TIM158
Business Information Strategy
Lectures 4-6

Instructor: Safwan Shah

Teaching Assistant: TBD

To maintain consistency.
Lectures throughout TIM158 adapted or borrowed from Kevin Ross.
Additional material added as needed.
Amazon

• Between 2000 and 2001 – over 350 Internet companies closed their doors.
• This case captures the drama of one of those companies ... Amazon.com
• From wall street darling to nearly dead ...
• We will see strategy, entrepreneurship, innovation and IT.
Bezos Quotes

• We've had three big ideas at Amazon that we've stuck with for 18 years, and they're the reason we're successful: Put the customer first. Invent. And be patient.”
• “In turbulent times an enterprise has to be managed to withstand sudden blows and avail itself of sudden opportunities. This means that in turbulent times, the **fundamentals** have to be managed and managed well.” – Peter Drucker

• Business model is the “enduring” fundamental
Case for Lecture 4

- Amazon.com: The brink of bankruptcy
<table>
<thead>
<tr>
<th>In Millions of USD (except for per share items)</th>
<th>12 months ending 2012-12-31</th>
<th>12 months ending 2011-12-31</th>
<th>12 months ending 2010-12-31</th>
<th>12 months ending 2009-12-31</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>61,093.00</td>
<td>48,077.00</td>
<td>34,204.00</td>
<td>24,509.00</td>
</tr>
<tr>
<td>Other Revenue, Total</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Total Revenue</td>
<td>61,093.00</td>
<td>48,077.00</td>
<td>34,204.00</td>
<td>24,509.00</td>
</tr>
<tr>
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<td>Interest Expense(Income) - Net Operating</td>
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<td>Unusual Expense (Income)</td>
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<tr>
<td>Gain (Loss) on Sale of Assets</td>
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<tr>
<td>Other, Net</td>
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<td>8.00</td>
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<td>Discontinued Operations</td>
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<td>Extraordinary Item</td>
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<tr>
<td>Net Income</td>
<td>-39.00</td>
<td>631.00</td>
<td>1,152.00</td>
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<td>Preferred Dividends</td>
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<td>Income Available to Common Excl. Extra Items</td>
<td>-39.00</td>
<td>631.00</td>
<td>1,152.00</td>
<td>902.00</td>
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<tr>
<td>Income Available to Common Incl. Extra Items</td>
<td>-39.00</td>
<td>631.00</td>
<td>1,152.00</td>
<td>902.00</td>
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<td>74,452,000</td>
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<td>Total Other Income/Expenses Net</td>
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<td><strong>Net Income From Continuing Ops</strong></td>
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<td>(39,000)</td>
<td>631,000</td>
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<td>Non-recurring Events</td>
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<td>Discontinued Operations</td>
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<td>Extraordinary Items</td>
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<td>Effect Of Accounting Changes</td>
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<td>Other Items</td>
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<tr>
<td><strong>Net Income</strong></td>
<td>274,000</td>
<td>(39,000)</td>
<td>631,000</td>
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<td>Preferred Stock And Other Adjustments</td>
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<td><strong>Net Income Applicable To Common Shares</strong></td>
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<td>12 months ending 2011-09-30</td>
<td>12 months ending 2010-09-30</td>
<td>12 months ending 2009-09-30</td>
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<td>1,917.00</td>
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<td>Depreciation/Amortization</td>
<td>333.00</td>
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<td>Interest Expense(Income) - Net Operating</td>
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<td>Unusual Expense (Income)</td>
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<td>Other Operating Expenses, Total</td>
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<td>Total Operating Expense</td>
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<tr>
<td>Gain (Loss) on Sale of Assets</td>
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<td>Other, Net</td>
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<td>1.00</td>
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<td>Equity In Affiliates</td>
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<td>Net Income Before Extra. Items</td>
<td>2,144.00</td>
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<td>2,966.00</td>
<td>2,353.00</td>
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### Apple

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<th>13 weeks ending 2012-12-29</th>
<th>13 weeks ending 2012-09-29</th>
<th>13 weeks ending 2012-06-30</th>
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<tr>
<td>Total Revenue</td>
<td>54,512.00</td>
<td>35,966.00</td>
<td>35,023.00</td>
<td>39,186.00</td>
<td>46,333.00</td>
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<tr>
<td>Cost of Revenue, Total</td>
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<td>Interest Expense(income) - Net Operating</td>
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<tr>
<td>Unusual Expense (Income)</td>
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<tr>
<td>Gain (Loss) on Sale of Assets</td>
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<td>11,622.00</td>
<td>13,064.00</td>
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<tr>
<td>Equity In Affiliates</td>
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<td>13,078.00</td>
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<td>8,824.00</td>
<td>11,622.00</td>
<td>13,064.00</td>
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<tr>
<td>Discontinued Operations</td>
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<tr>
<td>Extraordinary Item</td>
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<tr>
<td>Net Income</td>
<td>13,078.00</td>
<td>8,223.00</td>
<td>8,824.00</td>
<td>11,622.00</td>
<td>13,064.00</td>
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<tr>
<td>Preferred Dividends</td>
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<td>68,662,000</td>
<td>43,818,000</td>
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<tr>
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</tr>
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<td>Non Recurring</td>
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<td>Others</td>
<td>-</td>
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</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
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<td><strong>Operating Income or Loss</strong></td>
<td>48,999,000</td>
<td>55,241,000</td>
<td>33,790,000</td>
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<td><strong>Income from Continuing Operations</strong></td>
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<td>Total Other Income/Expenses Net</td>
<td>1,156,000</td>
<td>522,000</td>
<td>415,000</td>
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<tr>
<td>Earnings Before Interest And Taxes</td>
<td>50,155,000</td>
<td>55,763,000</td>
<td>34,205,000</td>
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<td></td>
</tr>
<tr>
<td>Interest Expense</td>
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<tr>
<td>Income Before Tax</td>
<td>50,155,000</td>
<td>55,763,000</td>
<td>34,205,000</td>
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<td>Income Tax Expense</td>
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<td>14,030,000</td>
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<td><strong>Net Income From Continuing Ops</strong></td>
<td>37,037,000</td>
<td>41,733,000</td>
<td>25,922,000</td>
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<td><strong>Non-recurring Events</strong></td>
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<tr>
<td>Discontinued Operations</td>
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<td>Extraordinary Items</td>
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<tr>
<td>Effect Of Accounting Changes</td>
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<tr>
<td>Other Items</td>
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<td>-</td>
<td>-</td>
<td></td>
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</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>37,037,000</td>
<td>41,733,000</td>
<td>25,922,000</td>
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<td>Preferred Stock And Other Adjustments</td>
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<td><strong>Net Income Applicable To Common Shares</strong></td>
<td>37,037,000</td>
<td>41,733,000</td>
<td>25,922,000</td>
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<td>12 months ending 2012-12-31</td>
<td>12 months ending 2011-12-31</td>
<td>12 months ending 2010-12-31</td>
<td>12 months ending 2009-12-31</td>
<td></td>
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<tr>
<td>--------------------------------</td>
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<td>-----------------------------</td>
<td>-----------------------------</td>
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<td></td>
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<tr>
<td><strong>Revenue</strong></td>
<td>50,175.00</td>
<td>37,905.00</td>
<td>29,321.00</td>
<td>23,650.56</td>
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<td><strong>Other Revenue, Total</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>50,175.00</td>
<td>37,905.00</td>
<td>29,321.00</td>
<td>23,650.56</td>
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<td><strong>Cost of Revenue, Total</strong></td>
<td>20,505.00</td>
<td>13,188.00</td>
<td>10,417.00</td>
<td>6,844.11</td>
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<td><strong>Gross Profit</strong></td>
<td>29,670.00</td>
<td>24,717.00</td>
<td>18,904.00</td>
<td>14,806.45</td>
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<td><strong>Selling/General/Admin. Expenses, Total</strong></td>
<td>9,741.00</td>
<td>7,313.00</td>
<td>4,761.00</td>
<td>3,651.24</td>
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<td><strong>Research &amp; Development</strong></td>
<td>6,593.00</td>
<td>5,162.00</td>
<td>3,762.00</td>
<td>2,943.03</td>
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<td><strong>Depreciation/Amortization</strong></td>
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<td><strong>Interest Expense(Income) - Net Operating</strong></td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Unusual Expense (Income)</strong></td>
<td>576.00</td>
<td>610.00</td>
<td>0.00</td>
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<tr>
<td><strong>Other Operating Expenses, Total</strong></td>
<td>-</td>
<td>-</td>
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<td>-</td>
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<tr>
<td><strong>Total Operating Expense</strong></td>
<td>37,415.00</td>
<td>26,273.00</td>
<td>18,940.00</td>
<td>15,338.38</td>
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<td><strong>Operating Income</strong></td>
<td>12,760.00</td>
<td>11,632.00</td>
<td>10,381.00</td>
<td>8,312.19</td>
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<td><strong>Interest Income(Expense), Net Non-Operating</strong></td>
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<td><strong>Gain (Loss) on Sale of Assets</strong></td>
<td>188.00</td>
<td>0.00</td>
<td>0.00</td>
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<td><strong>Other, Net</strong></td>
<td>58.00</td>
<td>65.00</td>
<td>11.00</td>
<td>2.37</td>
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<td><strong>Income Before Tax</strong></td>
<td>13,386.00</td>
<td>12,326.00</td>
<td>10,796.00</td>
<td>8,381.19</td>
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<td><strong>Income After Tax</strong></td>
<td>10,788.00</td>
<td>9,737.00</td>
<td>8,505.00</td>
<td>6,520.45</td>
<td></td>
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<tr>
<td><strong>Minority Interest</strong></td>
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<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Equity In Affiliates</strong></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
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<td><strong>Net Income Before Extra. Items</strong></td>
<td>10,788.00</td>
<td>9,737.00</td>
<td>8,505.00</td>
<td>6,520.45</td>
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</tr>
<tr>
<td><strong>Accounting Change</strong></td>
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<td>-</td>
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<tr>
<td><strong>Discontinued Operations</strong></td>
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<tr>
<td><strong>Extraordinary Item</strong></td>
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</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>10,737.00</td>
<td>9,737.00</td>
<td>8,505.00</td>
<td>6,520.45</td>
<td></td>
</tr>
<tr>
<td><strong>Preferred Dividends</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td></td>
</tr>
</tbody>
</table>
Questions

• How would you rate Bezos as an operating manager?
• Trace the evolution of the Amazon.com business.
• What impact does the Toys “R” Us deal have on Amazon.com’s business model in early 2000?
• Compare AMZN with other $100 Billion plus companies ...
Today (5)

1. Recap

2. News Presentation
   Hunter Ke, Kenny Leaven, & Kevin Nguyen) would like to present our news topic on quantum computers specifically a recent breakthrough on quantum switches on Tuesday April 15. Due April 28

3. Group Project Teams
   1. Due Thursday

4. Review Strategy and Business Models

5. Lecture – IT and Organization (Chapter 3)
Strategic Alignment Model

Ideally, all four quadrants align to create value
Categories of Strategic Risk

- **II**: Quick Win
- **III**: Sustainability Risk
- **I**: Dumb Idea or “Mandatory”
- **IV**: Implementation Risk

<table>
<thead>
<tr>
<th>Easy</th>
<th>Hard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to Execute</td>
<td>Size of Opportunity</td>
</tr>
<tr>
<td>Small</td>
<td>Large</td>
</tr>
</tbody>
</table>

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## Options for Evolving Strategy

<table>
<thead>
<tr>
<th></th>
<th>Enhance</th>
<th>Expand</th>
<th>Extend</th>
<th>Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product</strong></td>
<td>Improve quality, lower cost, increase ease-of-use, add features</td>
<td>Add new products or services</td>
<td>N/A</td>
<td>Drop a feature, a service, or a product</td>
</tr>
<tr>
<td><strong>Market</strong></td>
<td>Attract new customers within existing market through advertising, etc.</td>
<td>Expand into new markets, segments, or geographies</td>
<td>N/A</td>
<td>Exit a market, segment, or geographic region</td>
</tr>
<tr>
<td><strong>Channel</strong></td>
<td>Improve quality, cost, or capacity of a current channel</td>
<td>Add new channels</td>
<td>N/A</td>
<td>Exit a channel</td>
</tr>
<tr>
<td><strong>Value Chain/Network</strong></td>
<td>Improve operations and/or relationships with current suppliers, partners, etc.</td>
<td>Add new suppliers or partners; outsource an activity</td>
<td>N/A</td>
<td>Stop doing business with a supplier or partner; insource an activity</td>
</tr>
<tr>
<td><strong>Business Model</strong></td>
<td>Improve the alignment or economics of current business model</td>
<td>Add new revenue streams</td>
<td>Extend into a new business or adopt a new business model</td>
<td>Exit a business or business model</td>
</tr>
</tbody>
</table>

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Strategic Shifts

• Strategy changes over time
• Flow of information makes this possible
  – Enhancement (improve existing)
  – Expansion (launch new)
  – Extension (new business or business model)
  – Exit (drop product/category/market/channel)
Lecture 5

IT Impact on Organization
(Chapter 3)
Transition in Economic order

Interplay between structure and function

Networked

Industrial

Agrarian
 Organizations are information systems. They are communication systems. And they are decision-making systems ... If one thinks about it, every aspect of organizational functioning depends on information processing of one form or another.

- Morgan
1. The machine view which dominates modern management thinking and which is typical of bureaucracies.
2. The organismic view which emphasizes growth, adaptation and environmental relations.
3. Organizations as information processors that can learn (brain metaphor).
4. Organizations as cultures based on values, norms, beliefs, rituals and so on.
5. In political organizations interests, conflict and power issues predominate.
6. Some organizations are psychic prisons in which people are trapped by their mindsets.
7. Organizations can adapt and change, and
8. Some organizations are instruments of domination with the emphasis on exploitation and imposing your will on others.
Organizational Controls

• Organizational controls
  • guide strategy,
  • compare actual with expected results, and
  • suggest corrective actions if necessary.

– Strategic controls
  • Subjective assessment of the fit between what the firm might do (opportunities) and what it can do (competitive advantage)

– Financial controls
  • Objective assessment of firm performance
I. Dynamic Forces in Firm Evolution

- Basis of Competitive Advantage in the Industry
- Internal Selection Environment
- Official Corporate Strategy
- Strategic Action
- Distinctive Competence of the Firm

Robert A. Burgelman, Stanford Graduate School of Business
I. Dynamic Forces in Firm Evolution

- Basis of Competitive Advantage in the Industry
- Distinctive Competence of the Firm
- Internal Selection Environment
- Official Corporate Strategy
- Strategic Action
- What We SAY
- What We DO
- What it Takes to Win
- What We’ve Got
Basis of Competitive Advantage in the Industry

What we need to Win

Distinctive Competence of the Firm

What we have

Internal Selection Environment

CULTURE

What We SAY

Official Corporate Strategy

What We DO

Strategic Action

Organizational Structure

- Organizational structure specifies:
  - The firm’s formal reporting relationships, procedures, controls, authority, and decision-making processes
  - The work to be done and how to do it, given the firm’s strategy or strategies

- It is critical to match organizational structure to the firm’s strategy!
IT Impact on Organizations

• IT impacts the business model through its effects on organizational capabilities
• ‘Organization’ as an effort to simultaneously manage information complexity and uncertainty
• Learn how to analyze IT for its potential to enable new capabilities e.g. facilitate new and improved organizational structures and processes
Hierarchy in Business

• Large firms have always run with some form of hierarchy
  – They have usually sought to minimize or eliminate it

  “We set out to shape a global enterprise that preserved the classic big company advantages while eliminating the big company drawbacks”
  (Jack Welch, CEO, General Electric)

Most companies fail to grow large without getting centralized control – it is very complex
The Organization Design Challenge
Building Lean, Yet Agile Enterprises
What is wrong with hierarchy?

...and what can go wrong without it?
Streamlining Operating and Management Processes

1. The business cycle is composed of two types of processes:
   - *Operating Processes*: The activities through which an organization designs, produces, markets, delivers, and supports its products or services.
   - *Management Processes*: The activities through which an organization manages the design, production, marketing, delivery, and support of its products or services.

2. Many companies attempt to streamline the business cycle by streamlining operating processes without a corresponding streamlining of management processes.

3. The key is to streamline, integrate, and “time synchronize” both operating and management processes.

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Redefining Control Systems

Shortening the business cycle requires streamlining, integrating, and time synchronizing both operating & management processes.

Management Processes
- Feedback
  - Real-time sense and respond
  - Cause and effect
- Input Control
  - Flexible contracts
  - Professional employees
  - Business intelligence
- Process Control
  - Information-Enabled/Learning Model of Control
    - Lean, yet agile, processes
    - Process integration
- Outputs Control
  - Broad set of performance measures
  - Early warning systems

Feedforward
- Predictive modeling
- Interactive scenarios

Hierarchical Control
- Personnel Control
  - Rigid contracts
  - Standardized jobs
  - Formal Planning
- Process Control
  - Work segmentation
  - Direct supervision
  - Transaction control
- Output Control
  - Financial control
  - Internally oriented

Operating Processes
- People
- Money
- Information
- Material
- Production
- Logistics
- Customers
- Marketing

Inputs → Processes → Outputs
Redefining Authority Systems

A Line employees often have the best understanding of operations and local business dynamics.

B Senior managers understand strategic goals and initiatives and the enterprise perspective.

C Responsibility for operating decisions is often delegated to middle management, but valuable information is lost and organization response is slow.

The challenge is to bring these two perspectives together uniting people, processes, and information across an extended enterprise.

Flattening and elevating the information access curve is not sufficient. Collaborative structure, culture, authority, incentives, and roles must evolve along with the ability of individuals and teams at all levels to deal with problems of information overload and increase “information literacy.”
Some key ideas

- **Differentiation** how organizations are subdivided into specialized work units (nodes)
  - Horizontal (operating units)
  - Vertical (power/authority levels)

- **Integration** relationships and links between nodes required to unite specialized units and enable shared value
  - Task-based (groups work together on processes)
  - Information/expertise based (groups provide information or expertise)
  - Social relationships (affiliation and identity separate from work)
Sociology of relationships

• Stronger relationships needed in presence of
  – Increased complexity, uncertainty
  – Task interdependence eg. Shared services
  – Innovation
  – Large real-time information sharing
  – Diverse subcultures
  – Leader preferences
Framing decisions of differentiation

- What capabilities and resources are required to achieve goals?
- What activities must be performed to get there?
- How should these activities be grouped within specialized units?
Framing Decisions of Interdependence

• What key tasks must be managed between specialized groups?
• What organizational solutions are needed to coordinate and control interdependence?
• What configuration of organizational solutions should be used to ensure alignment and fit with the business environment and strategy?
Network Ownership

- Corporation = legally defined organization
- Alliance = between a small number of players
- Community/Ecosystem = players working together to achieve shared goals
Hybrid Governance

• Is market or hierarchy better?
  – Transaction cost theory says markets give greater efficiency and effectiveness unless cost and risk of using market mechanisms to coordinate and control interdependencies are higher than the cost and risk of hierarchy

• Cost and risk increases with
  – Duplication of costly assets that cannot be shared
  – Setting frequent disputes
  – Cost related to information access
  – Need to join others to increase market power

• Hierarchy used when high risk of market failure
  – Executives given authority to determine shared purpose and goals
  – Unified leadership gives focus

• Hierarchy optimizes vertical information processing
• Markets optimize horizontal information processing
IT enables governance models

- Information sharing, processing, creating
  - Shared purpose of multiple firms
  - Enable configurations and solutions between firms but do not preclude market-based transactions as well
  - Shared projects/values encourages increased activity over time
Business Opportunities from New Market

• Several new roles have emerged due to communication and market changes
• Each presents business opportunity with unique characteristics
Partnerships and Trust

• Process-based trust
  – Parties manage interdependencies over recurrent transactions

• Affiliation-based trust
  – Identity between groups/within group

• Institution-based trust
  – Tied to formal organizational and social structures
Three Main factors in Organizational Design

1. Size
2. Technology
3. Environment
Size

• This refers to capacity, number of personnel, outputs (customers, sales), resources (wealth).

• Blau's studies show that differentiation (# of levels, departments, job titles) increases with size, but at a decreasing rate. In contrast, the % of the organization that is involved in administrative overhead declines with size, leading to economies of scale.

• Increasing size is also related to increased structuring of organizations activities but decreased concentration of power.

• Managerial practices, such as flexibility in personnel assignments, extent of delegation of authority, and emphasis on results rather than procedures, are related to the size of the unit managed.
Environment

• Adaptation
• Natural Selection
• Dependence
• Institutionalization
Strategy and Structure

• Strategy and structure have a reciprocal relationship:
  – Structure follows the selection of the firm’s strategy, but...
  – ... once in place, structure can influence current strategic actions as well as choices about future strategies
Patterns of Strategy and Structure

• Firms grow in predictable patterns:
  – First by volume
  – Then by geography
  – Then integration (vertical, horizontal)
  – And finally through product/business diversification

• A firm’s growth patterns determine its structural form
Patterns of Strategy and Structure

• All organizations require some form of organizational structure to implement and manage their strategies.
• Firms frequently alter their structure as they grow in size and complexity.
• Three basic structure types:
  – Simple structure
  – Functional structure
  – Multidivisional structure (M-form)
Simple Structure

- **Owner-manager**
  - Makes all major decisions directly
  - Monitors all activities

- **Staff**
  - Serves as an extension of the manager’s supervisor authority

- **Matched with focus strategies and business-level strategies**
  - Commonly compete by offering a single product line in a single geographic market
Simple Structure: Growth Problems

• Growth creates:
  – Complexity
  – Managerial and structural challenges

• Owner-managers
  – Commonly lack organizational skills and experience
  – Become ineffective in managing the specialized and complex tasks involved with multiple organizational functions
Lecture 6

• News Presentation
• Rubber band model ...
• Boeing e-enabled advantage
Getting e-enabled operations to work in an organization involves personalities, it involves careers and culture – Chris Kettering
• Boeing challenges and opportunities in the 90’s
• What is e-enabled advantage?
• What advantage would such an approach give to Boeing?
• What challenges did Boeing face in executing this strategy?
Boeings situation in the 90’s

• Similarity to IBM ...

• During the market downturn in early 90’s, Boeing focused more on cost cutting and less on innovation.

• The only competitor Airbus was heavily subsidized by its consortium owners so Boeing was even more disadvantaged.

• Acquired MD, Hughes and other companies.

• Re-org and launched CAS

• 2001 events were an inflection point for airline industry – Boeing wisely positioned itself well.
E-Enabled strategy

• Solutions and services strategy whereby all data and IS relating to airplane flight ops, passenger services and maintenance would be seamless interconnected to effectively bring the airline itself into the ‘airline network’ during flight.

• Boeing described airplane and ‘factory’ of airline where services were offered. But this factory was ‘mobile’ inaccessible for up to 15 hours every day …
E-enabled Advantage

• Seamless and end to end integration of data and communication to dramatically reduce cost and increase efficiency.

• Provide solutions versus products

• Listen to customers
Implementing e-enabled advantage

• Created a new business unit to refocus resources
Insights

1. First Boeing execs fixed the internal core and org structure/culture

2. Then they leveraged the core to evolve their strategy to better fit the changing market

3. Created new revenue frontiers by becoming a solutions provider versus product provider

These steps gave Boeing proprietary advantage.