic file is not acceptable.

**Type 2 collaboration:**

The professor states that collaboration is encouraged but that each person's contribution to a given deliverable does not have to be substantial (allowing groups to take a "divide and conquer" approach). An example of this might be a brief progress report that is part of a more extensive collaboration (as a whole, the more extensive collaboration may be Type 3).

- Each team member is encouraged to contribute substantially to the team assignment, however, the team may choose to assign one or more team members to prepare and submit the deliverable on behalf of the team.
• Regardless of how work is shared or responsibilities are divided among individual team members, each member of the team will be held accountable for the academic integrity of the entire assignment. If, for example, one member of the team submits plagiarized work on behalf of the team, the entire team will be subject to sanctions as appropriate.
• The team may not collaborate with other students outside of the team unless the professor explicitly permits such collaboration.

Type 3 collaboration:
The professor states that collaboration is expected and that each team member must contribute substantially to the deliverable. An example of this might be the 15.311 OP project.

• Each team member must make a substantial contribution to the assignment. It is not, for example, acceptable to divide the assignments amongst the team members (e.g., part of the team completes the OP Project while the rest of the team prepares a team case for DMD), though the team may divide the work of any one assignment to complete it as they deem appropriate.
• The team may not collaborate with other students outside of the team unless the professor explicitly permits such collaboration.

If you are unsure whether some particular form of interaction is proper in individual or team work, it is your responsibility to consult the instructor and/or teaching assistant for clarification and guidance.