Organization and Strategy: Some Lessons from H1

Class 1: Cisco

1. Setting the stage: can’t do strategy (especially corporate strategy) without considering organization.

2. Revisiting strategy: what customer value will you provide (creating value), how will your capabilities allow you to provide this value (delivering value), and why will no one eat your lunch (capturing value)?

3. Four critical issues for an organization are incentives, structure, culture, and boundaries.

Class 2: Lincoln Electric + LN 1 (Agency Theory)

1. Lincoln’s pay plan includes a piece rate (formula) and a subjective bonus: w = s + bp + B(y).

2. When is a pay problem just a pay problem? Lincoln’s pay plan fits with its HR policies, which together fit with its organizational design, management policies, and strategy. Such complementarities are a classic setting in which core competencies can become core rigidities.

3. Lincoln’s competitive advantage comes largely from the reputation it has developed with its workers (and other constituencies) by not “ratcheting” the piece rate, by paying the bonus, and by upholding its employment guarantee.

Class 3: “On the Folly ...” + LN 2 (You Get What You Pay For)

1. Business history is littered with firms that got what they paid for.

2. A good performance measure induces valuable actions, but such a performance measure may not be highly correlated with total contribution to firm value.

3. If successful incentives can be created solely by a formula, consider outsourcing.

Class 4: CSFB, Lincoln Revisited, and LN 3 (Intro to Relational Contracts)

1. Because organizations typically do not (and cannot) run smoothly using only formulas and other formal rules, credible promises / self-enforcing agreements / relational contracts are crucial in organizations (beginning with but far from limited to incentives).

2. Managing relational contracts is hard. Initial clarity and ongoing communication are important. Changing a relational contract is hard (especially if the new deal looks like reneging on the old).

3. Economic principles for managing relational contracts include: (a) grow the value of the relationship; (b) manage the extremes, not the averages; and (c) know when to start and when to quit.

Class 5: Brainard,ennis, and Farrell + LN 4 (Subjective Perf. Eval.)

1. Even “hard” numbers are often not what they seem. Pure formulas are usually disasters.

2. When is a pay problem just a pay problem? Compensation meets organizational design and management meets strategy: having a full-service law firm creates organizational costs.
Class 6:  Citibank + reading on “Strategic Groups”

1. Simple structures could be organized around functions (activities), products (outputs), or geographies (users). Many mixed structures attempt to blend two or more pure forms (matrix, front-end / back-end, and so on).

2. Structure is both formal (boxes and lines; rules for processes) and informal (networks; actual practices). Informal structures and processes often dominate formal ones.

3. Two-way street between strategy and structure: structure must implement strategy, but structure also shapes / constrains strategy.

4. Matching strategy and structure can be hard. Reasons to change more slowly than the environment: (a) not sure where environment will end up; (b) must build skills / preserve buy-in before moving to appropriate organizational form. Reason to change faster than the environment: neither functional nor divisional is optimal, so oscillate to develop both skills and reassert both goals.

Class 7:  Rubbermaid + reading on “Project Teams”

1. “Confidence is only rented, never owned.” Boss / operating team can always revoke the autonomy of subordinate / business team. Empowerment is a relational contract.

2. Lightweight teams vs. heavyweight teams vs. tiger / autonomous teams are alternatives between (say) pure functional and pure divisional structures, differing by resources and fate control over members.

Class 8:  ABB + reading on “Strategic Linking”

1. Strong local customers (governments) and intense rivalry (driven by excess capacity and economies of scale) cause ABB to greatly value both global reach and local presence.

2. There are many important pieces of the organizational structure besides the matrix, such as BA Boards, and Steering Committees of LOCs, and functional councils. Many participants in the matrix are also heavily involved in these other roles. (And many participants are burning out – both because they have two bosses and because they have so many other roles.)

3. There are many informal processes and expectations that complement the formal organizational structures such as the matrix and the boards. For example, there are expectations of empowerment, accountability, action (rather than indecision), information sharing, and conflict resolution by participants (rather than bosses). The importance of these informal aspects is emphasized in the following “equation:” matrix organization = matrix structure + matrix processes + matrix culture + matrix beliefs.

4. Launching ABB without someone like Barnevik (who embodies and espouses the informal expectations as well as articulating the formal organizational structure and industry vision) seems extremely difficult. Similarly, it seems unlikely to be worth the matrix’s risks of burn-out and disarray unless one’s business involves two dimensions that are both extremely important.

Grouping, Linking, and Alignment Meet Formal and Informal (Technical and Social)

Informal aspects of:

- grouping: experience groups; national, professional identities
- linking: relational empowerment; networks
- alignment: subjective rewards; cultural norms, politics

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Class 9:  Johnson & Johnson (A) + reading on “Structure and Structuring”

1. Complementarities among strategy, structure, and culture: innovation for stakeholder value.

2. Center interacts with operating companies as: bank, strategy consultant, shareholder, coach/VC, labor market, organization consultant, and credo curator.

3. Decentralization can be revoked by center. Relational contracts are important between divisions as well as between people.

4. Credo by itself is worth little, but credo is challenged and fits with strategy, structure, and processes.

Class 10:  Guaranty Trust Bank

1. Revisiting Schein’s triangle: artifacts are observed; espoused values may or may not be true; basic assumptions can be true values (normative) and/or hidden assumptions (cognitive).

2. Symbols = stories and actions for clarification / elaboration (mission / core values as code). Signals = actions for credibility (would that action be worthwhile for someone who didn’t mean it?).

3. Culture vs. field: GTB’s culture explicitly departs from external culture. This departure conveys initial competitive advantage (two-way street between culture and strategy) but also creates long-run costs of culture maintenance / updating.

Class 11:  Saturn

1. Five Forces meets relationships – with suppliers, dealers, employers, and customers. (Recall Crown Cork.)

2. Symbols (chair) and signals (UAW contract, dealer contract, $18M to replace cars,…). Culture vs. field: initial competitive advantage but long-run costs of culture maintenance / updating.

3. Corporate strategy: (a) GM could organize Saturn as internal division, arm’s-length subsidiary, or spin-off; (b) GM controls Saturn’s autonomy, targets, and resources; (c) if GM’s rationale for Saturn is based on (i) transfer of knowledge and technology and (ii) transfer of buyers, should this change (a) and (b)?

Class 12:  RU 486

1. Field as external actors (not in Five Forces): government, church, and so on.

2. Field as external culture: (a) normative, (b) cognitive.

3. Corporate strategy: Hoechst (and West Germany) (and US)

Incentives, Structure, Culture, Boundaries x Formal-Informal

Informal aspects of:

- incentives: subjective rewards (bonuses, raises, job defns); peer pressure
- structure: identities, networks; relational empowerment; actual practices (vs. formal rules)
- culture: hidden assumptions and true values (vs. artifacts and espoused values)
- boundaries: ??

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