

# Organizational Design

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## Content and structure of the course

This course provides an overview of the theory and practice of organizational design. A general framework of organizations is presented and its building blocks are analyzed in detail. The interdependencies between the building blocks and their fit are highlighted. The theory is applied to several examples and some longer case studies.

The course is organized along the four building blocks of organizational design:

- The strategy of organizations with the resources employed by an organizations and the markets the organization is active in.
- The boundaries of the organization with emphasis on where they are set, how they are shifted over time and how permeable they are.
- The internal structure of organizations with the way that information is used, how power is provided, how incentives are set and how decisions and actions are coordinated.
- The governance of organizations with the importance of the different governance mechanisms and the role of the various constituencies.

How these building blocks are integrated is the subject of the final sessions. Crucial interdependencies between them are highlighted and the importance of consistency in design is stressed.

## Objectives and career focus

Students learn about the different organizational building blocks and the most important parameters that make up organizations. They understand how these building blocks and parameters must be designed in a consistent way so that organizations can be successful. This knowledge enables them to enhance the functioning of organizations and improve their efficiency. The participation in this course will equip general managers, consultants and experts in strategic management or organization with valuable tools to analyze complex situations and to suggest the appropriate actions in their organization.

## Organization of the course and grading

The course is based on lectures introducing the theory of organizational design and the important theoretical aspects of the four building blocks. Examples and case studies are used throughout the course to illustrate the theory. Interaction and discussions are strongly encouraged. Although the majority of material is in English, the language of instruction and discussion is German. To spark lively discussions, teams of 3 - 5 students

are requested to prepare a brief team report of 15 minutes plus a short written report on selected issues. For discussion of the two longer case studies excellent preparation and active participation are mandatory. Each team is required to hand in a case write-up not exceeding 10 pages. Teams of students are requested to report on defined theoretical issues or selected examples. The final grade is calculated from the contributions of the teams (team report weighs 10%, case write-ups weigh 20% each) and the individual result of the final exam (weight of 50%).

The class meets regularly every Friday from 14.00h to 16.00h, starting from 19 October 2007. Some lectures might have to be postponed and will be combined to longer sessions. On such occasions the class meets additionally from 16.00h to 17.30h.

## Basic literature

The course is based on the book

- WEISS, M. (2007): *Efficient Organizational Design - Balancing Incentives and Power*. Palgrave Macmillan, Basingstoke.

The following textbooks explore (at least partially) the themes of this course. They are useful as supplementary reading, especially to deepen your knowledge about particular topics or as a resource to refresh your knowledge about basic concepts that are applied in the course.

- BESANKO, D., D. DRANOVE, M. SHANLEY, AND S. SCHAEFER (2007): *Economics of Strategy*. John Wiley & Sons, New York, 4<sup>th</sup> edn.
- BRICKLEY, J. A., C. W. SMITH, AND J. L. ZIMMERMAN (2007): *Managerial Economics and Organizational Architecture*. Irwin, Chicago, 4<sup>th</sup> edn.
- MILGROM, P., AND J. ROBERTS (1992): *Economics, Organization and Management*. Prentice-Hall International, Englewood Cliffs.
- ROBERTS, J. (2004): *The Modern Firm - Organizational Design for Performance and Growth*. Oxford University Press, Oxford.

Background literature for each session are either classic articles to a specific theme or material that might help in the preparation of the team reports. A brief direction to these articles is provided in each session. Links to the articles are collected on the web site of the course.

## Sessions

### 19 October 2007 - Introduction

Contents: administrative issues and overview of the course; traditional theories of the firm

Recommended reading: Weiß (2007, pp. 1 - 13), Milgrom and Roberts (1992, pp. 2 - 17)

Background literature: Chandler (1990), Foss, Lando, and Thomsen (2000), Besanko, Dranove, Shanley, and Schaefer (2007, pp. 52 - 58)

### 26 October 2007 - Foundations I - New Institutional Economics

Contents: transaction cost economics, economic rents, vertical integration, incomplete contracting

Team report: 1. assumptions of transaction cost economics

Recommended reading: Weiß (2007, pp. 17 - 36)

Background literature: Coase (1937), Williamson (1985), Grossman and Hart (1986), Gibbons (2005), Besanko, Dranove, Shanley, and Schaefer (2007, pp. 118 - 131)

## 2 November 2007 - Foundations II - Systems Theory

Contents: elements, modules and systems; consistency and complementarity; path dependency

Team reports: 2. sales forces: employees versus representatives, 3. franchising: Starbucks vs. Subways

Recommended reading: Weiß (2007, pp. 36 - 63)

Background literature: Anderson (1985), Holmström and Milgrom (1994), Brickley, Smith, and Zimmerman (2007, pp. 304 - 324)

## 9 November 2007 - Foundations III - Design

Contents: problem of organizational design

Team reports: 4. business models in the airline industry , 5. mass production versus modern manufacturing

Recommended reading: Weiß (2007, pp. 63 - 67)

Background literature: Porter (1996), Greifstein and Weiß (2004), Milgrom and Roberts (1990), Milgrom and Roberts (1995)

## 16 November 2007 - Case study: Lincoln Electric

Contents: value creation and destruction through acquisitions and divestitures

Team report: case write-up of all teams

Recommended reading: Fast (1975), Hastings (1999)

## 23 November 2007 - Strategy

Contents: resource-based view, deconstruction

Team report: 6. corporate vs. business strategy

Recommended reading: Weiß (2007, pp. 72 - 89), Porter (1996)

Background literature: Peteraf (1993), Amit and Shoemaker (1993), Collis and Montgomery (1998), Besanko, Dranove, Shanley, and Schaefer (2007, pp. 403 - 422), Hagel and Singer (1999)

## 30 November 2007 - Boundaries

Contents: setting, shifting and blurring of boundaries; boundaries and power

Team report: 7. deconstructing the value chain, 8. clusters and networks

Recommended reading: Weiß (2007, pp. 89 - 103)

Background literature: Holmström and Roberts (1998)

## 7 December 2007 - Internal Structure I

Contents: value and specificity of information; asymmetry of information; agency theory, human resource management; modes of organization: markets versus firms

Team report: 9. the agency problem, 10. classification of incentives and rewards

Recommended reading: Weiß (2007, pp. 103 - 110)

Background literature: Hayek (1945), Foss (1999), Stiglitz (2002), Gibbons (1998), Baron and Kreps (1999), Brickley, Smith, and Zimmerman (2007, pp. 75 - 81), Besanko, Dranove, Shanley, and Schaefer (2007, pp. 454 - 482)

## 14 December 2007 - Internal Structure II

Contents: role of incentives and power in organizational design; sources and use of power; provision of incentives

Team report: 11. high-powered work environment

Recommended reading: Weiß (2007, pp. 110 - 133)

Background literature: Holmström and Milgrom (1991), Holmström and Milgrom (1994), Aghion and Tirole (1997), Rajan and Zingales (1998), Kreps (1990), Besanko, Dranove, Shanley, and Schaefer (2007, pp. 487 - 506 and pp. 543 - 550)

## 21 December 2007 - Governance

Contents: incomplete contracting; ownership and other modes of governance; stakeholders

Team report: 12. corporate vs. cooperative governance, 13. governance systems

Recommended reading: Weiß (2007, pp. 134 - 156)

Background literature: Zingales (1998), Rajan and Zingales (2000), Shleifer and Vishny (1997), Schmidt and Weiß (2003)

## 11 January 2008 - Designing for fit

Contents: arch of organizational design; complementarities between building blocks

Team report: 14. organization of sport

Recommended reading: Weiß (2007, pp. 164 - 178)

## 18 January 2008 - Case study: Beatrice

Contents: in-depth analysis of design of a particular company

Team report: case write-up of all teams

Recommended reading: Baker (1992)

## 25 January 2008 - Designing for change

Contents: continuous and radical adjustments of organizational design

Team report: 15. taking a public company private

Recommended reading: Weiß (2007, pp. 178 - 193)

Background literature: Milgrom and Roberts (1995), Langlois (2003)

## 1 February 2008 - Open session - open source

Contents: proposals/examples for discussion from students are welcome; alternatively: discussion of design of open source

Recommended reading: Weiß (2007, pp. 254 - 292)

## 8 February 2008 - Examination

## References

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