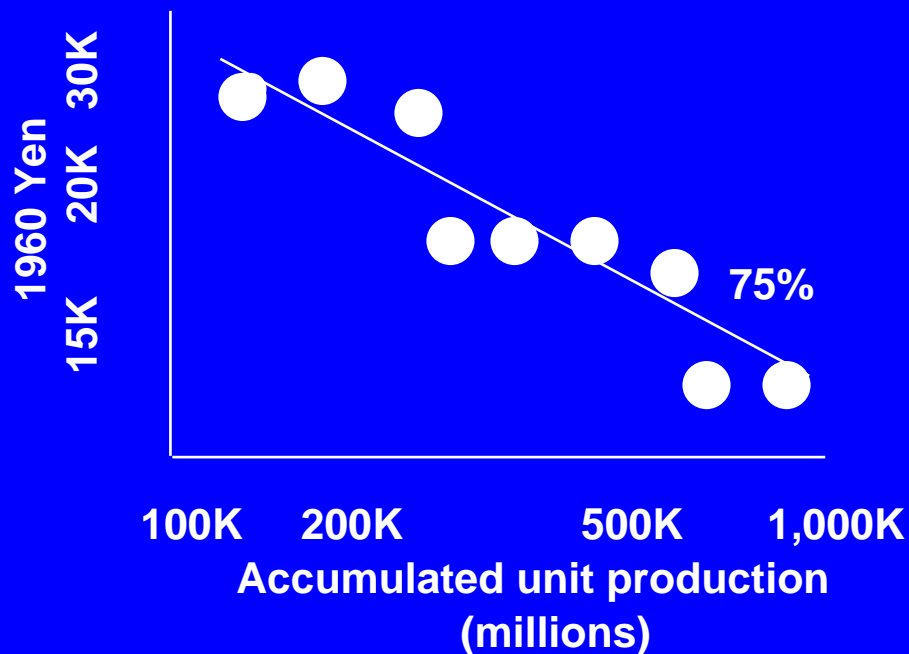


Positions, Activities and Organization:  
An economist view of strategy from conception to  
implementation

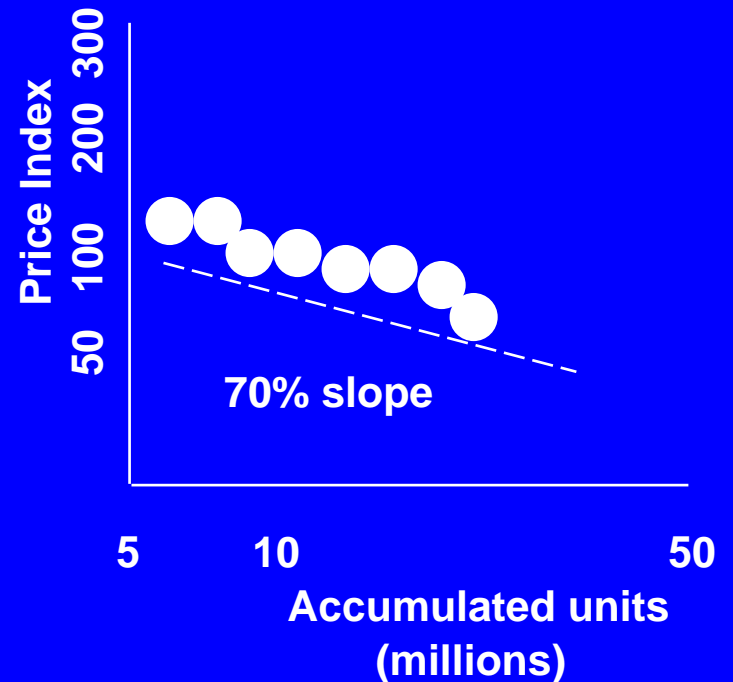
**Environment**

# Learning Curves

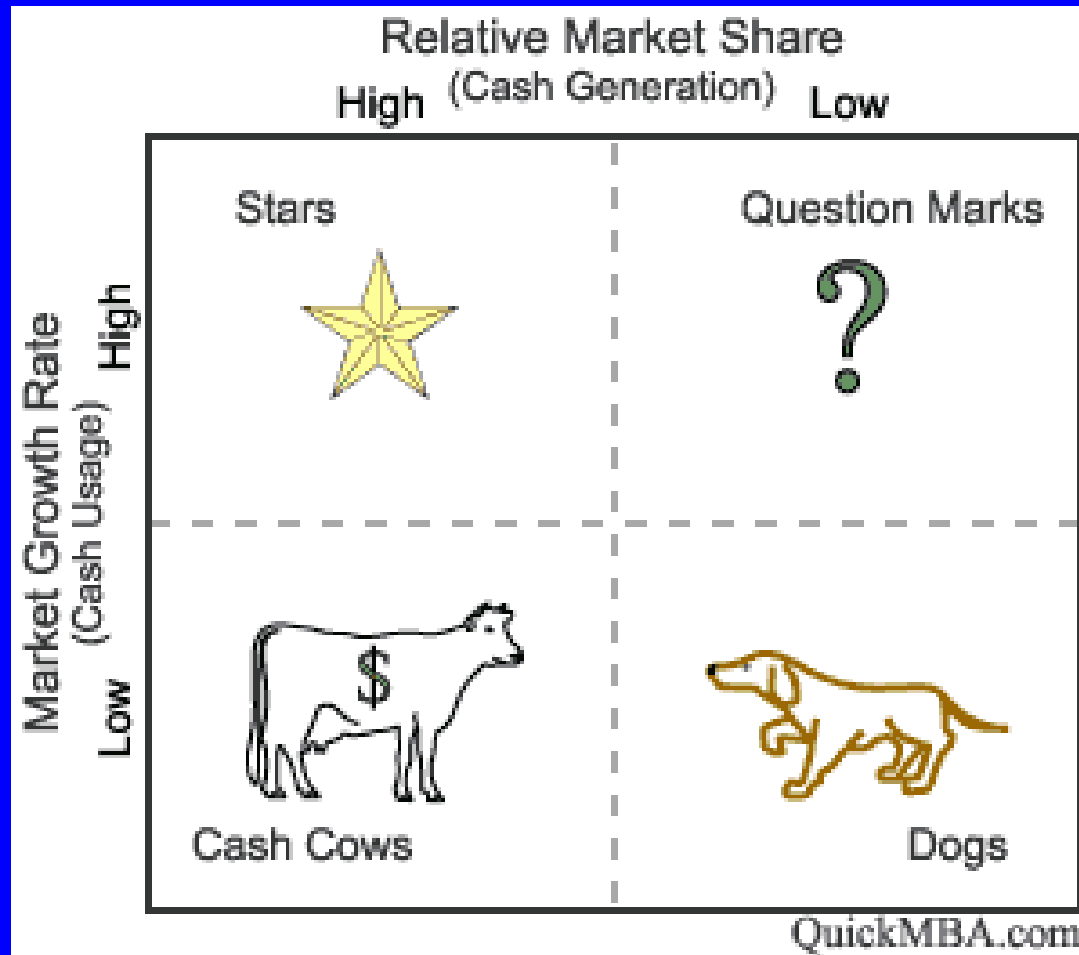
Japanese clocks & watches, 1962-72



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)

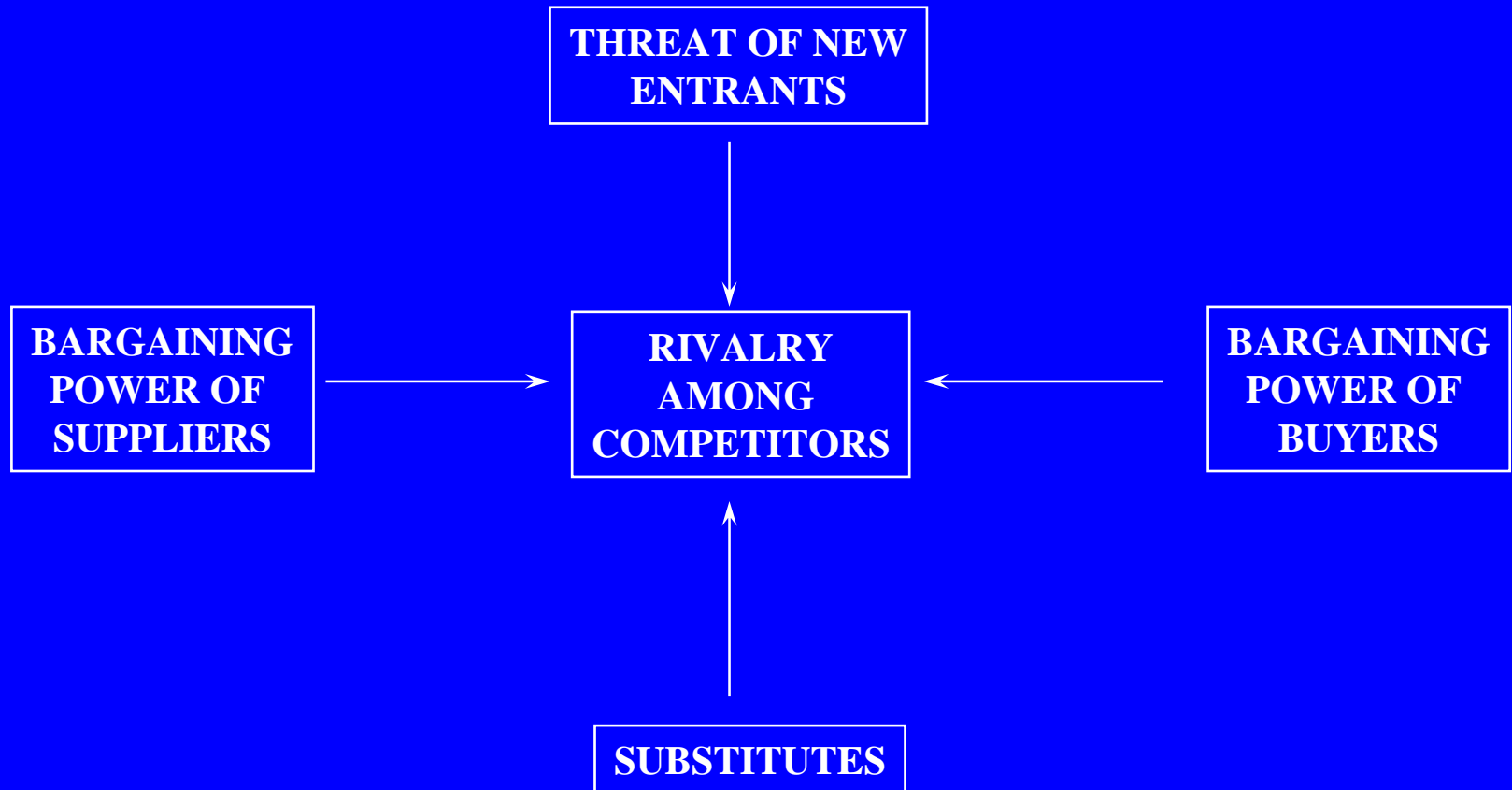
# Structure Conduct Performance

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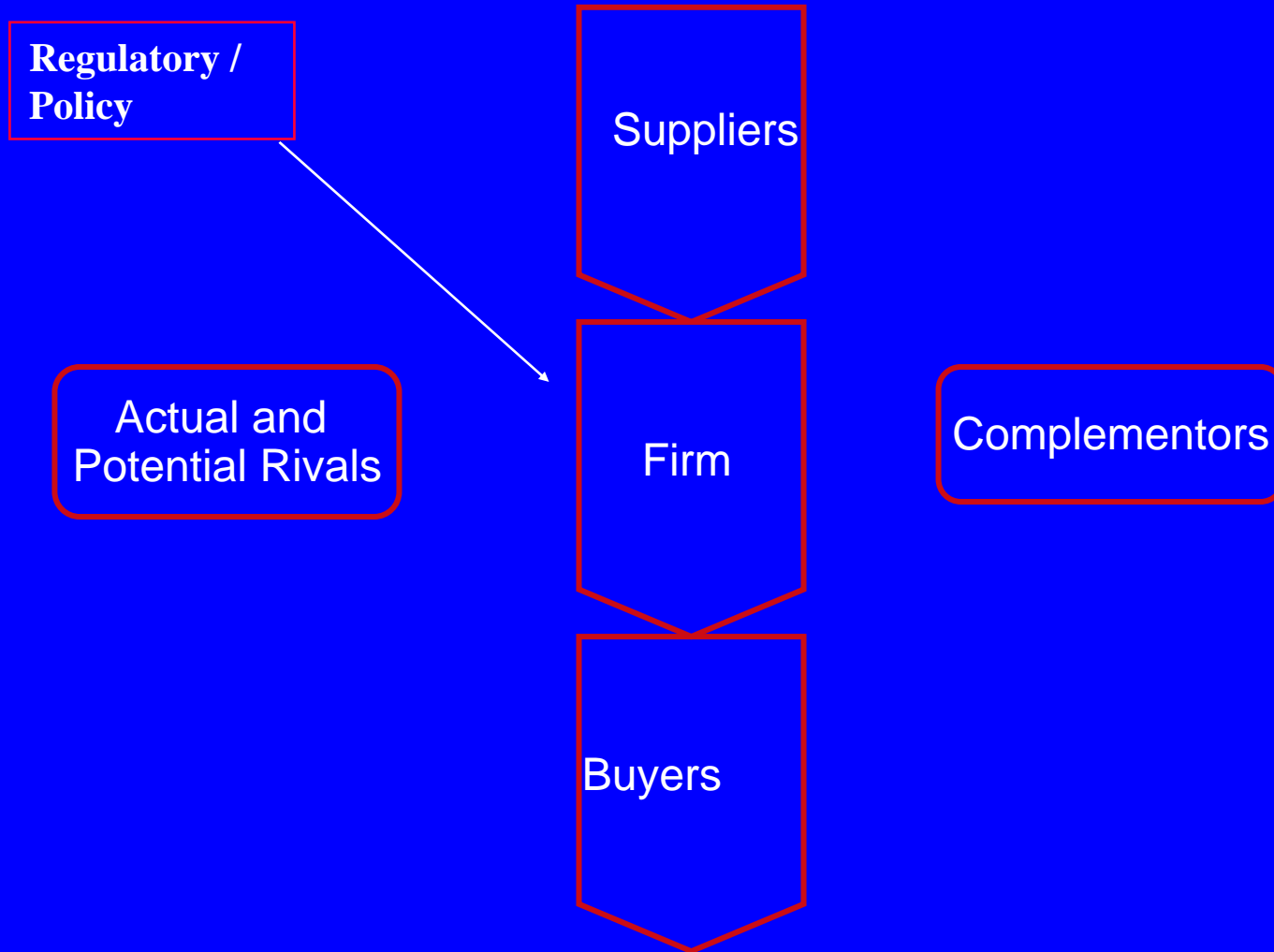
# Porter's "Five Forces"

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# The Modern version (Brandenburger and Nalebuff)

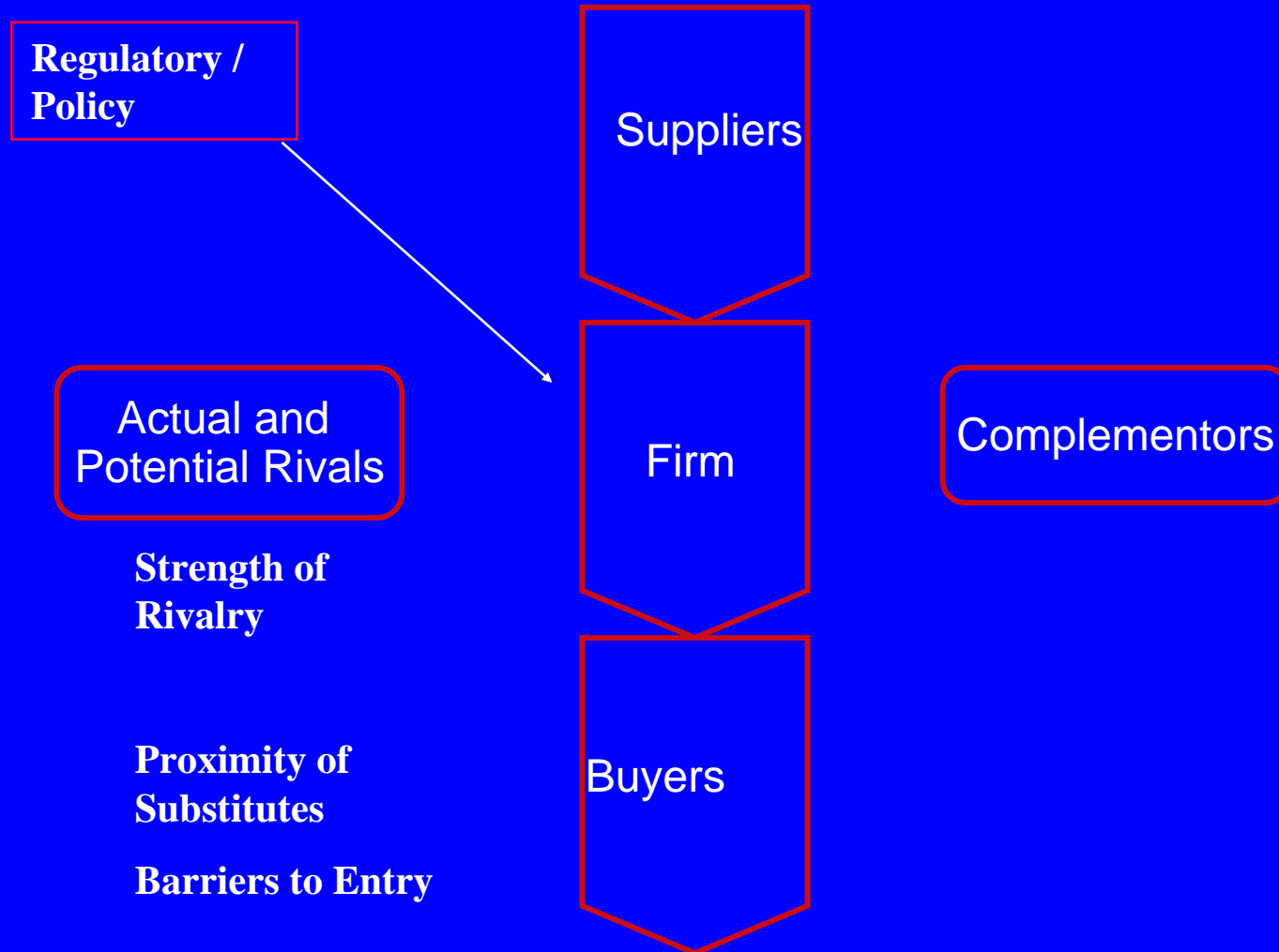
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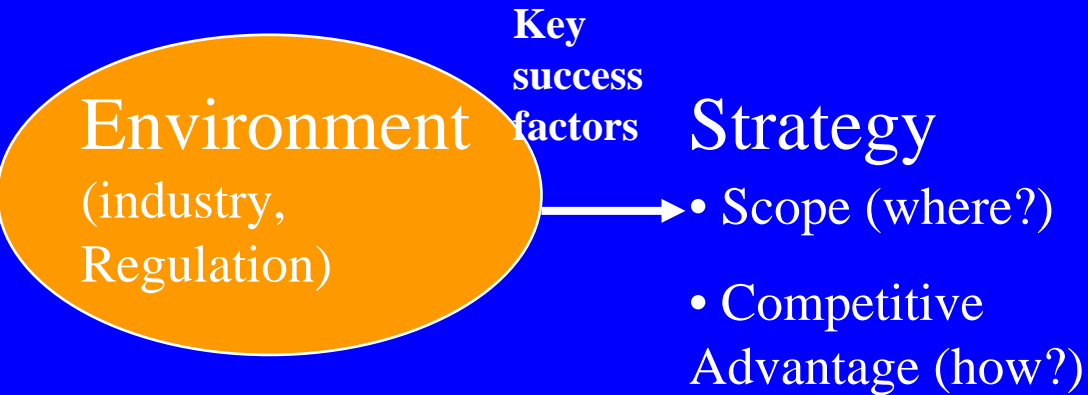
# The Modern version (Brandenburger and Nalebuff)

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## **Environment, Positions**

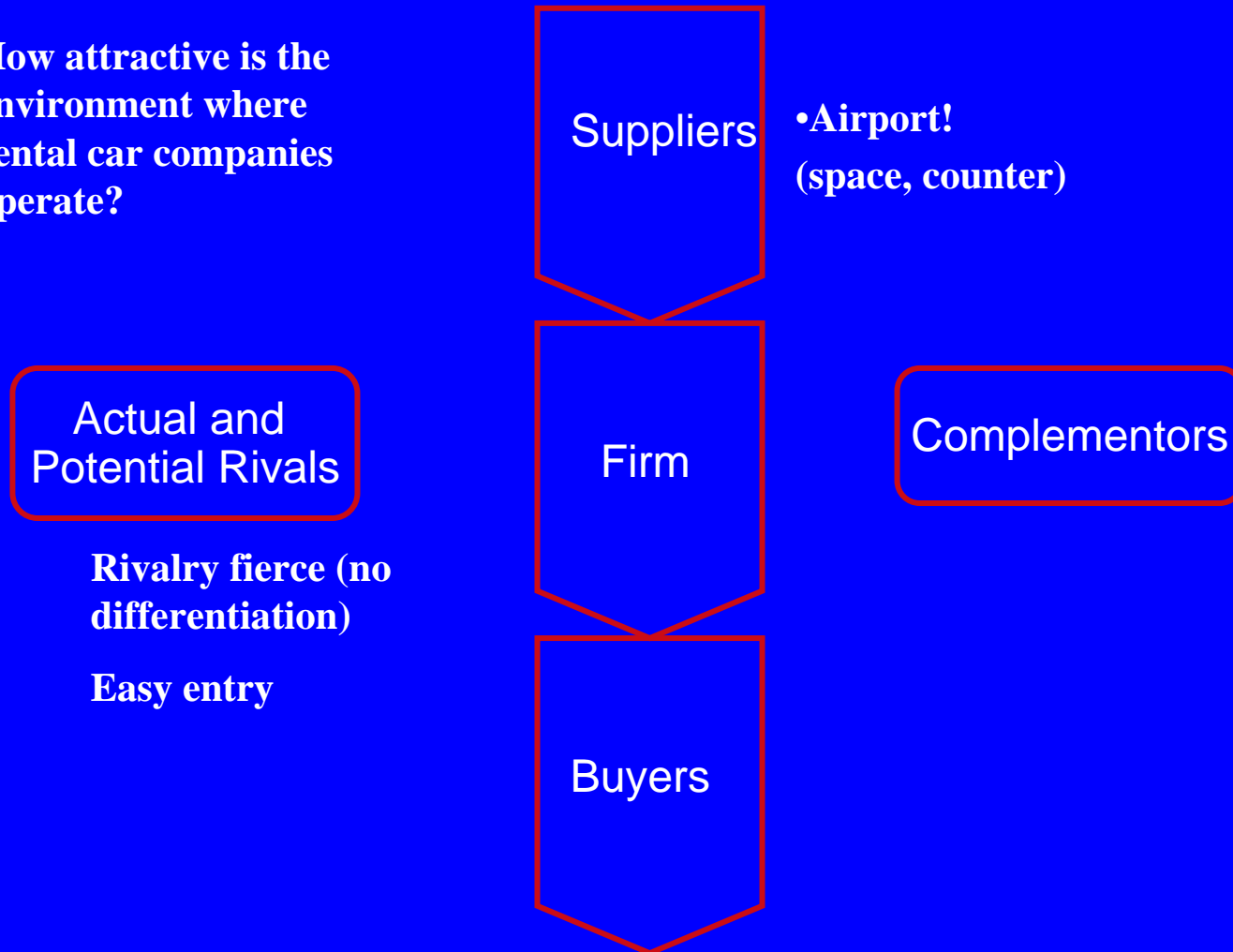




## Example 2: Rental car industry

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How attractive is the environment where rental car companies operate?



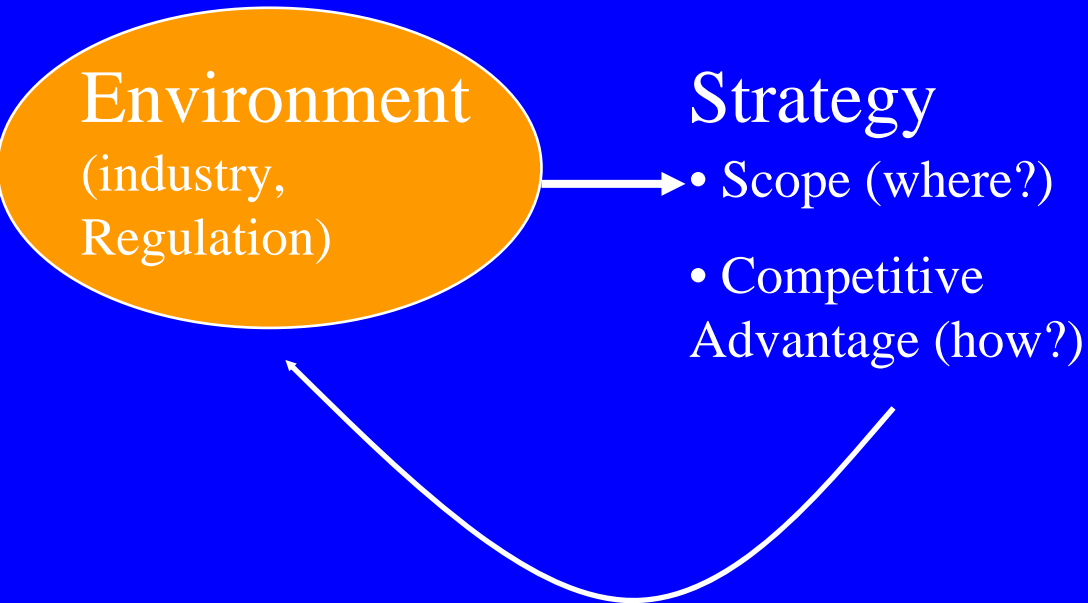
# Enterprise

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

# An update: Game Theory

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

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



## Some insights

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### 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

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## Assignment:

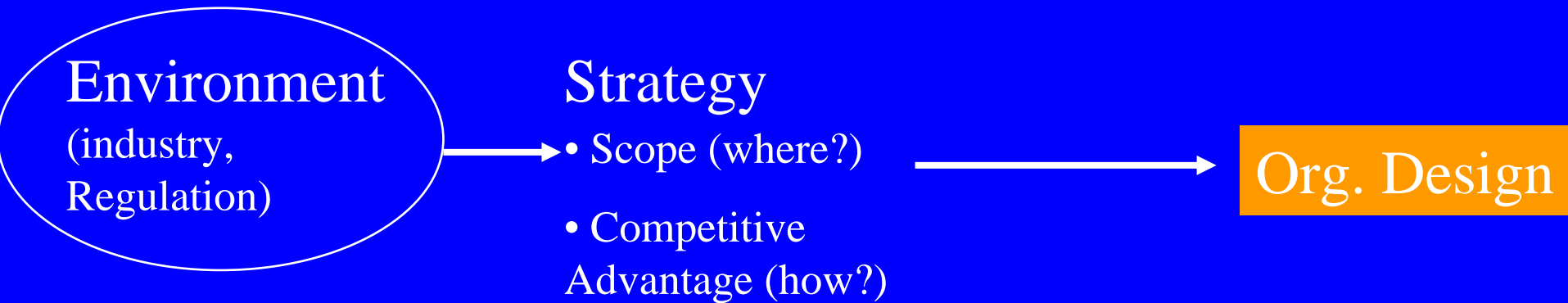
**design a firm that can implement the previous rental strategy**

**service oriented, flexible**

**convenient**

**replacement (local segment)**

**referral flow from garages**



# Organizational Structure

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## People

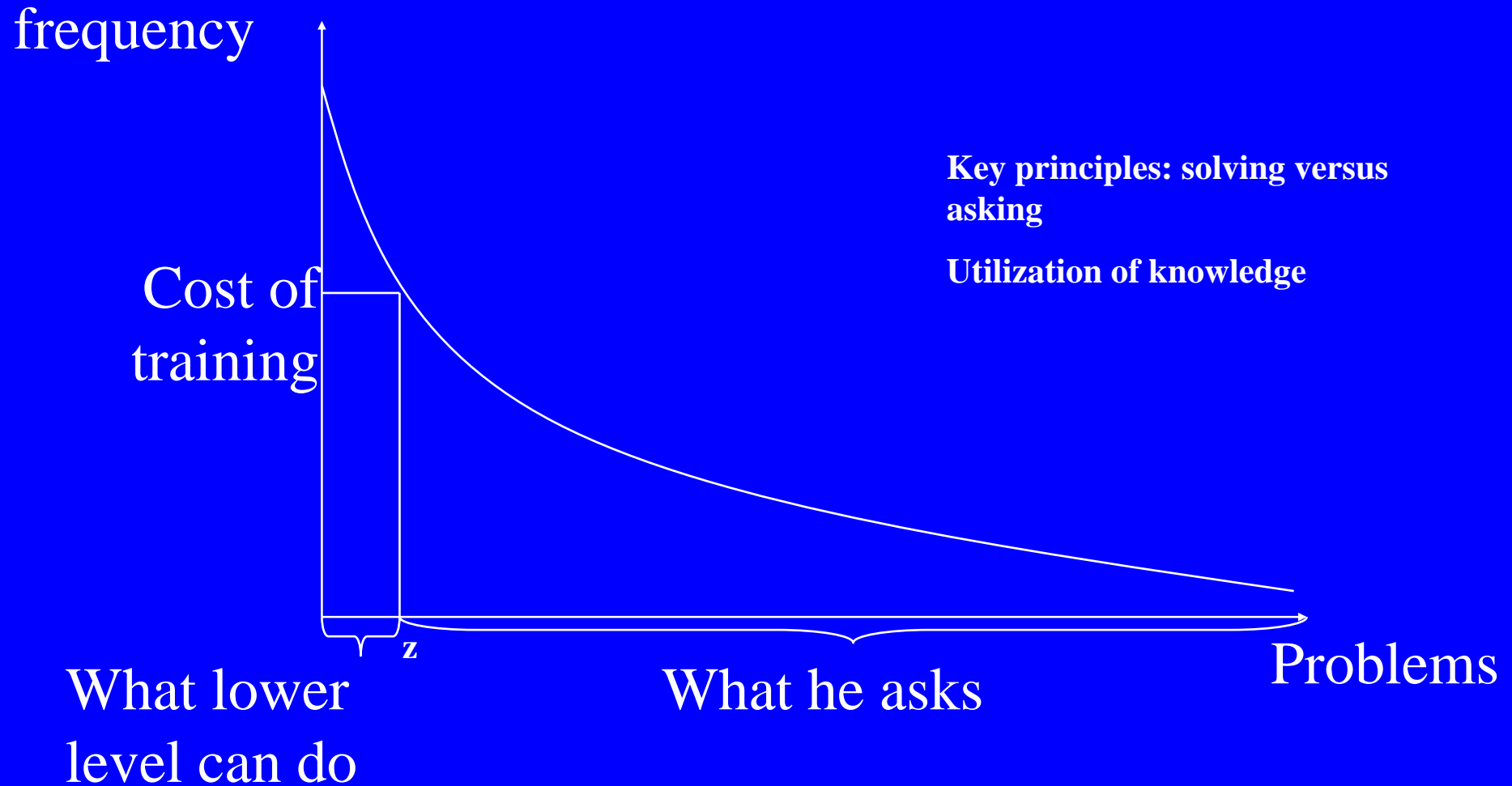
## Architecture

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

## Culture

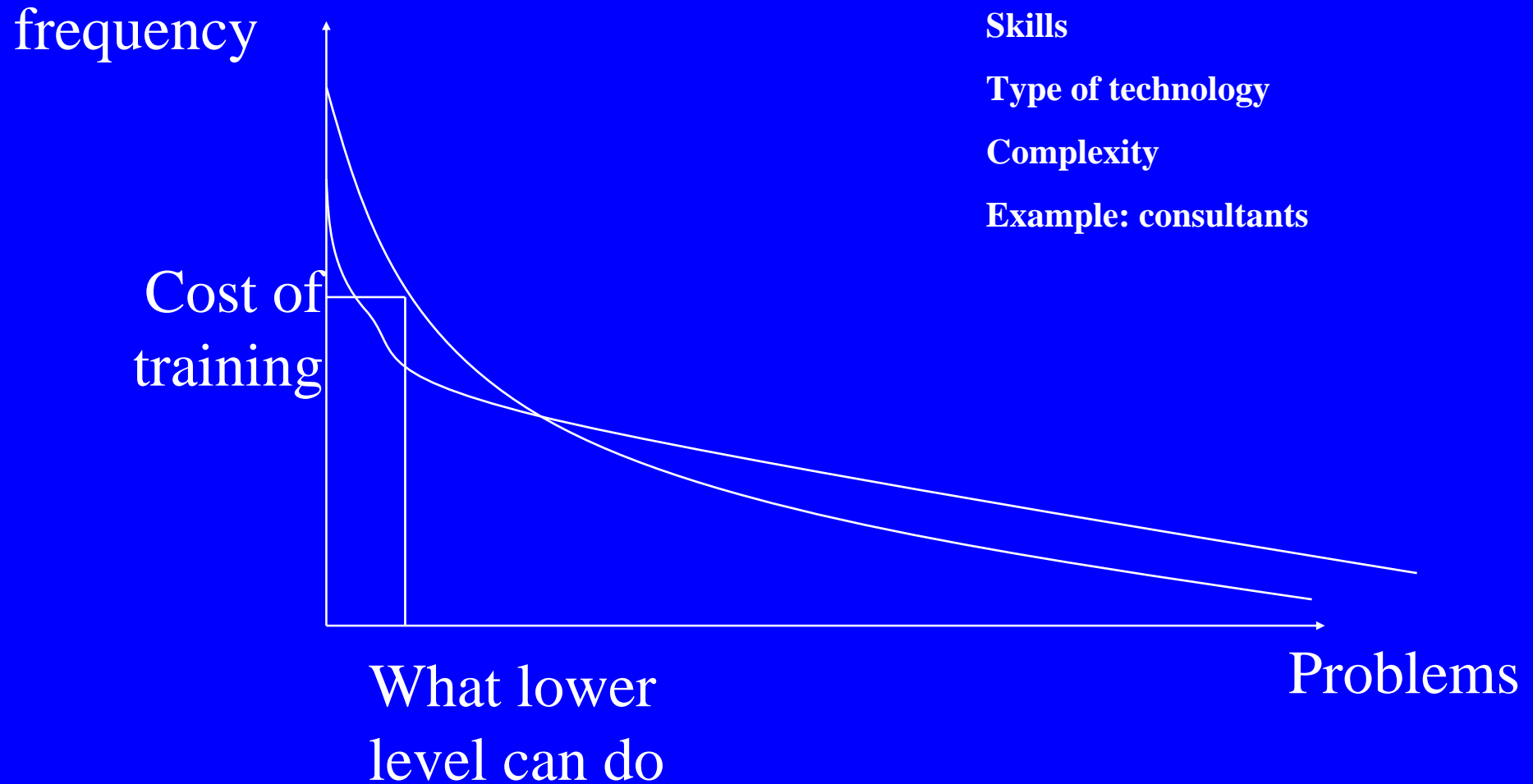
## 2. Hierarchy + Strategy

---



## 2. Hierarchy + Strategy

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### 3. Decision Rights and Incentives

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**Complementarities between DR and incentives**

**Substitutions among efforts in tasks**

**the danger of high powered incentives**

**“you get what you pay for”**

**measurability**

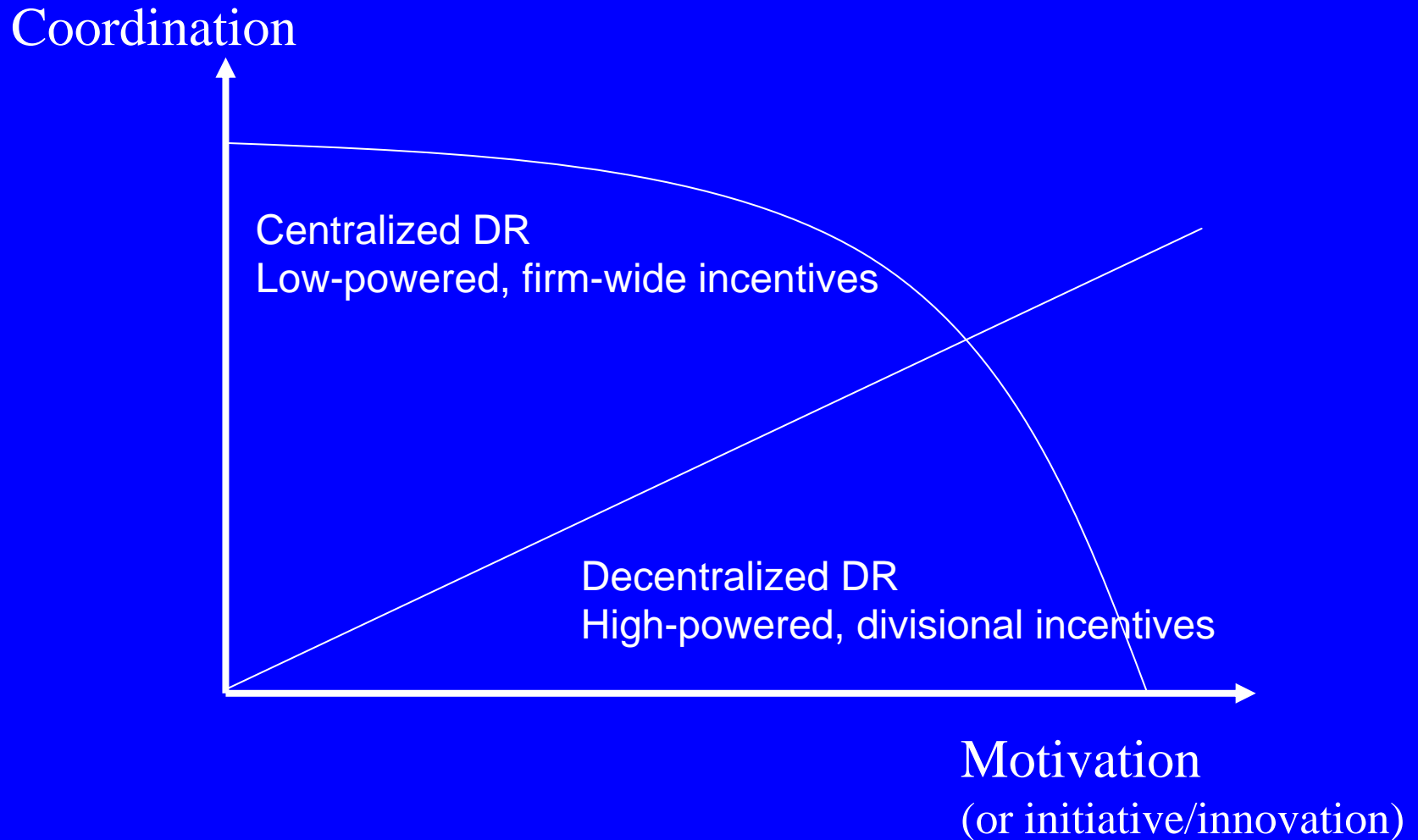
**example: FBI counterterrorism**

**Initiative Versus Coordination**



### 3. Coordination vs Motivation

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## 4. Unit Structure and Strategy

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(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**

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**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

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(with Cremer, Prat)

- **Knowledge –based**

- Codes/language... Shared Specific Human Capital

Application: tradeoff between merger/stand alone

# Culture and Incentives

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- **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

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- **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

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- How would you implement it?

## Application: Some thoughts on BP

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# **Application: Some thoughts on BP**

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**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?

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**True, complementarities exist**

**But can do better on existing structure**

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

