

Change Management

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What is “change management”?

- ▶ **Managing change within organizations**
 - Changes in firm size, scope, location
 - Changes in organizational design
 - ▶ Human-resource management
 - ▶ Diversification
 - ▶ Use of information technology
 - ▶ Corporate culture
 - Changes in firm strategy
- ▶ **Managing change in markets**
 - Introduction of new products, services, and processes
 - Changes in the firm’s regulatory, competitive, or technological environment
- ▶ **Big area in consulting; an emerging area in research!**

Our approach in this course

▶ Managing change within organizations

- What is the optimal size, scope, organizational design, strategy, etc. for a given set of firm and market conditions?
- What are the benefits and costs of changing these in response to exogenous changes in the business environment?
 - ▶ Inertia? Path dependence?
 - ▶ Transition costs?
 - ▶ Experimentation and learning?

▶ Innovation management

- Background on the role of innovation in the economy
- R&D and patent strategy
- Challenges of introducing new products (e.g., the “innovator’s dilemma”)

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Brief refresher in management theory

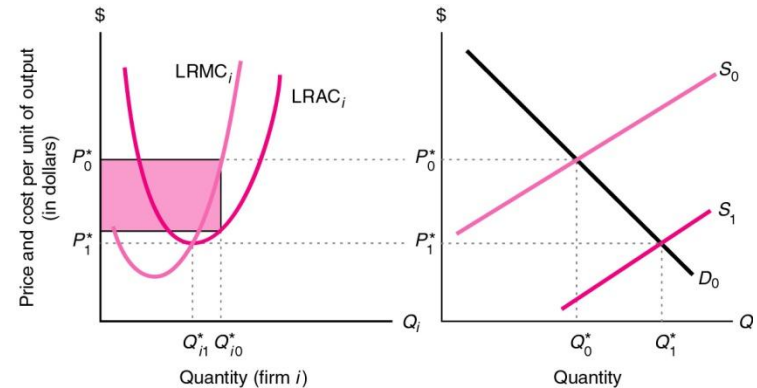
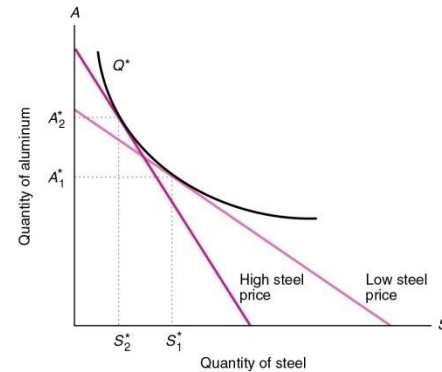
► The firm's objective

- Neoclassical economics: profit maximization
- Financial economics: maximum value for owners
- Strategic management: sustained competitive advantage

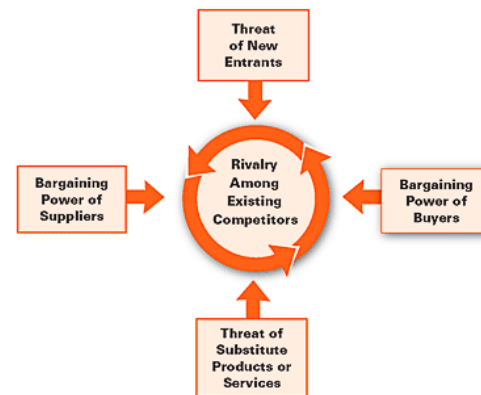
► Competitive and corporate strategy

► Strategic tools

- Industry and competitor analysis (e.g., Porter's "Five Forces" framework)
- Analysis of internal resources and capabilities (e.g., VRIO analysis)



The Five Forces That Shape Industry Competition



About me

▶ Employment

- Associate Professor, Division of Applied Social Sciences, University of Missouri
- Associate Director, Contracting and Organizations Research Institute
- Adjunct Professor, Norwegian School of Economics and Business



▶ Education

- A.B., Economics, 1988, University of North Carolina, Chapel Hill
- Ph.D., Economics, 1995, UC-Berkeley



▶ Past work

- Senior Economist on Council of Economic Advisers
- Visiting Professor at Copenhagen Business School



About me (cont.)

▶ Teaching and res

- Teaching

- ▶ Undergraduate
- ▶ PhD: economi
entrepreneurs

- Research

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- ▶ Entrepreneurs

▶ Blog

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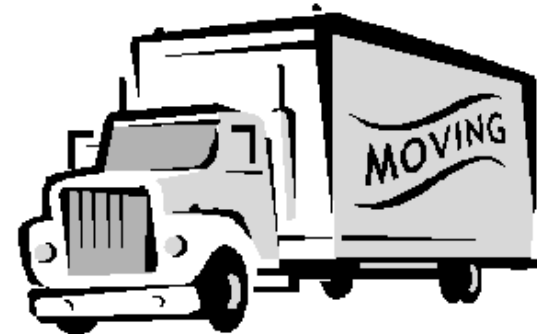
▶ Hobbies and inte

- Food and wine, c
- Movies, travel, sports



Places I've lived

- ▶ Brooklyn, NY (born 1966)
- ▶ Fredonia, NY (1967–69)
- ▶ Knoxville, TN (1969–76)
- ▶ West Orange, NJ (1976–77)
- ▶ Knoxville, TN (1977–84)
- ▶ Chapel Hill, NC (1984–88)
- ▶ Berkeley, CA (1988–1991)
- ▶ San Francisco, CA (1991–93)
- ▶ Emeryville, CA (1993–94)
- ▶ Auburn, AL (1994–95)
- ▶ Athens, GA (1995–2000)
- ▶ Washington, DC (2000–01)
- ▶ Copenhagen, Denmark (2001)
- ▶ Athens, GA (2001–02)
- ▶ Columbia, MO (2002–)

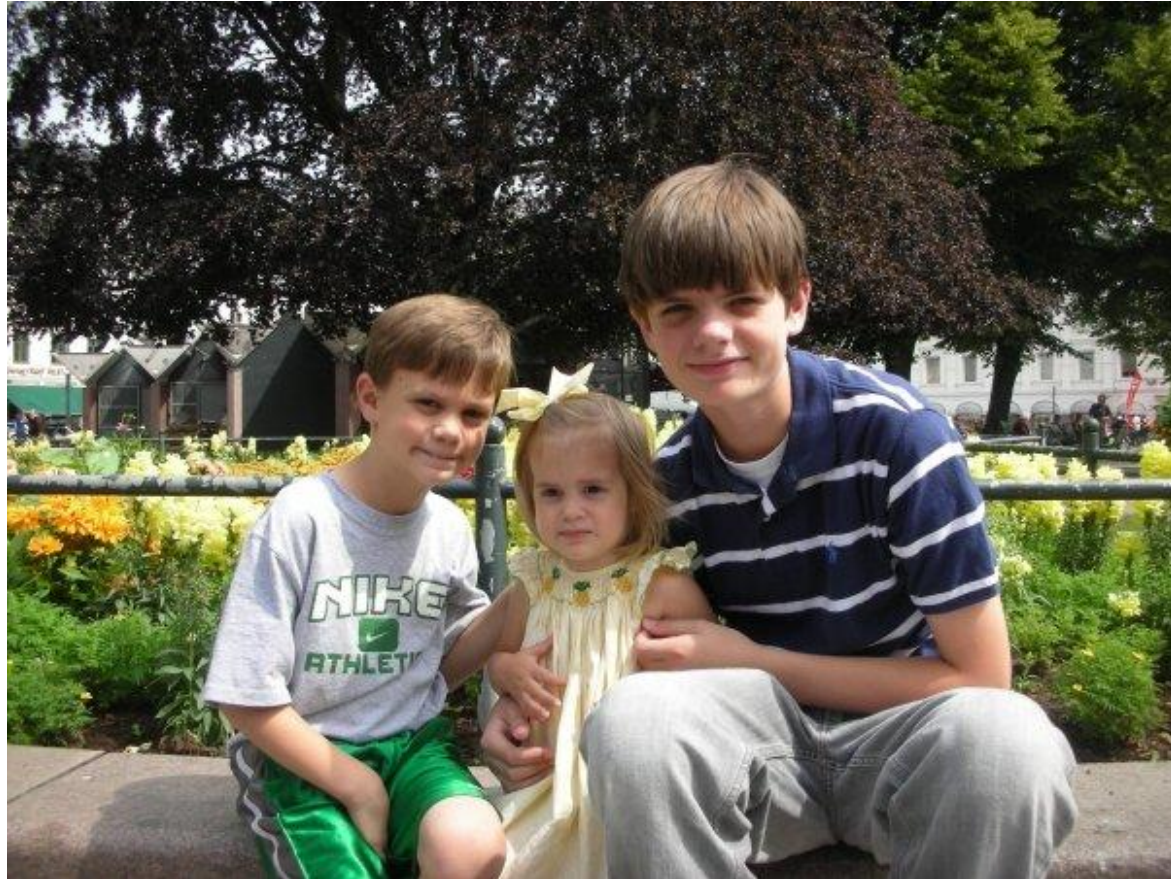


Family



Sandy Klein

Family

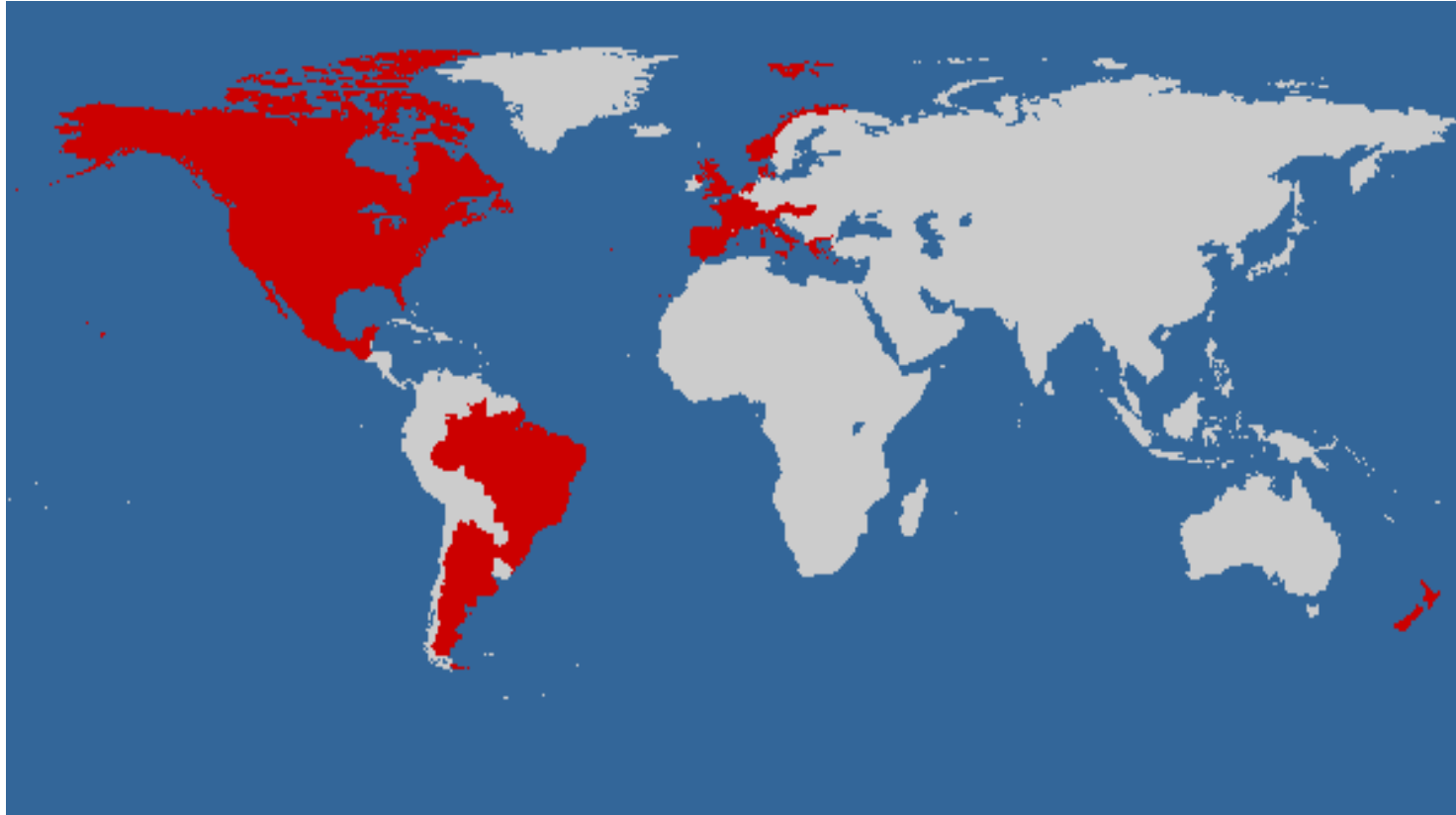


Coleman (12), Nate (7), Bonnie (2)

Family



Countries I've visited



<http://douweosinga.com/projects/visitedcountries>

Achieving sustained competitive advantage

▶ Creating value

- Create new markets, facilitate new transactions
- Devise new products and services
- Reduce production costs or producer transaction costs
- Reduce consumer transaction costs
- Increase demand (e.g., by advertising)

▶ Capturing value

- **Business environment:** create and sustain barriers to entry (“market” or “external” factors)
- **Internal resources and capabilities:** develop or acquire superior factors of production (“firm” or “internal” factors)

▶ Creating and capturing value aren't the same!

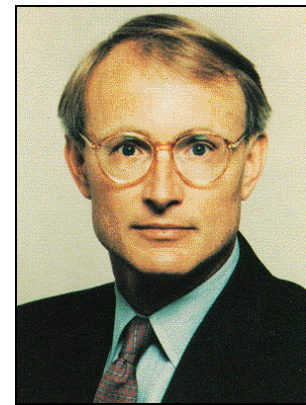
Capturing value: the business environment

▶ Barriers to entry

- Licenses and patents
- Brand-name advantages
- Scale economies
- Ownership of unique resources

▶ Complementary market factors (Porter's five forces)

- Degree of rivalry
- Threat of entry
- Threat of substitutes
- Buyer and supplier power
- The legal and political environment



Capturing value: internal resources and capabilities

- ▶ Resources can be intangible
 - Firm-specific knowledge or capabilities (human capital, accumulated R&D)
 - Intellectual property, trade secrets
 - Customer loyalty (installed user base), reputation
 - Proprietary business methods
 - Possession of a unique technical standard
- ▶ Returns to unique factors go to the factor owner, not the firm!
- ▶ Value may be realized through selling or leasing
 - E.g., most patents are licensed



Review questions

1. Draw a diagram depicting a perfectly competitive firm earning positive short-run economic profits. What will happen in the long run?
2. Now draw a pure monopolist in short-run equilibrium. What happens to this firm in the long-run?
3. Define
 - Law of diminishing returns
 - Returns to scale
 - Long-run average cost
 - Economies of scale
4. Airbus and Boeing are two major producers of jumbo jets. Are these firms guaranteed to make high profits since there are only two large firms in the industry? Explain.
5. The Watts Brewing Company owns valuable water rights that allow it to produce better beer than competitors. The company sells its beer at a premium and reports a large profit each year. Is this firm necessarily making economic profits? Explain.