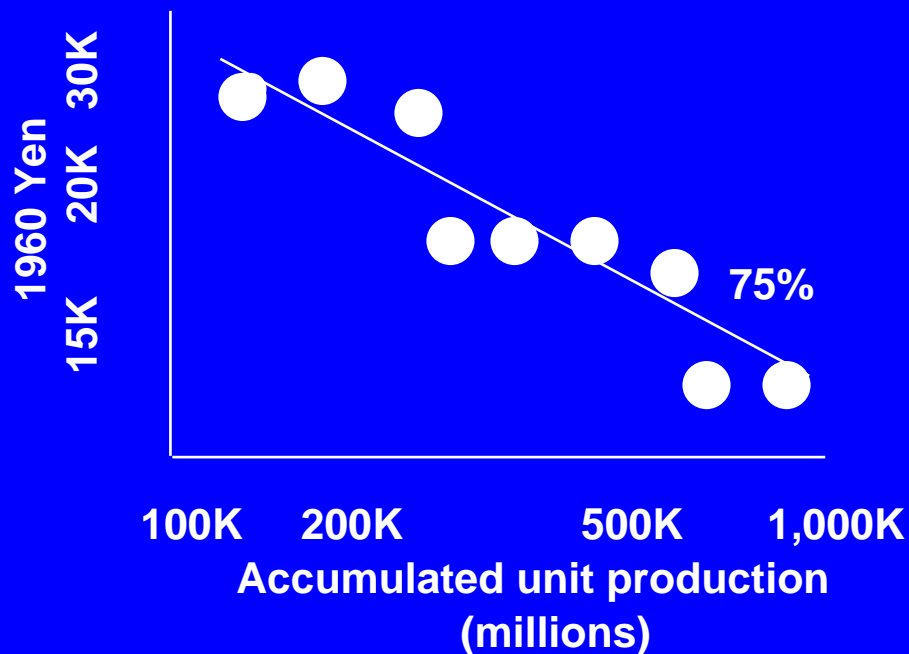


Positions, Activities and Organization:
An economist view of strategy from conception to
implementation

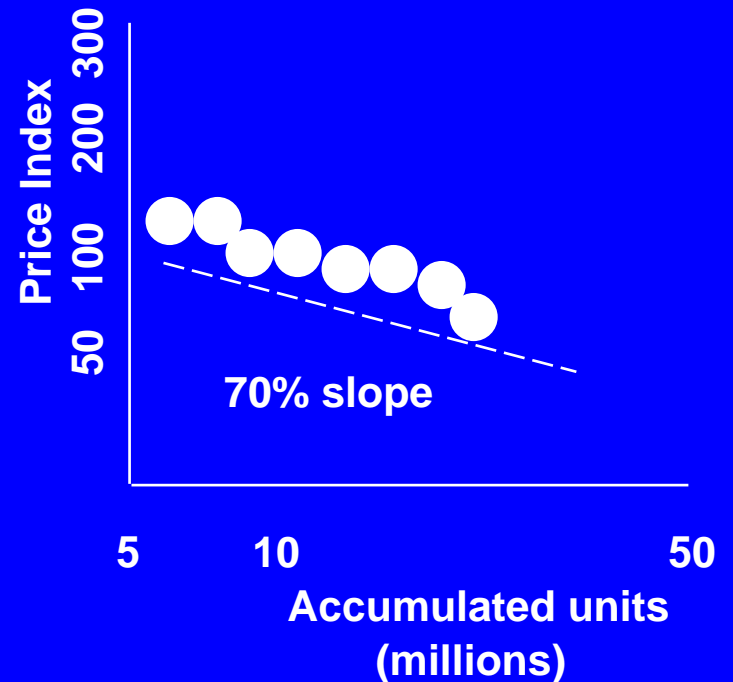
Environment

Learning Curves

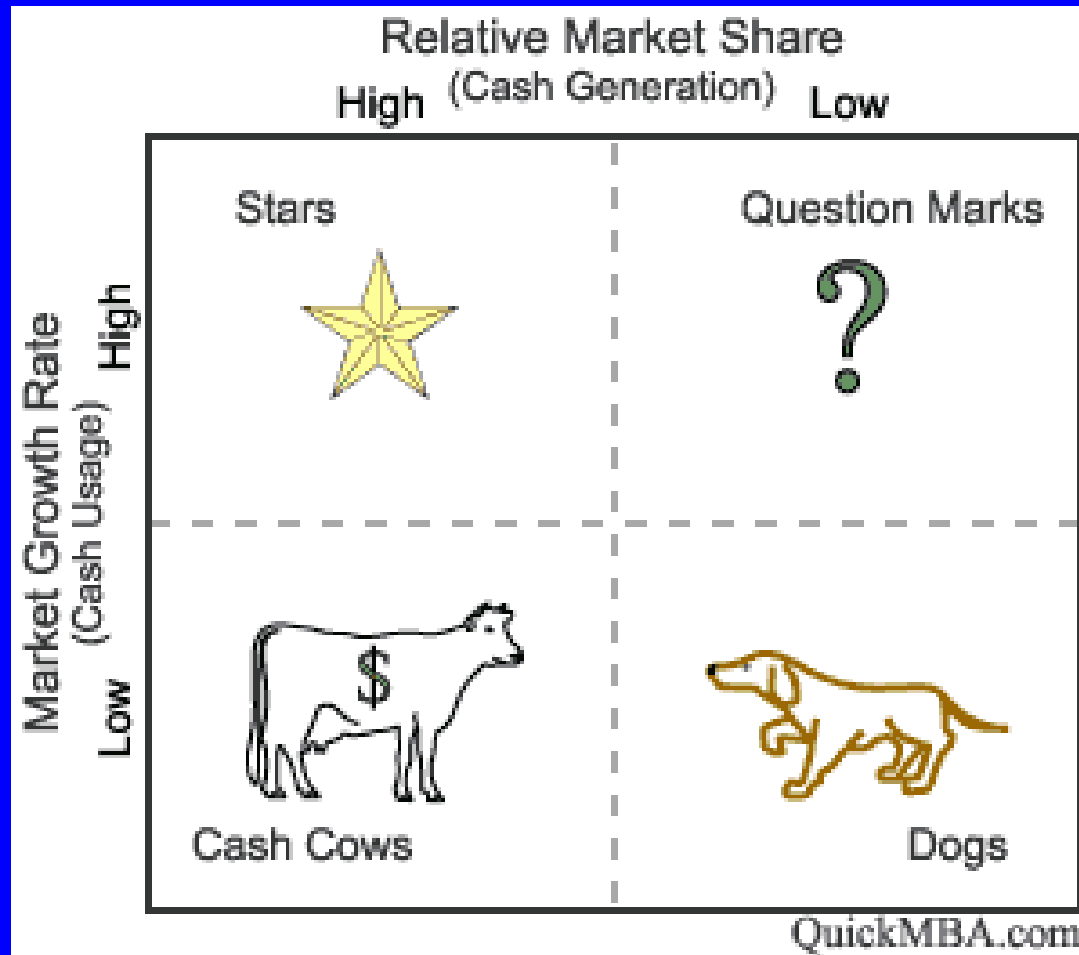
Japanese clocks & watches, 1962-72



UK refrigerators, 1957-71



(too) Simple industry and firm analysis: BCG



Long-term Profitability of US Industries: EVA 1986-97

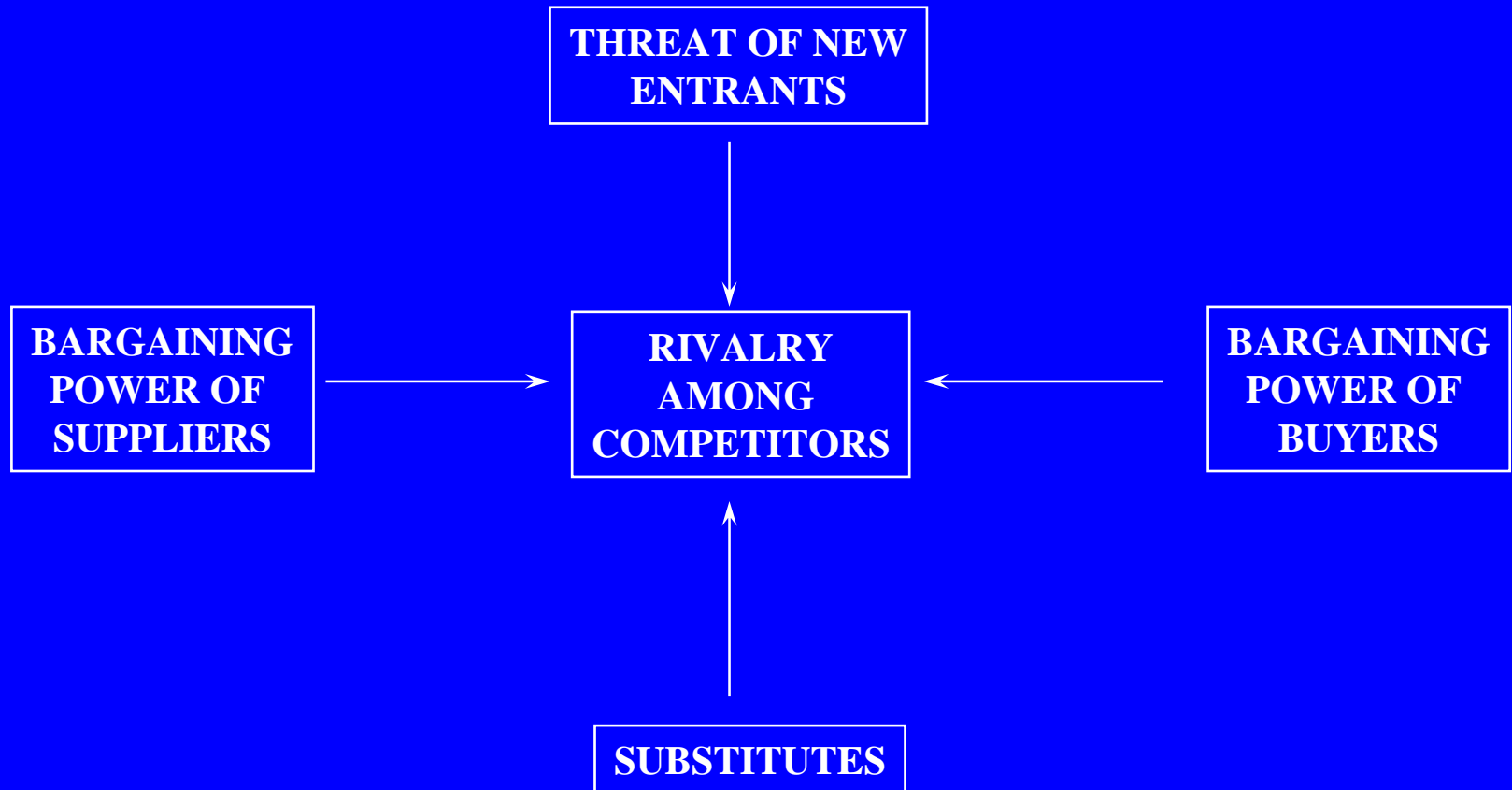
<i>Industry</i>	<i>EVA</i>	<i>Industry</i>	<i>EVA</i>
Tobacco	9.4	Paper and products	(1.5)
Computer software & services	5.9	Broadcasting and publishing	(1.5)
Personal care products	2.8	Cars & trucks	(1.5)
Medical products	2.7	Healthcare services	(1.7)
6.0Printing & advertising	(2.0)	Machine tools, hand tools	(1.7)
Food processing	2.5	Appliances and home furnishings	(1.9)
Drugs & research	0.7	Telephone equipment & services	(2.1)
Beverages	0.2	Plastics & products	(2.6)
Textiles	(0.1)	Computers & peripherals	(3.1)
Fashion retailing	(0.4)	Electrical products	(3.3)
Building materials	(0.6)	Aerospace & defense	(3.3)
Metals	(1.0)	Railroads	(3.4)
Telecom services	(1.2)	Airlines	(4.1)
Discount retailing	(1.2)	Steel	(6.4)
Semiconductors & components	(1.3)	Cable television	(7.2)
		Electronics	(9.2)
		<i>Average</i>	<i>(1.1)</i>

Source: Hawawini et al, *Strategic Management Journal* (January 2003)

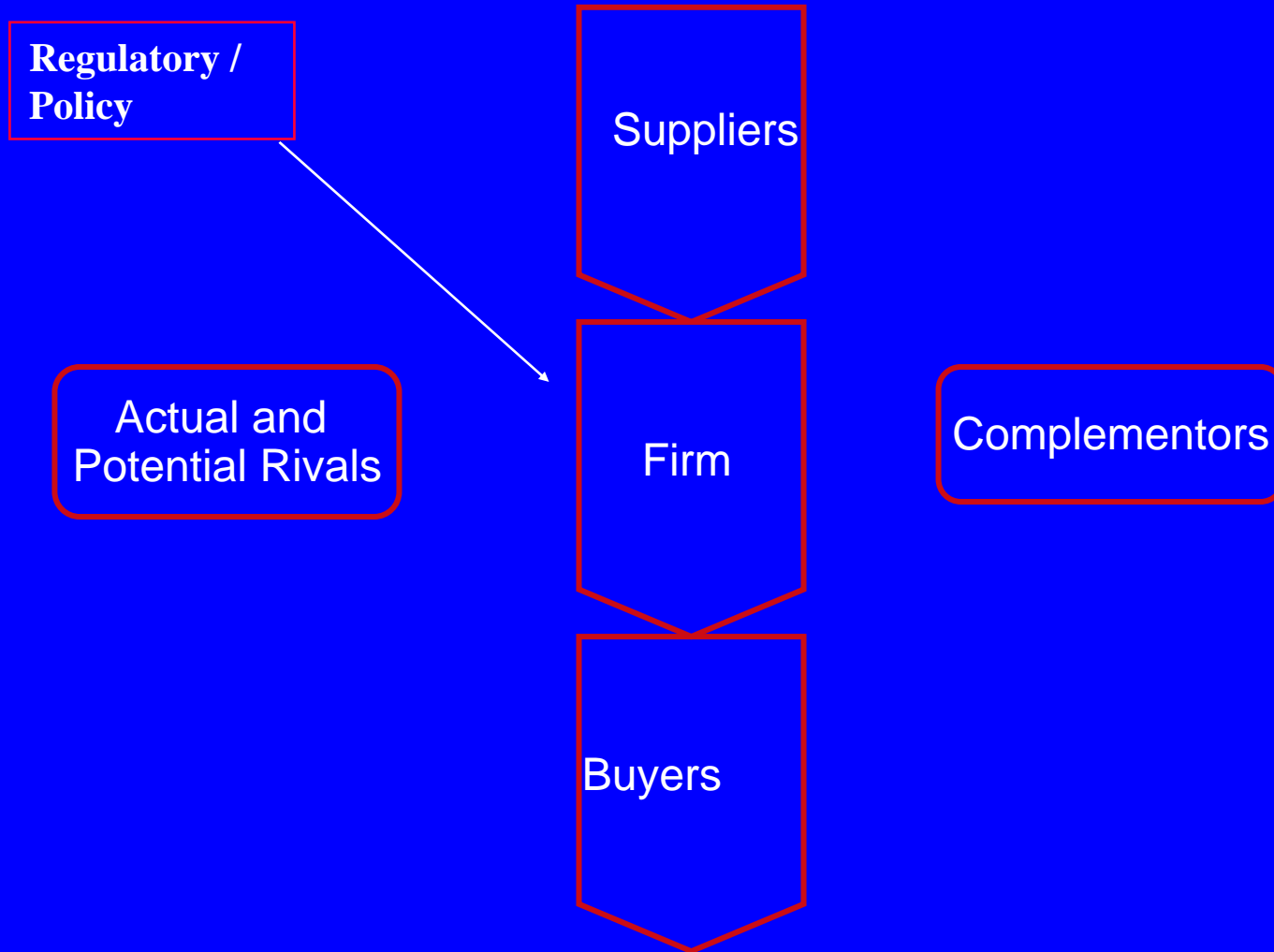
Structure Conduct Performance



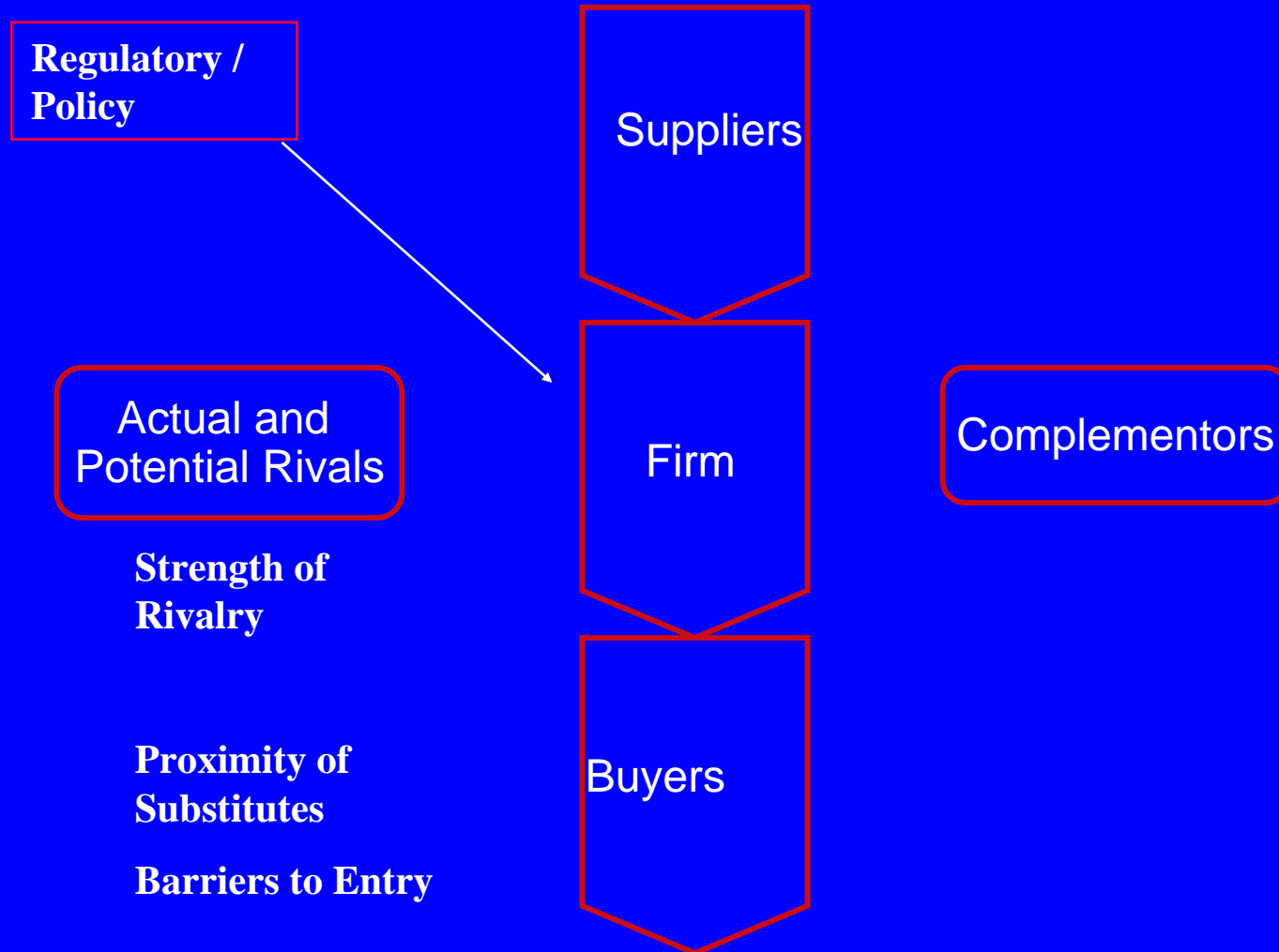
Porter's "Five Forces"



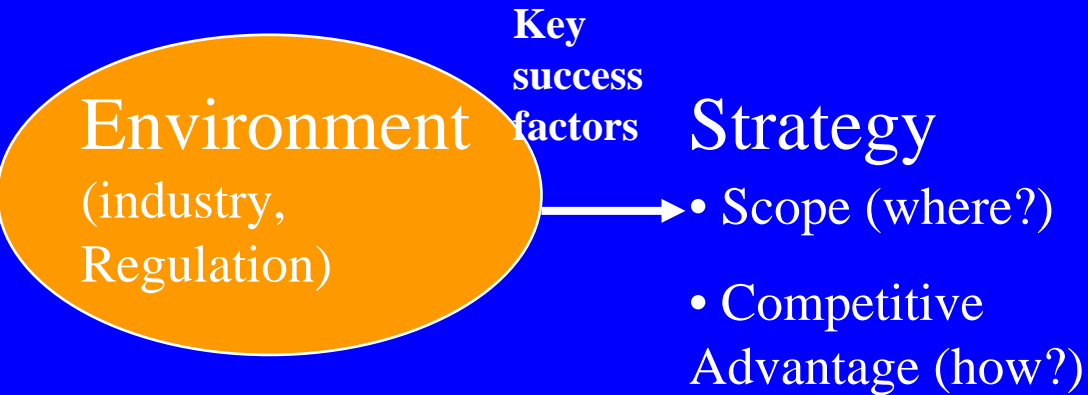
The Modern version (Brandenburger and Nalebuff)



The Modern version (Brandenburger and Nalebuff)



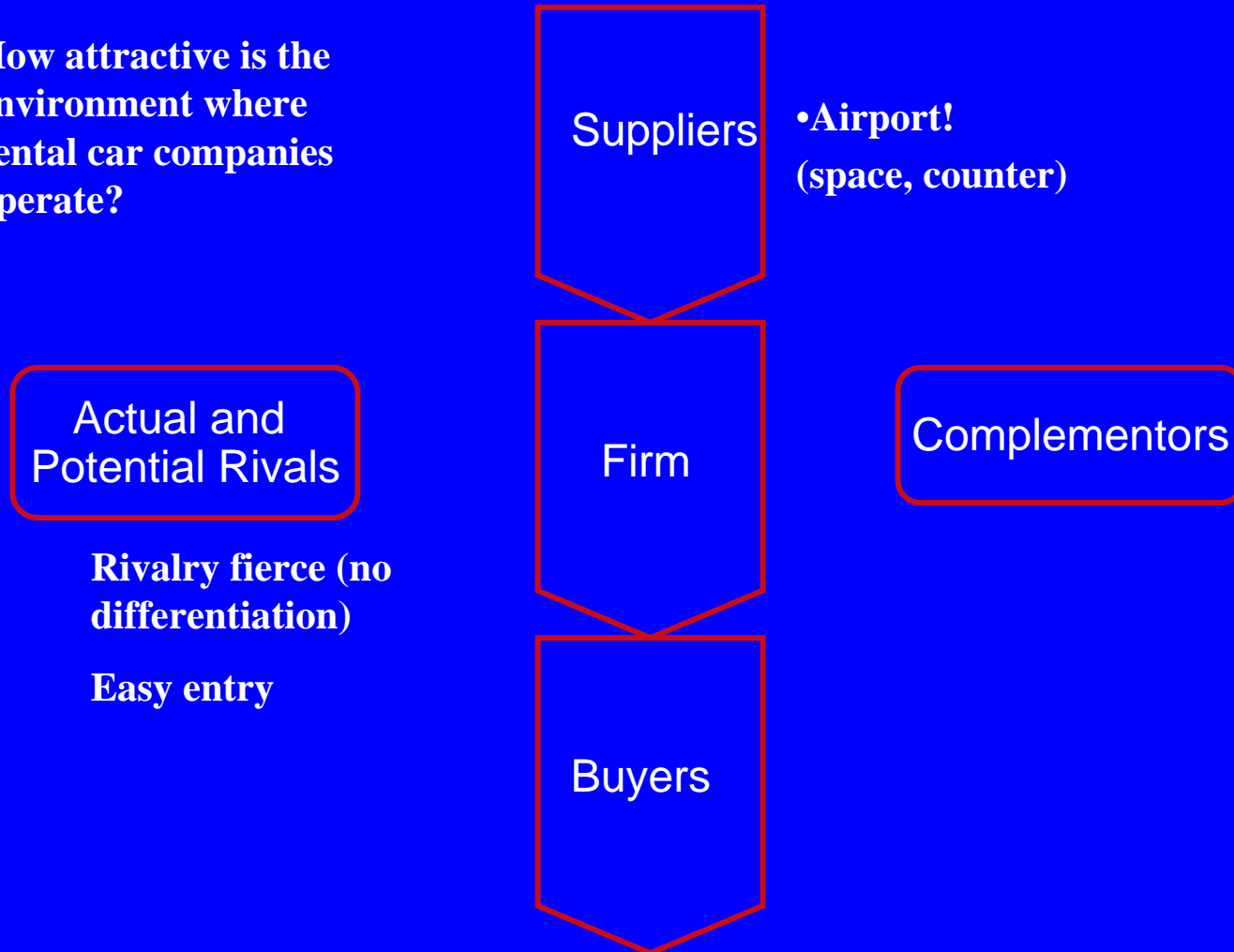
Environment, Positions





Example 2: Rental car industry

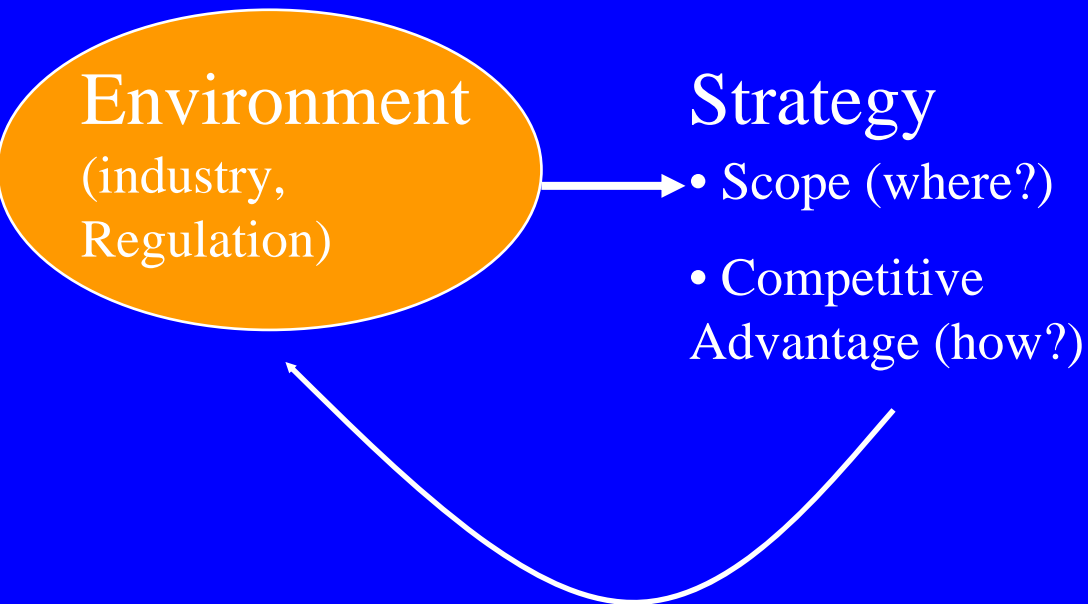
How attractive is the environment where rental car companies operate?



Enterprise

- **Scope**
 - Replacement market/2nd car
 - Local: garages/bodyshops/city corners
- **Competitive advantage**
 - Convenient
 - Friendly
 - Service/partner of garages

An update: Game Theory



Pricing like a prisoner's dilemma (players a and b)

	(b) confess	(b) deny
(a) confess	-10 -10	-25 -1
(a) deny	-1 -25	-3 -3

Some insights

On market structure

**depends on the extent to which
endogenous sunk costs matter (Sutton)**

e.g. Coke vs. Pepsi

On price competition

changing the game?

Environment, Positions, Organization

Recall

Assignment:

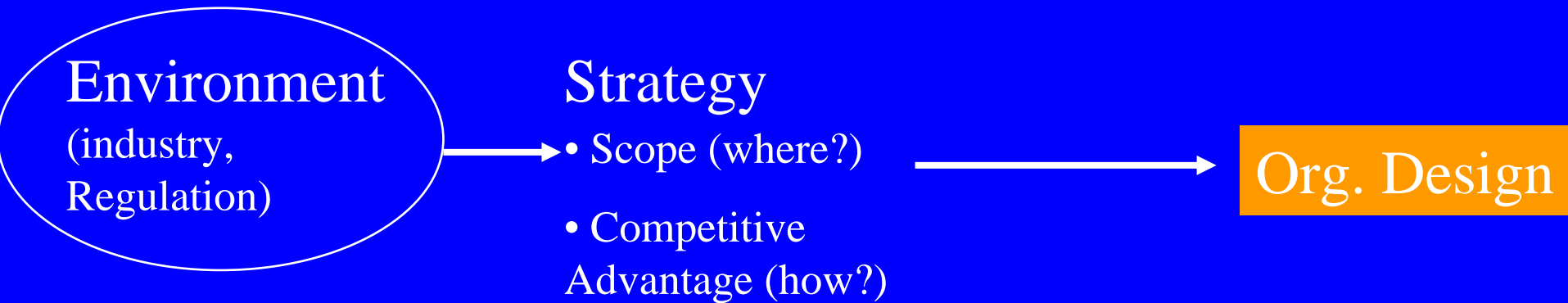
design a firm that can implement the previous rental strategy

service oriented, flexible

convenient

replacement (local segment)

referral flow from garages



Organizational Structure

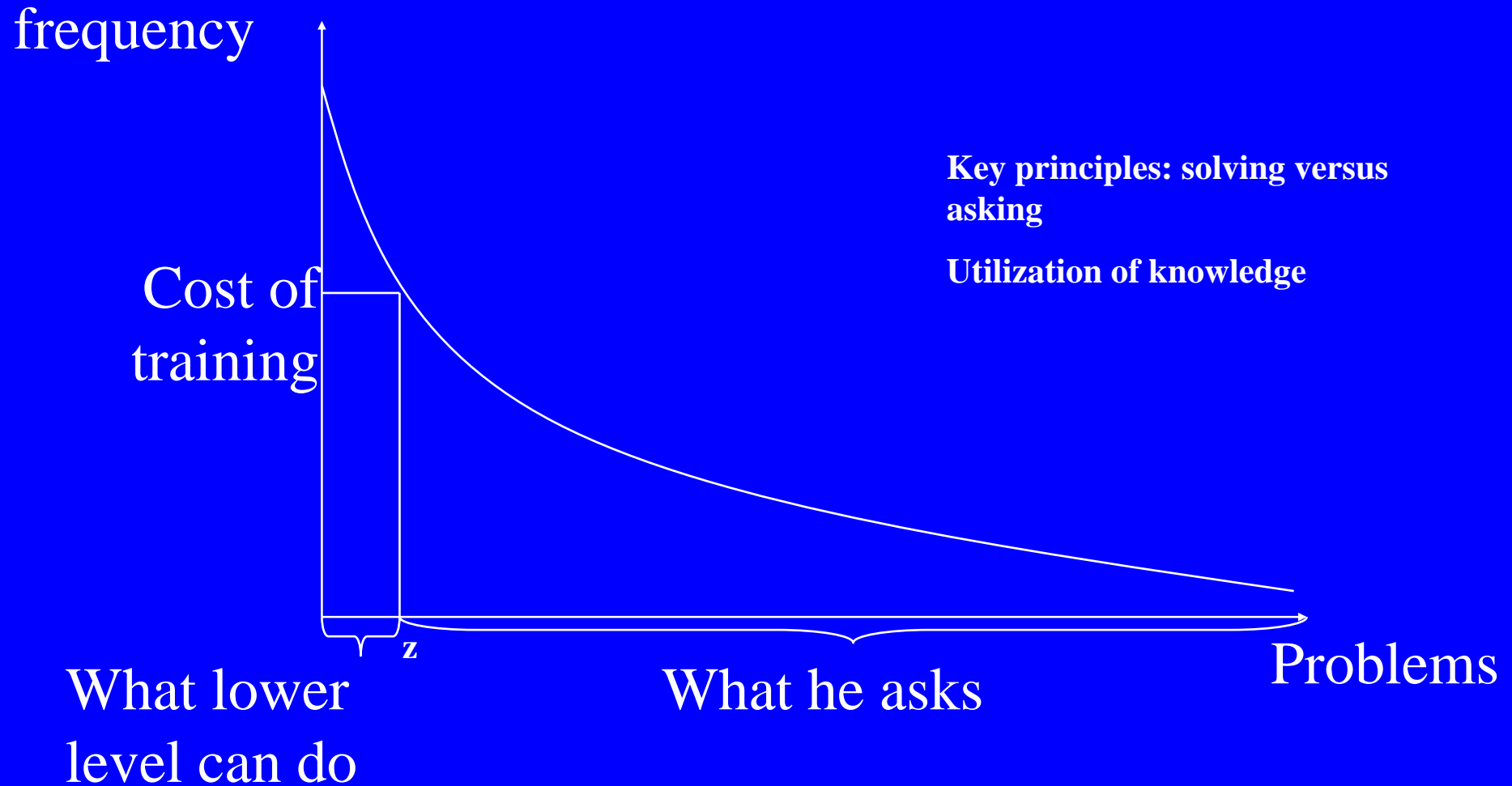
People

Architecture

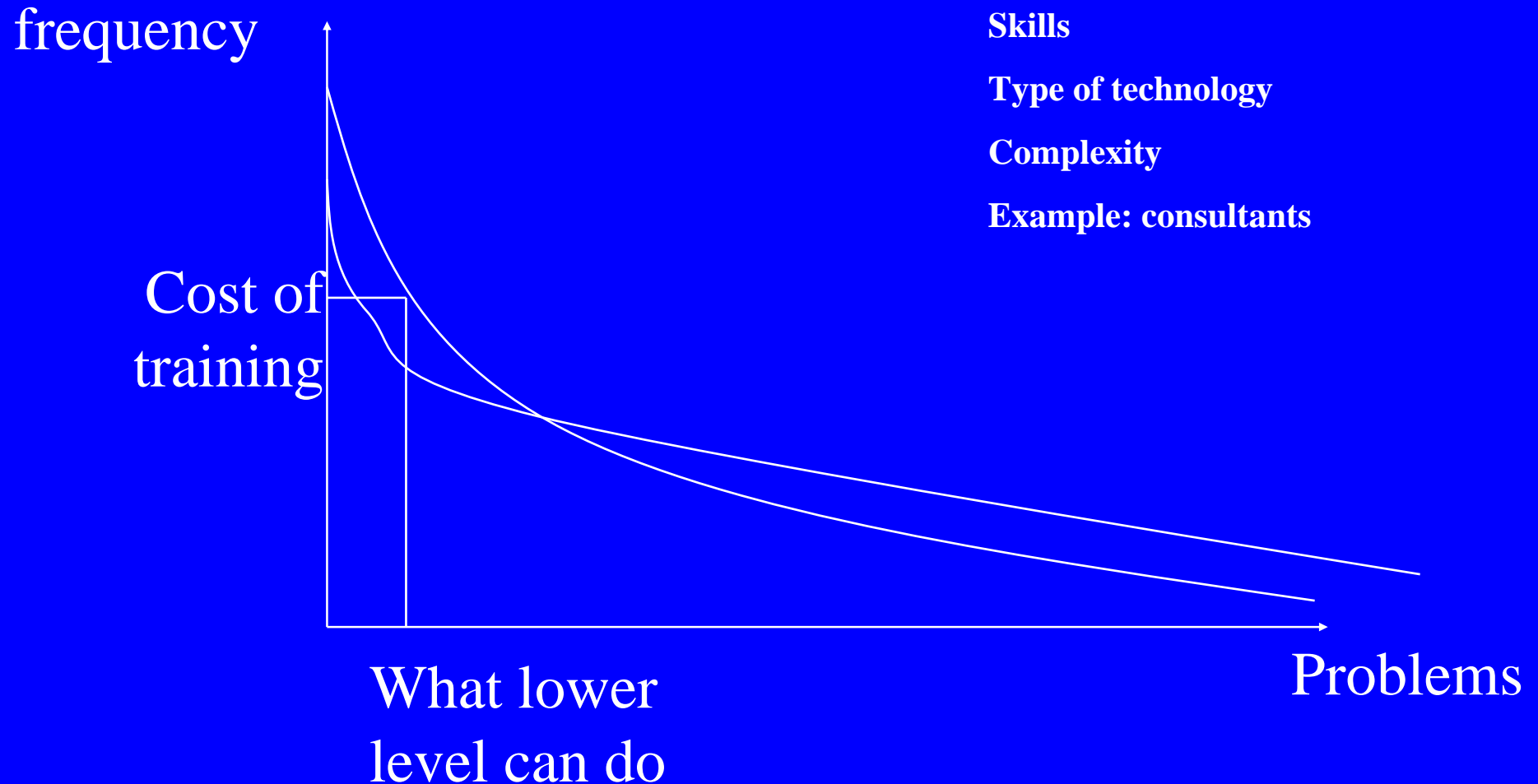
- Ø Division of labor
- Ø Hierarchy
 1. Managerial decision rights and incentives
 2. Unit Structure: Grouping units into subunits
 3. Integrating Mechanisms

Culture

2. Hierarchy + Strategy



2. Hierarchy + Strategy



3. Decision Rights and Incentives

Complementarities between DR and incentives

Substitutions among efforts in tasks

the danger of high powered incentives

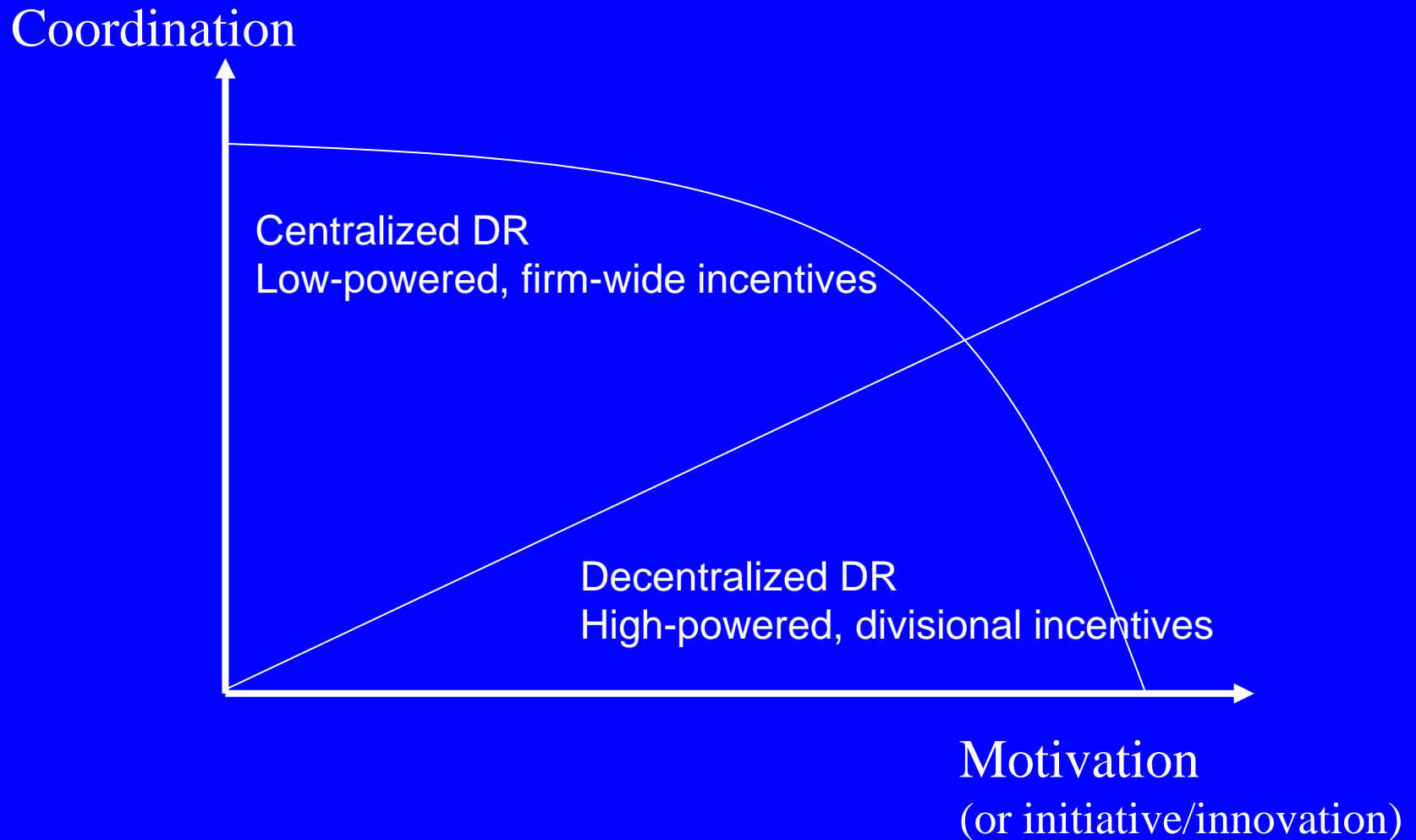
“you get what you pay for”

measurability

example: FBI counterterrorism

Initiative Versus Coordination

3. Coordination vs Motivation



4. Unit Structure and Strategy

(with Dessein, Gertner)

General principle:

- **Client units: adaptation**
- **Operational units – shared resources: Synergies/cost savings**

Hybrid structures: communication out of unit critical– which limits incentives strength

5. Integrating Mechanisms

Rarely only one principle (e.g. functional vs. product) used

I. Hybrids: Functional principle at some level, business at another

II. Using specialized coordinators:

One principle has priority, with coordinating devices: Teams, centers of excellence, and other intermediate coordination devices

III. Matrix: Both at the same time

Culture

(with Cremer, Prat)

- **Knowledge –based**
 - Codes/language... Shared Specific Human Capital
- Application: tradeoff between merger/stand alone

Culture and Incentives

- **Incentives –based**
 - Unforeseen contingencies: what constitutes acceptable behavior?
What is undesired cheating that must be punished?
- **High powered incentives**
 - Use culture (relational contracts) to help control Multitasking (YGWYPF)
- **Low Powered Incentives**
 - Use culture (relational contracts) to substitute for direct, explicit incentives

Complementarities among tools

- **Lots of peaks/partial optima**
 - Non-convexities – gets worse before it gets better
- **System-changes**
 - Partial adjustment is useless or worse
 - Need to move multiple tasks

(leader needed! Vision, conviction...)

Back to Enterprise

- How would you implement it?

Application: Some thoughts on BP

Application: Some thoughts on BP

From strategy to organization

E&P- few interdependencies, measurable...

high powered incentives

Process safety

**like counterterrorism, hard to measure, hard to measure
consequences of mistakes (take years) easy to save on today...**

Wholesale change?

True, complementarities exist

But can do better on existing structure

- **Seggregate hard to measure tasks into separate job and hierarchy**
- **Use lower power incentives for those**
- **Rely on direct control/monitoring**

