

UC Davis GSM

Organizational Strategy and Structure

Syllabus – Winter 2020 – Prof. Elizabeth Pontikes

MGT 201B, W 9 – 11:50 AM
MGP 201B Sat (odd) 9 AM – 12 PM; 1 – 4 PM
MGB 201B F (even) 2 – 5 PM; 6 – 9 PM

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Office hours by appointment

Executives and managers face a common problem: how to craft a strategy and design an organization to execute that strategy. An organization's strategy is its plan to win – how it will create and appropriate value. An organization's design encompasses structures managers put into place to guide employee actions. This is not about day-to-day operations, but about crafting a strategy and designing the organization to achieve lasting competitive advantage.

Historically, strategy models have assumed *market statics*: that environments change slowly enough so that managers can create strategies for the current and foreseeable environment, and update every few years. This course starts with strategy fundamentals assuming market statics, and teaches foundational frameworks to (1) evaluate environmental forces, (2) create a strategy that can succeed given environmental forces, and (3) design the organization to execute its strategy.

Next, we turn to strategy under *market dynamics*. In our era of disruption, market change is rapid and ongoing. Competition is increasingly fierce and globalized, customers fickle, and technology a key differentiator across industries. Under these conditions, managers cannot rely on periodic strategy updates to stay afloat. They need to shift focus from *executing a particular strategy* to *strategy discovery*: where the organization is designed to learn and evolve. Building on tools for strategy execution, this course will also teach strategy discovery and entrepreneurial design for organizations to remain competitive under market dynamics.

Lessons are uncovered through case-based analysis, hands-on exercises, lecture, video, and theoretical analyses aimed at developing critical thinking skills. Evaluation is based on active course contributions, two memos, and a final group project.

Course Requirements and Grading

Two memos	30%
Course contributions (includes weekly "homework")	35%
Final team project	35%

Course materials

Many of the links to the readings require you to be on campus or use the [library VPN](#). Other readings are found on [Study.net](#) or the [Harvard Business Publishing coursepack](#).

Course Schedule

Part I, Fundamentals: Strategy Execution under Market Statics

In Part I of the course, we learn the fundamentals of strategy. Historically, strategy theory and practice have assumed market statics: that market change is slow enough so that organizations can be set-up to execute a strategy developed for current market conditions, with strategy and organization design updated at punctuated intervals to address environmental changes.

Class 1: What is Strategy? Strategy Identification and Competitive Advantage

Theory readings:

- Porter, M. E. (1996). [What is Strategy?](#) *Harvard Business Review*
- Bossidy & Charan (2011). *Execution*. Introduction and Chapter 1. **[Study]**
- Pontikes. Teaching note on *Strategy Identification*. **[Study]**

Case: Wal-Mart Stores, Inc. (HBS 9-794-024) **[HBS]**

Homework:

Was the "Buy American" campaign a good idea? (Yes/No). Write a few sentences explaining your answer.

Discussion Questions:

1. What were the main drivers of Wal-Mart's early success? How much of its success can you attribute to the industry it is in?
2. What is Wal-Mart's strategy in the early years? Include all four elements.
3. How have Wal-Mart's sources of competitive advantage changed over time?
4. Consider Wal-Mart's success in light of the Bossidy & Charan reading. What structures do Wal-Mart executives (Sam Walton) put into place to execute their strategy?

Class 2: Competitive Strategy: Environment and Industry Structure

Theory readings:

- Porter (1985). *Competitive Advantage*. "Generic Competitive Strategies," pp. 11 – 26. **[Study]**
- Porter (2008). ["The Five Competitive Forces that Shape Strategy,"](#) *Harvard Business Review*.

Case: Apple, Inc in 2015 (HBS 9-715-456) [HBS]

Homework:

Were Sculley's problems (mostly) a result of bad strategy or bad execution? (Strategy/Execution). Write a few sentences explaining your answer.

Discussion Questions:

1. Apply Porter's five-forces model to the PC industry, in the early days and as the industry matures.
2. What are Apple Computer's competitive advantages in PCs? How well do these fit with how the industry evolves? Exhibit 3a shows a steep drop in Apple's worldwide market share in the mid-1990s. How do you explain this?
3. Compare Apple's strategy under Sculley and Jobs. What are similarities and what are differences? How does each address changes in the environment? How do they leverage Apple's unique competitive advantages?
4. How does Apple's foray into smartphones and the "digital hub" strategy leverage Apple's competitive advantages? Does this position give Apple sustainable competitive advantage?

Class 3: Organization Design for Strategy Execution

Assignment #1 due: Prepare a 3-5 page response memo to the following question:

1. How do you account for lululemon's success? How much is it due to being in an attractive industry, and how much is due to sustainable strategy and execution? In your answer, be sure to incorporate the frameworks from this course: (1) Porter's 5-forces model, (2) strategy identification and evaluation, (3) how lululemon's organization design (PARC – People, Architecture, Routines, Culture) creates unique competitive advantages.

Theory readings:

- Saloner, Shepard & Podolny (2001). "Internal Context: Organization Design," Strategic Management, Ch. 4, sections 4.5 - 4.6 (pp. 75-90). [Study]
- Bossidy & Charan (2011). *Execution*. Ch 6 "The People Process: Making the Link with Strategy and Operations." [Study]

Case: Leadership, Culture and Transition at lululemon (multimedia, HBS 410705-HTM-ENG) [HBS]

* No homework today *

Discussion Questions:

1. Identify lululemon's strategy. In terms of scope: what are they selling and who are their target customers? Are they competing in an existing market or creating a new one?

2. What are their competitive advantages? Think about competitive advantages in terms of both *product* and *company*.
3. Analyze lululemon's organization design. What are unique elements of their people processes, architecture, routines, and culture that reinforce their competitive advantages?

Class 4. Organization Design: Culture Deep Dive

Project proposals due. (Upload to Canvas before your section).

Theory readings:

- Chatman and Cha (2003). "[Leading by Leveraging culture.](#)" *California Management Review*. 45:19 – 34.
- Rivera, L (2012). "[Hiring as Cultural Matching: The Case of Elite Professional Service Firms,](#)" *American Sociological Review* 77: 999-1012.

Case: Zappos.com 2009: Clothing, Customer Service, and Company Culture (multimedia)
[HBS]

Homework:

Is culture essential to Zappos, or is it a perk? (Essential/Perk). Write a few sentences explaining your answer.

Discussion questions:

1. What industry is Zappos in? How can you apply Porter's 5-forces model? (Hint: it is not straightforward).
2. How do Zappos' competitive advantages play out in their environment? How is Zappos trying to *change* its environment?
3. Outline Zappos' organization design using the PARC model. How much has Zappos' culture contributed to its success?
4. Hsieh clashed with his board over whether the culture is a "perk" or essential. He maintains that although cutting the culture would not have short term effects, it would destroy the company's value in the long term. What is your view? Is the culture a "perk" that should be cut in hard times, or is it an investment? Put differently, is culture slack or waste? Consider this in general, and for Zappos in particular.

Part II. Strategy Discovery and Entrepreneurial Design For Market Dynamics

In Part II of the course we focus on strategy under market dynamics. This questions the assumption that market change is slow enough so that periodic strategy updates are sufficient. In modern times, the pace of market change has quickened, as *technological change* affects

many industries, competition becomes *increasingly global*, and *customer tastes* are changing at increasing rates. Under market dynamics, managers need to be prepared to continuously change, responding to and initiating disruption. They must shift focus to strategy discovery and organization designs that enable learning to support ongoing strategic changes.

Class 5. Disruption: Causes and Consequences

Theory Readings:

- *The Innovator's Dilemma*: Introduction [HBS]
- Ries on Sutton, *Friction* "The Spreadsheet Troll" (podcast)
(<https://ecorner.stanford.edu/podcast/the-spreadsheet-troll-ales-of-silos-and-scaling/>)

Case: Salesforce vs. Siebel (HBS N9-716-454) [HBS]

Homework:

Was Siebel's "OnDemand" initiative a wise strategic response to Salesforce.com? (Yes/No). Write a few sentences explaining your answer.

Discussion Questions:

1. How does the *Innovator's Dilemma* framework apply to the SaaS/hosted CRM market?
2. Analyze the industry structure of the enterprise software market as compared to the outsourced CRM market, using Porter's five-forces model. What is similar and what is different?
3. What *competitive advantages* are valuable given environmental forces in the outsourced CRM market? How does this compare to enterprise software? What differences in *organization design* are required for Siebel to successfully compete in outsourced CRM? Consider technology, sales, and marketing.
4. Siebel creates a three pronged sales strategy to reach the SMB market segment, including partnering with Value-Added Resellers (VARs) and sharing revenue with IBM. This sales channel would run in parallel to their existing enterprise sales. Why might this organization design be difficult to successfully implement?
5. Could Siebel have had an easier time adapting to the disruption if they had elements of entrepreneurial design as advocated by Ries? Be specific.

Class 6. Entrepreneurial Design: Fundamentals

Assignment #2 due: Prepare a 3-5 page response memo to the following questions:

1. Describe the organization design of "classic" 3M (the McKnight era), using the PARC model. How does their design reflect Ries' recommendations? How does it create competitive advantage for 3M?

2. Lou Lehr undertakes a major reorganization when he becomes CEO. Would you say his changes push 3M more toward exploration or exploitation? How does it strengthen or weaken 3M? Draw on all of the readings in your response.

Theory readings:

- Gladwell, "[Creation Myth: Xerox PARC, Apple, and the truth about innovation](#)," *The New Yorker*
- Ries (2017). *The Startup Way*. Chapter 4[Study]
- J. March, "[Exploration and Exploitation in Organizational Learning](#)," *Organization Science*, 2:71-87 (you can skim the details of the simulations).

Case: 3M: Profile of an Innovating Company (HBS 9-395-016) [HBS]

* No homework today *

Discussion Questions:

1. 3M is uniquely designed to foster creativity, discovery, and innovation. Identify key elements of this design, including: metrics, career ladder, hiring, architecture, processes, and cultural values.
2. How *efficient* is 3M's structure? How easily could 3M execute a prescribed strategy?
3. A key consideration for an innovative company is the difference between waste and slack. To the extent that 3M is inefficient, how much would you say is due to waste versus slack?
4. Creation Myth describes Gary Starkweather's frustrations with developing his creative ideas at Xerox. Why was Xerox so resistant to Starkweather's ideas? Were they right to resist?
5. How was Xerox designed to foster innovation and creativity? In what ways was their entrepreneurial design similar to and different from 3M? How do both compare to Ries' recommendations in *The Startup Way*?

Class 7. Category Strategy: Shaping Your Environment

Theory reading:

- Pontikes (2018). "Category Strategy for Firm Advantage," *Strategy Science*, Vol 3:620 – 631. [Study]

Cases:

- Jean-Claude Biver (A): The Reemergence of the Swiss Watch Industry (HBS 9-415-031)
- Dandelion Chocolate[Study]

Homework:

Who is a bigger competitive threat to Dandelion: a mass chocolate firm (like Hershey) or another craft chocolate maker? (Mass/Craft). Write a few sentences explaining your answer.

Discussion questions:

1. The Jean-Claude Biver case tracks the evolution of the watch industry. Applying models from this course, analyze the environment of the Swiss watch industry *before* quartz technology, during the period when quartz technology was introduced, and after Biver's turnarounds.
2. How does the emergence of quartz technology a disruption for the Swiss watch industry? Apply the *Innovator's Dilemma* framework.
3. How is Blancpain in trouble with Biver takes over? How might these problems have seemed insurmountable at the time?
4. What is the vision and strategy of Blancpain and Omega during Biver's respective turnarounds? How does Biver use category strategy to change how potential customers value Blancpain, Omega, and mechanical watches in general?
5. The Dandelion Chocolate case describes the evolution of the chocolate market. Applying models learned in this course, analyze the mass chocolate market and compare it to the craft chocolate market (as envisioned by Dandelion).
6. What are Dandelion's competitive advantages? How do these fare under the competitive logic of mass chocolate? What about under the competitive logic of craft chocolate?

Class 8. Design Flexibility and Pivots

Theory readings:

- Isaacson, W. "[The Real Leadership Lessons of Steve Jobs](#)," *Harvard Business Review*, April 2012.
- Ries (2017). *The Startup Way*. Ch 9 "Innovation Accounting." [Study]

Case bundle: Netflix

- Nocera, Joe. "[Can Netflix Survive in the New World it Created?](#)" *The New York Times Magazine*, June 15, 2016.
- McCord, Patty. "[How Netflix Reinvented HR](#)." *Harvard Business Review*, Jan – Feb 2014.
- Dotan, Tom. "How Netflix's Management Structure is Re-Writing the Hollywood Script." *The Information*, May 30, 2018. [Study]
- Netflix culture deck[Study]

Homework:

Was letting McCord go the right move? (Yes/No). Write a few sentences explaining your answer.

Discussion Questions:

1. Netflix disrupted its industry multiple times: first with its initial DVD rental subscription mail-order, and next by developing their own content and pioneering "binge-

watching.” Such moves require the ability to (1) identify opportunities and (2) reorganize to capitalize on them. How does its organization design, especially its approach to talent management, explain these successes?

2. How does Netflix’s design help explain why it was able to attract *House of Cards* from rival HBO?
3. With all of these pivots, what remains consistent? What are Netflix’s core competitive advantages?
4. How has Netflix used category strategy?
5. What are key advantages to Netflix’s approach to talent management? What are downsides? What does Netflix ask of its employees? What does it provide in return?

Class 9. Balancing Execution and Entrepreneurial Design

Theory reading:

- Blank, Steve. “Why GE’s Jeff Immelt Lost His Job – Disruption and Activist Investors,” *Harvard Business Review*. October 30, 2017. [HBS]

Case: NetApp 2017 (Stanford SM-289) [HBS]

Homework:

Is it possible for large public companies to implement Ries’ Start Up Way principles? (Yes/No). Write a few sentences explaining your answer.

Discussion Questions:

1. Describe the key elements of NetApp’s organization design between 2000 and 2015, using the PARC model. How is NetApp designed for execution, assuming market statics?
2. How does NetApp evolve its design over the 2000 – 2015 time period in response to changes in the market? To what extent does it initiate changes, and to what extent does it respond?
3. How is the emergence of cloud computing a more disruptive market change than the others described in the case?
4. Which design changes in Transformation 1.0 are aimed at making NetApp more efficient? Which make it better at responding to the market disruption?
5. Faced with disruption, many firms would shift strategies to directly compete with cloud providers. In contrast, NetApp’s response to the cloud was to carve out a new opportunity around the hybrid cloud and “data fabric.” Evaluate this category strategy.
6. Blank’s article highlights how investors place constraints on executives who want to implement entrepreneurial organization designs. How have some established, public companies we have studied, like NetApp, Apple, and 3M, been able to do this?

Class 10. Sustainability Initiatives for Strategy Discovery

Case: Nike: Sustainability and Labor Practices 1998-2013 (Stanford IB-106) [HBS]

Homework:

Is sustainability at Nike just a PR initiative? (Yes/No). Write a few sentences explaining your answer

Discussion Questions:

1. Nike institutes a number of changes in organization design, intended to focus employees on improving sustainability. Consider the following in light of the organization design recommendations by Bossidy and Charan in *Execution* (market statics) and Ries in *The Startup Way* (dynamics):
 - a. A major change for Nike in 2009 is creating the SB&I team with executive accountability, integrated in product development from the earliest stages. How might this change in organization design lead to better sustainability outcomes?
 - b. Nike creates a number of indices to score their performance on sustainability. What do you think of their approach? Do you think the new metrics will be effective in changing behavior? Why do people pay attention?
 - c. How does the culture at Nike change? How is it the same?
2. Parker believes sustainability efforts make Nike more innovative and disruptive. An example from the case is the Nike Flyknit. It is often thought that adding constraints to a process will stifle innovation. Parker and Sprunk insist that their breakthroughs were a result of having to consider sustainability. How do the models covered in this course provide an explanation for why these additional constraints on sustainability might have led to innovations in performance?
3. Do these sustainability initiatives build on Nike's historical competitive advantages?
4. Do you consider Nike's sustainability initiatives disruptive to the industry? In what way?
5. How has Nike implemented strategy discovery and category strategy? Be specific.

Course Requirements

- Two Memos (30%)
- Course contributions (35%)
- Final team project (35%)

Memos:

Two memos are due (in class 3 and 6). These are 3-5 page essays responding to the questions set out above (double space, 12-point Times New Roman Font, one-inch margins). Memos are due before your section, submitted on canvas.

Course Contributions:

This course depends heavily on participation. Discussions expose the ambiguities that are part and parcel of any case analysis. Through participation you will develop the skills of persuasion, analysis and listening that are key to success.

The course contribution grade includes weekly responses to “homework” questions. These are due before your course. The “homework” question asks you to take a stand on an issue pertinent to the week, and *briefly* explain your reasoning.

Learning occurs both through preparing readings and cases and through in-class interaction. Therefore, it is critical that you attend class and **come prepared to discuss the assigned material.** I will cold call. **If you come to class unprepared, inform me ahead of time and I will not call on you.** (It is much better to let me know ahead of time than to be caught unprepared).

Participation **cannot be made up.** To accommodate illness, interviews, etc., I drop your lowest (2) participation grades for the quarter (one double-class for weekend students). Absences are treated the same regardless of the reason. It is not necessary to inform me beforehand.

To prepare for class discussion, you will need to carefully read the case and all of the readings. **First read the assigned theory reading(s) for the week, and keep the key concepts in mind as you read the case.** The readings were selected to accompany the case because they provide theoretical guidance for analyzing the case. Take time to dissect the main issues presented in the case, the challenges the leader faces, and how the tools from the course should be applied. You may need to read the case twice.

You may discuss the materials with others; study groups are encouraged. You also may draw on relevant outside information that brings depth, nuance, and perspective to your analysis. However, using outside information about the resolution of a particular case to substitute for your original analysis, whether from the internet, classmates who have previously covered the case, or other similar sources, is a violation of the code of academic conduct and strictly prohibited.

Be an active participant throughout the quarter. The frequency (i.e., the quantity) of your contributions in class is not the main criterion for effective class participation. The quality of your participation is most important. Criteria for effective class participation include:

- Does the participant demonstrate a thorough understanding of the assigned readings?
- Do the comments show evidence of analysis of the case?
- Is the participant a good listener? Does s/he respond to other comments, and not simply repeat what has already been said?

- Are the points that are made relevant to the discussion? Is there willingness to test new ideas or are all comments "safe"?

It is also important to remember:

- Well-posed questions are an important part of the discussions.
- In most of the cases we discuss, there are many viable actions and plans that could be undertaken. Enlightened debate adds significantly to the understanding of the issues.

Team Project:

Your final is a team project that provides a strategic analysis of a firm that is undergoing a major change, or that is in trouble and needs to embark on a major change. The objective of this project is to *demonstrate you can apply course theory to gain insight into a real firm's problems*. You will form self-selected teams in the first class, of between 4-5 members.

You may analyze any type of organization, e.g. a non-profit, an established firm, or a start-up, as long as: 1) you can get sufficient data on it, 2) you can justify that the organization is in trouble or in the midst of a major change, 3) the organization operates in a competitive market context (or something comparable), i.e. no utilities, and 4) you have not used the firm in an assignment for another class.

Projects can use primary data (e.g. interviews) or secondary data (e.g. news reports), or a mix of the two. Be sure to choose a topic where you have **access to enough information about the design of the organization to integrate the full range of concepts from the course into your analysis**.

Your strategic analysis should diagnosis of the firm's problem(s) and/or the reason for its strategic change, including an analysis of the firm's environment, it's strategy (historically and currently), and how/whether its organization design supports competitive advantages necessary to compete in its environment. Your analysis should end with recommendations that flow naturally from your analysis and address problems you have identified. For example, if your analysis of the firm's structure reveals a misfit between the firm's organizational structure and its strategy, your recommendations should include either a change in strategy or a re-organization. A thoughtful analysis is essential; projects should go beyond statements of facts and events.

- **Class 4:** Project proposal due (one page)
- **Final paper due** at 4:00 pm the Monday/Friday after your last class, uploaded to Canvas (MGP – March 2; MGB - March 9; MGT – March 13).

Project proposals

Proposals should contain the company that you will analyze and how the frameworks from the course apply to your case. Identify the sources of data that will be used in your research.

Final project paper

The paper may not exceed 12 double-spaced pages of text with one-inch margins, in 12-point Times New Roman font. Only the text of the paper counts toward the page limit; table of contents, references, tables, and figures do not count toward the limit.

There is no required structure for the paper, but most good papers contain the following:

1. Problem definition: Give some firm background and history: what has the firm's strategy been, particularly its historical competitive advantages? What is its underlying economic logic? Has it changed recently or has the world changed?
2. The industry and environment: what is a 5-forces analysis of the firm's industry? How has it changed? This can be changes of the forces within an industry, or a more major disruption that is shifting the basis of market categorization and competition.
3. Discuss the firm: What was the source of the organization's competitive advantage, and why is it no longer sustainable? For start-ups, what is the intended source of competitive advantage? Have managers tried to change the environment, or are they reacting to changes? Why didn't the firm keep up? Use theories you have learned in the course to analyze the situation and diagnose the underlying cause of problems. You should discuss with your group a number of theories in relation to the firm you're analyzing, to select the best way to analyze your situation. In the paper, you should only present the one(s) that fits the situation. Do not simply reiterate the theories presented in class. Successful papers present a critical, thoughtful, and focused analysis that applies one or two theories with enough depth to reveal insight.
4. Recommendations: What should the firm do now?

I will provide a team evaluation form, which will affect your final project grade if your standardized within-group score is discernibly lower or higher than zero. If you do not evaluate your team members, I will assume you rate each equally.

Course Policies

Accessibility

Please let me know if you need accommodations related to a disability or other condition, preferably within the first two weeks of class. All information will remain confidential.

Electronics Policy

Laptops and other electronics are distracting and degrade the quality of case discussions. They

may not be used in class, except when necessary to accommodate accessibility constraints. If there is an outstanding circumstance, consult me before class.

Grading

Requests for a re-grade must be presented in writing within one week of receiving your grade. The entire assignment will be graded again. To accommodate natural statistical fluctuations, grades can go up or down after a re-grade. Course contribution grades cannot be contested.

Integrity and Honor Code

I expect that all of you take UC Davis' code of academic conduct as seriously as I do. You must exhibit integrity in all of your activities and adhere to the UC Davis code of academic conduct, described here: <http://sja.ucdavis.edu/files/cac.pdf>.

It is an academic conduct violation to present others' ideas or writing as your own (plagiarism), or to discuss cases with students who have already analyzed the case in class. You were informed about this code of conduct during orientation and signed a statement affirming that you understand it. No violations of academic conduct will be tolerated, and I will not hesitate to turn any violators over to Student Judicial Affairs.

Miscellaneous

If you have a situation that causes problems for you in fulfilling the course requirements, **tell me!** I'm almost always able to help. It is much easier to address problems early on; much more difficult after the course is over and assignments are in.