

Organizational change

▶ Recap of our basic framework

- What is the optimal size, scope, organizational design, strategy, etc. for a given business environment?
 - ▶ Strategies for capturing value
 - Industry selection, strategic positioning (Porter)
 - Acquisition and exploitation of internal resources and capabilities
 - ▶ Organizational architecture
 - ▶ Corporate culture
- What are the benefits and costs of changing these in response to exogenous changes in the business environment?
 - ▶ Inertia? Path dependence?
 - ▶ Transition costs?
- What if the firm doesn't know its optimal structure?
 - ▶ Experimentation and learning?

Organizational change: the role of leadership

▶ Elements of leadership

- Vision setting
- Motivation

▶ Decision-making within firms

- Incentive problems and organizational politics
 - ▶ “Organizations, particularly large ones, are like governments in that they are fundamentally political entities. To understand them, one needs to understand organizational politics, just as to understand governments, one needs to understand government politics” (Pfeffer, 1992).
 - ▶ “Before I served as a consultant to [John F.] Kennedy, I had believed, like most academics, that the process of decision-making was largely intellectual and [that] all one had to do was to walk into the President’s office and convince him of the correctness of one’s view. This perspective I soon realized is as dangerously immature as it is widely held” (Kissinger, 1979).
- Implications: importance of coalitions, logrolling, etc.

Review questions

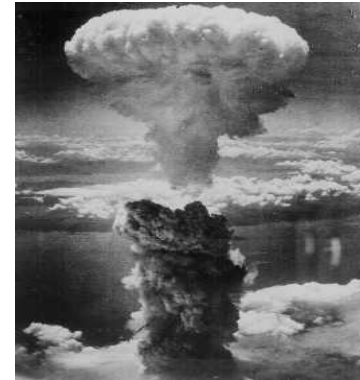
- ▶ Name and briefly describe the three elements of organizational architecture.
- ▶ A manager gives all employees a ten percent increase in pay, but workplace productivity does not improve. “You see? Money does not motivate people,” he says. Is he correct?
- ▶ Which is more likely to be outsourced, R&D or catering, and why?

Leadership and strategic commitment

- ▶ Introduction to coordination games
- ▶ Sequence matters: first-mover advantages
- ▶ Role of credible commitments

Strategy and game theory

- ▶ **Strategic behavior** or **strategic interaction**: taking other people's choices into account when making your choice
- ▶ **Game theory**: study of rational behavior in situations involving interdependence
- ▶ **Examples of strategic situations**
 - Card games, board games
 - Warfare
 - Competition between firms
 - Nearly every social situation



Solving a game

- ▶ Look for outcomes in which each player is behaving “rationally” – i.e., doing the best he or she can, given what other players are doing
- ▶ Results can sometimes be counterintuitive!
 - Famous example: the **prisoners’ dilemma**
 - ▶ Two suspects
 - ▶ D.A. can only convict each on a lesser charge
 - ▶ D.A. offers this deal to each suspect (privately):
Turn state’s evidence, testify against your partner, and you’ll get a sharply reduced sentence.



Schematic representation

		Bea	
		confess	don't confess
Avi	confess	- 8	- 15
	don't confess	0	- 1

Schematic representation

		Bea	
		don't confess	
Avi	confess	0	- 15
	don't confess	- 1	- 1

Schematic representation

		Bea	
		don't confess	
	confess	- 15	
Avi		0	
	don't confess		- 1
	confess	- 1	

Schematic representation

		Bea	
		confess	
Avi	confess	- 8	- 8
	don't confess	- 15	0

Schematic representation

		Bea	
		confess	
Avi	confess	- 8	- 8
	don't confess	- 15	0

Schematic representation

		Bea	
		confess	don't confess
Avi	confess	- 8	- 15
	don't confess	0	- 1

The table is a 2x2 matrix representing a game between Avi and Bea. The columns represent Bea's choices: 'confess' and 'don't confess'. The rows represent Avi's choices: 'confess' and 'don't confess'. The payoffs are shown in the cells. Red arrows point from the bottom-left and bottom-right cells to the top-left and top-right cells, respectively, indicating that for each of Bea's choices, Avi's best response is to confess.

Schematic representation

		Bea	
		confess	don't confess
Avi			
don't confess		0	-1
confess		-15	-1

Schematic representation

		Bea	
		confess	don't confess
Avi			
don't confess		0	-1
confess	-15	-1	

Schematic representation

		Bea	
		confess	don't confess
Avi	confess	- 8	- 15
	don't confess	- 8	0

Schematic representation

		Bea	
		confess	don't confess
Avi	confess	- 8	0
	don't confess	- 8	- 15

Schematic representation

		Bea	
		confess	don't confess
Avi	confess	- 8	0
	don't confess	- 15	- 1

Payoffs for Bea are shown in blue: (-8, -15) for (confess, confess), (0, -1) for (confess, don't confess), and (-15, 0) for (don't confess, confess). Blue arrows point from the right-hand payoff to the left-hand payoff in each row, indicating Bea's preference for confessing.

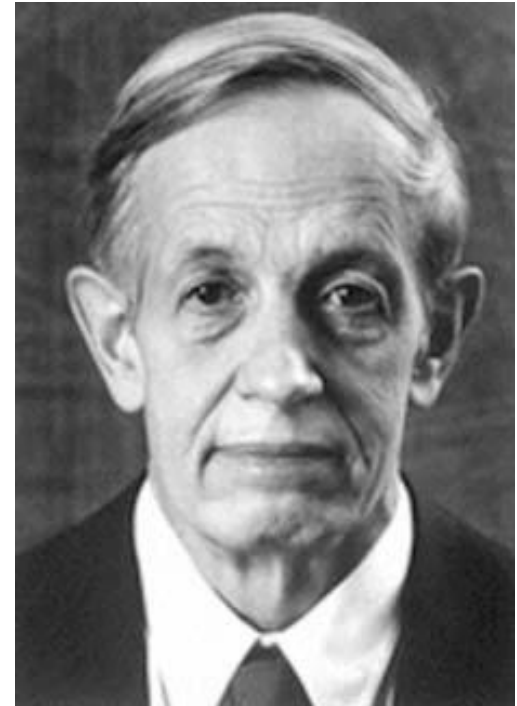
Schematic representation

		Bea	
		confess	don't confess
Avi	confess	$\textcircled{*}$ - 8	- 15
	don't confess	- 8	0
		- 15	- 1

The table is a 2x2 matrix representing a game between Avi and Bea. The rows represent Avi's strategies (confess, don't confess) and the columns represent Bea's strategies (confess, don't confess). The payoffs are given as (Avi, Bea). The top-left cell (Avi confess, Bea confess) contains a circled asterisk (*) and the payoff (-8, -8). A blue arrow points from the top-right cell (-15) to the top-left cell (-8), and another blue arrow points from the bottom-right cell (-1) to the bottom-left cell (0). Red arrows point from the bottom-left cell (-8) and the bottom-right cell (0) up to the top-left cell (-8) and the top-right cell (0) respectively.

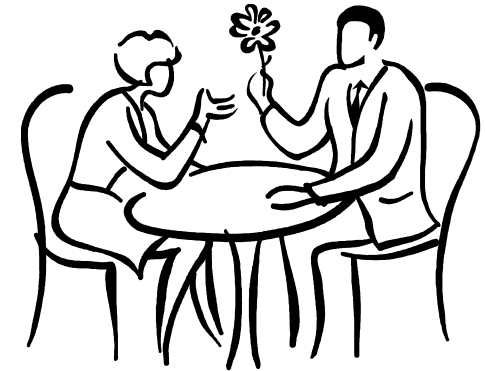
Nash equilibrium

- ▶ **Nash equilibrium:** a set of strategies in which each is a best response to the other
- ▶ May not be the most “desirable” outcome!



John Nash (1928–)

A coordination game



Eloise

McDonald's

Plaza Athénée

	1	0
McDonald's	1	0
Jacques	0	1
Plaza Athénée	0	1

McDonald's

Jacques

Plaza Athénée

Coordination games

- ▶ Problem of multiple equilibria
- ▶ Limits of game theory
- ▶ Schelling and focal points
- ▶ Application: leader's dilemma



Thomas Schelling (1921–)

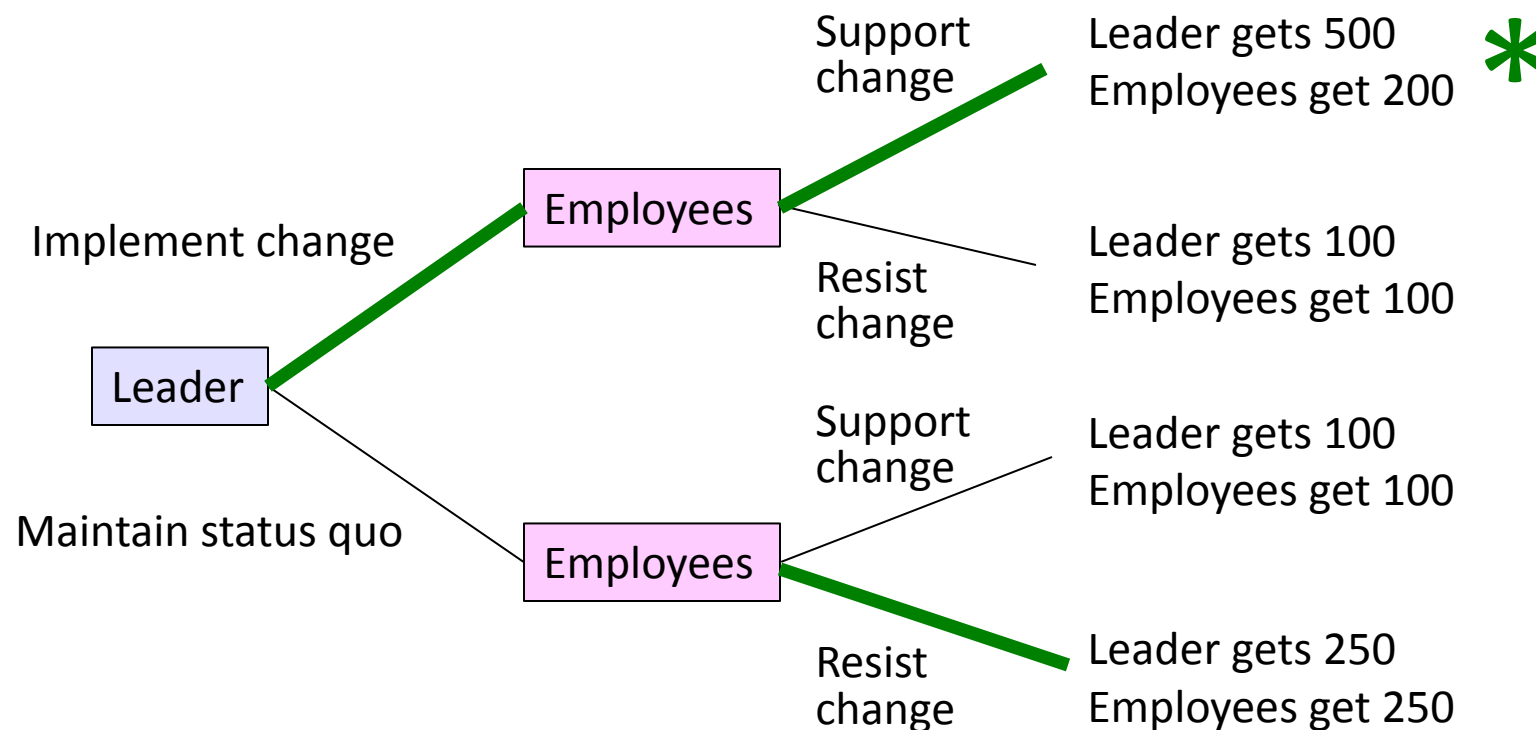


Leadership game

		Leader	
		Implement change	Maintain status quo
Employees	Support change	500 200	100 100
	Resist change	100 100	250 250

First-mover advantage

- ▶ What if one player can move first?



Leadership and strategic commitment

- ▶ Introduction to coordination games
- ▶ Sequence matters: first-mover advantages
- ▶ Role of credible commitments
 - Cheap talk isn't enough.
 - ▶ Burning your bridges
 - ▶ Dr. Strangelove
 - Signaling commitment
 - ▶ Binding contracts
 - ▶ Irrevocable (public) investments

