



OB384: Organizational Learning
Graduate School of Business, Stanford University
Spring 2006

Professor:	Jerker Denrell	Assistant:	Marcelino Clarke
Office:	Knight 313	Office:	Littlefield 320
E-mail:	denrell@gsb.stanford.edu	Email:	clarke_marcelino@gsb.stanford.edu
Phone:	725-7457	Phone:	725-6742
Class Time:	MTh 10.00-11.30		

Note 1: There is an assignment for the first class. For more information, see page 6 of the syllabus.

Overview

This is a course about why firms do not learn from their experiences and the opportunities created by flawed learning. It will explore common mistakes in learning and barriers to the adoption of effective practices. Understanding learning problems will help future managers avoid common mistakes and build organizations that learn more effectively; learning is particularly important for entrepreneurs who are trying out new ideas and so must adapt correctly to feedback from the environment.

But understanding common mistakes is also useful for identifying possible opportunities in markets; opportunities exist when firms make mistakes and when they fail to learn effective practices. During the course, we will examine several examples of firms that took advantage of market inefficiencies created by flawed learning by established firms.

The course will introduce concepts and findings from organization theory, psychology, decision theory, and statistics. A variety of exercises, cases, and readings will be used to illustrate barriers to learning and the opportunities they create. Readings will include teaching notes, papers in psychology and organization theory, HBR articles, as well as the book “Moneyball” by Michael Lewis which discusses market-level mistakes in professional baseball.

Why study Organizational Learning?

“Look at learning as a necessity, not a luxury. With business moving at such a fast pace, it doesn’t take much to get behind in today’s marketplace. Today’s leaders are voracious learners.”

Michael Dell (Direct From Dell, p. 136).

Recent enthusiasm for organizational learning among practitioners and academics has, in part, been motivated by observations of large differences in productivity and routines among organizations. How work gets done and how efficiently varies widely among organizations and even among plants and establishments of a single firm. The most illuminating example of such differences can perhaps

be found in the automobile industry, where researchers found large differences in productivity among different plants.

How can such large differences in routines and efficiency emerge? Part of the reason is differences in organizational learning. The capabilities of a firm depend on its set of routines and their efficiency. Since routines usually develop as the result of learning by doing, this suggests that understanding the process of organizational learning is important if we want to understand, and manage, organizations.

Many practitioners and academics have also argued that differences in knowledge and capabilities have become relatively more important for competitive advantage, while physical assets and financial capital have diminished in importance. If differences in capabilities are the result of learning, it becomes important to understand the management challenges involved in organizational learning.

Despite this importance of knowledge and learning, there are numerous illustrations of flawed learning and instances where firms did not seem to learn at all from their experience. Research in psychology and business has also documented a variety of biases in individual and organizational learning. For example, despite their extensive experience, experienced physicians do not seem to have better judgment, or predictive ability, than less experienced physicians or even novices. Nevertheless, they typically believe they have better judgment and they believe that they have learned from their experience. Similarly, business managers in successful firms sometimes become convinced they have learned the key success factors of their industry. Such confidence in their ability may lead them to neglect important warning signals and ignore experimentation with new alternative approaches.

In this course we will take a look at these common problems and challenges in learning and suggest possible approaches and solutions. We focus on problems and challenges for two reasons. First, you want to learn to recognize and avoid these learning traps yourself. Second, knowledge about common mistakes and traps is useful for identifying market opportunities. If some firms fail to learn the most effective practices, this can create opportunities for other firms. Throughout the course we will thus focus on two interrelated questions: 1) what are the reasons for common mistakes in learning and how can they be avoided 2) how can we take advantage of the opportunities offered by such learning mistakes?

Topics Covered

The course is divided into four broad sections. In the first section we examine the dynamics of learning in detail. This section is focused on several important trade-offs and challenges in learning. The purpose is to gain an in-depth understanding of the challenges of learning from observations of the performance consequences of activities. Learning by trial and error does not always imply that individuals and organizations will eventually identify successful practices and abandon unsuccessful ones. In this section we examine a number of reasons why this does not happen and the opportunities it can create. Topics covered in this section include the trade-off between exploration and exploitation in organizational learning, superstitious learning, the self-fulfilling and self-perpetuating prophecies, increasing returns, and credit assignment. Throughout this section, we examine both why these problems emerge, how to handle them, and the opportunities they create.

In the second section, we examine the challenges of learning in competitive contexts. Managers, consultants, and researcher often try to learn from successful companies. For example, bench marking is a common practice. However, competition makes such learning challenging. Due to changes in technologies and strategies of other firms, there is a large element of randomness in performance measures. Selection in markets also implies that we can typically only observe an unrepresentative sample of firms. In addition, high performance usually changes the attributes of corporations. Thus, attributes of successful organizations may be the result rather than the cause of high performance. In this section, we examine these challenges to learning, how they can be overcome, and the possible opportunities they create.

In the third section we examine learning within organizations. Incentives, corporate cultures, different hierarchical levels have important implications for learning occurring within organizations, which we examine. An important topic is how firms can create incentives for learning. In this section we also discuss the challenges involved in transferring knowledge within organizations.

In the fourth section we examine the challenges of learning in the face of the numerous external pressures organizations face. Firms do not learn about practices and their consequences in isolation. They are influenced by other firms, other managers, by financial markets, by employees, and by consultants and management gurus. Such external pressure sometimes leads to seemingly foolish results, where firms follow management fads or fail to introduce effective practices because they are unpopular among managers in other firms or among analysts. We will examine several pressures for conformity facing firms and their consequences, but also how such pressures for conformity can sometimes provide opportunities for new firms who may be able to ignore social conventions within established industries.

Readings

Cases and other readings will be in the course reader (some teaching notes may also be posted on the course web). In addition to the course reader, the course readings also include two *very* well written and readable books (both inexpensive paperbacks), which we will read portions of:

Nassim Taleb, 2005. *Fooled by Randomness: The Hidden Role of Chance in Life and the Markets*. Random House, New York.

Michael Lewis, 2003. *Moneyball: The Art of Winning an Unfair Game*. W. W. Norton & Company, New York.

Both books deal, in different ways, with the challenges of learning and opportunities created by flawed learning and inadequate understanding of the determinants of performance in noisy markets.

It might seem that the readings for some sessions are extensive. But in most cases this impression is false. First, many readings are very short – just a few pages. Second, the same readings will be used in several sessions (but different aspects will be emphasized).

Course Requirements and Grading

There are three basic requirements and components to final grades:

Participation (30% of the grade)

Class participation is a very important part of the learning process in this course. Although readings cover some of the material in the course, class discussion will bring out the implications of the readings. In class we will also discuss and engage in exercises that illustrate the concepts. It is thus important that you attend and participate in class discussions. To encourage broad participation, I will sometimes randomly choose individuals to discuss the assignment questions.

A part of your final grade (30%) will also be based on an assessment of the *quality* of your contributions to class discussions. I judge comments to be of high quality to the extent that they possess one or more of the following attributes:

- they demonstrate understanding of the main conceptual issues discussed in the readings;
- they suggest innovative implications and applications of the models and concepts in the readings;
- they suggest important limitations of the models and concepts in the readings;
- they suggest links and comparisons between different concepts and issues discussed in the course;
- they contribute to moving the discussion and analysis forward—they offer a unique, relevant perspective on the issue being discussed;
- they build on others' comments

Individual Written Assignments (30% of the grade)

In addition to class participation, I will ask you to prepare three written individual assignments. These assignments will require you to develop the implications of the readings and cases in more detail. The written individual assignments will count for 30% of the grade. The written individual assignments are due before class at April 17, May 4, and May 22. The syllabus describes the assignments.

Group Project (40% of the grade)

Finally, there is a project, performed by groups of student or individually. The purpose of the project is to examine a specific learning challenge in more depth. The project can either be a field study of learning challenges within a firm or an industry or it can be an analysis of a recent book (an autobiography of an executive or a normative book such as “Good to Great”). The result of the project is a written report. In addition, groups will be asked to present their findings at a seminar (the presentation, however, will not be graded). A separate document (available at the course web, in course materials) describes the project in more detail. The project is due at noon June 8th.

Attendance and Participation in Class

Attendance and participation are essential parts of the learning process for this course. I want students to attend all scheduled sessions and to come prepared to contribute to the discussion. To encourage broad participation, I will also sometimes randomly choose individuals to discuss the assignment questions.

If you have a compelling reason for missing a class, you should inform me in advance (email is best) and then submit a written analysis, *before the class*, of the assignment questions as a makeup exercise. This cannot make up for the lack of participation, but it will show that you have considered that material. Also, if you are absent, you should arrange beforehand with a classmate to take notes for you and to pick up any assignments or handouts.

Students with Documented Disabilities

Students who have a physical or mental impairment that may necessitate an academic accommodation or the use of auxiliary aids and services in class should initiate the request with the Disability Resource Center (DRC). The DRC will evaluate the request along with the required documentation, recommend appropriate accommodations, and prepare a verification letter dated in the current academic term in which the request is being made. Please contact the DRC as soon as possible; timely notice is needed to arrange for appropriate accommodations. The DRC is located at 123 Meyer Library and can be reached by calling 723-1066 or 725-1067 TTY.

I. Introduction

Session **1**
Date **Tuesday, April 4**
Topic **The Potential and Limitations of Organizational Learning**

Required readings

Robin M. Hogarth, 2001. "Learning from connections," pages 81-86 in *Educating Intuition*, University of Chicago Press, Chicago.

Recommended readings

Robyn M. Dawes, 1986. "Forecasting ones own preferences," *International Journal of Forecasting*, Vol. 2, pp. 5-14. (This is a strange title: the paper is really a discussion of why individuals are poor forecasters, although they believe they are good since they have plenty of experience. The paper also describes why informal credit judgments are typically inferior to formal, statistical, methods)

Required case

Capital One Financial Corporation (HBS Case 9-700-124)

Christina Binkely, 2000. "Lucky Numbers", *Wall Street Journal*, May 4, 2000, p. A1.

Exercise on Competition and Arbitrage

Assignment Questions

1. Capital One exploited an opportunity in the credit market. Why did this market opportunity exist? Why had not other firms learned about and exploited this opportunity?
2. Harrah's seemed to have discovered profitable deviations from conventional wisdom in the casino business. Why had not other firms learned about and exploited these opportunities before?
3. Why, according to Hogarth, may individuals fail to learn about the correct link between actions and outcomes? Can these arguments explain why firms failed to notice the opportunities Capital One and Harrah's exploited?
4. Do you believe there are opportunities, similar to the ones discovered by Capital One and Harrah's, in other industries? Can you suggest an industry where such opportunities might exist? More generally, where and when would these opportunities exist?
5. Do the Exercise on Competition and Arbitrage

II. Dynamics of Learning

Session 2
Date Thursday, April 6
Topic The Trade-Off Between Exploration and Exploitation in Organizational Learning

Required readings

J. Edward Russo and Paul J.H. Schoemaker, 1989. "Improving Feedback". Chapter 9 in *Decision Traps*, Simon & Schuster Inc, New York.

Required cases

Exercise on the One-Armed Bandit Problem

Exercise on Experimentation and the Value of Information

3M Optical Systems: Managing Corporate Entrepreneurship (HBS Case 9-395-017)

Assignment Questions

1. Do the Exercise on the One-Armed Bandit Problem. In class we will discuss the different strategies you suggest and examine their performance implications.
2. David Ogilvy, the advertising executive, evaluated advertisements according several rules of thumb, which he had learned from experience. Sometimes, however, he accepted advertisements that he believed would fail. What could be the rationale for such behavior? If he did not sometimes such advertisements, what would be the implications? What are the general implications for learning?
3. Do you recommend that Andy Wong should back up the authorization for expenditure for the proposed computer filter? Explain why or why not.
4. Do you recommend that Paul Guehler should support the proposed computer filter? Explain why or why not.
5. Paul Guehler says "some people felt it was time to pull the plug". In general, when do you believe that projects that have been unsuccessful should be terminated? What factors should influence the decision?
6. Do the "Exercise on Experimentation and the Value of Information".

II. Dynamics of Learning

Session 3
Date Monday, April 10
Topic Superstitious Learning and The Self-Fulfilling Prophecy

Required reading

Nassim Taleb, 2005. *Fooled by Randomness: The Hidden Role of Chance in Life and the Markets*. Random House, New York. Chapter 12.

Skinner, B. F., 1992, "Superstition' in the Pigeon," *Journal of Experimental Psychology: General*, Vol. 121, No. 3, 273-274. (Originally published in 1948)

Jean Francois Manzoni and Jean-Louis Barsoux, 1998, "The Set-Up to Fail Syndrome," *Harvard Business Review*, March-April, pp. 101-113.

Required cases

Exercise on the Motion Picture Industry

Assignment Questions

1. How, according to Skinner, can learning produce superstitious behavior? Be prepared to provide a detailed description of the assumptions, the process, and how the process produces the outcome.
2. When should we expect that managers would learn superstitious behavior? What are the implications for autobiographies of successful managers? What are the implications for learning from successful firms?
3. Consider the following fictional story: An anthropologist once visited a remote tribe. She observed that each morning, before sunrise, members of the tribe sacrificed a goat in order to make the sun rise. Since the tribe was poor, the anthropologist believed that this was a wasteful practice. As a result, the anthropologist proposed that they should avoid sacrificing a goat for one day, to see if the sun would nevertheless rise. In response, the locals looked at her and said, gravely, "In these matters one cannot afford to experiment". Is such behavior unintelligent?
4. How can individuals be set-up to fail? What are the learning implications? More generally, what is a self-fulfilling prophecy and when does it occur?
5. Do the Exercise on the Motion Picture Industry
6. If firms have been successful we typically expect them to be successful in the future. How can this produce a self-fulfilling prophecy? Give an example. What are the implications for learning from successful firms?

II. Dynamics of Learning

Session 4
Date Thursday, April 13
Topic Brokering, Absorptive Capacity, and Homophily Bias

Class Visitor: Steve Jurvetson from Draper Fisher Jurvetson

Required readings

Andrew Hargadon, 2003. "Bridging Small Worlds," Chapter 4 in *How Breakthroughs Happen*, Harvard Business School Press, Boston.

Martin Ruef, 2003. "Innovators Navigate Around Cliques," *Stanford Business Magazine*, May, 2003.

Teaching Note on Absorptive Capacity.

Required Cases

Note on Organizational Learning in Venture Capital. (GSB Case E185).

Randall E. Stross, 2000. *Eboys*, pages 24-25. Crown Publishers, New York.

Assignment Questions

1. Randall Stross writes in "Eboys" that only those business plans that came from entrepreneurs who were professionally or personally known to one of the partners of the VC firm had any chance of getting their attention. Why do you think some VC firms follow this rule? What are the advantages and the disadvantages of such an approach?
2. Suppose you want to formulate a strategy for finding out about and taking advantage of new opportunities. What are the limitations of the following ways of approaching this:
 - a. A) Speaking mainly with friends and colleagues in your industry?
 - b. B) Learning a little about many different industries and areas of knowledge?
3. Different venture capital firms follow different approaches in searching for information about new industries and new opportunities. Some firms are mainly reactive and wait for others to contact them while others are proactive and deliberately seek out new areas and new individuals. When do the different approaches make sense? Does the choice of approach depend on the strategy or the status of the VC firm?
4. Suppose your VC firm has decided to proactively search for new opportunities by learning about new areas and industries. How would you implement this strategy? What individuals would you hire? What would your networking strategy be? How would you decide what new areas or industries to explore? How would you handle the trade-off between obtaining deep knowledge in a few areas versus gaining broad knowledge about many different areas or industries?

II. Dynamics of Learning

Session 5
Date Monday, April 17
Topic Learning Traps and Opportunities

Case

Michael Lewis, 2003. *Moneyball: The Art of Winning an Unfair Game*. W. W. Norton & Company, New York. Chapters 2,5, and 6.

Recommended Readings

J. Edward Russo and Paul J.H. Schoemaker, 1989. "Improving Feedback". Chapter 9 in *Decision Traps*, Simon & Schuster Inc, New York.

Robyn M. Dawes, 1986. "Forecasting ones own preferences," *International Journal of Forecasting*, Vol. 2, pp. 5-14.

Written Individual Assignment

Please provide a written response to the following questions:

1. According to Lewis, the Oakland A's seems to have discovered an opportunity in the market for baseball players. Why did this opportunity exist? Why had not other teams learned about it? How could apparently false beliefs about the value of players persist?
2. What were the problems of implementing this different approach to selecting and evaluating players? Why was Billy Bean able to do it?
3. Do you believe there are similar opportunities in other industries? Provide an example of an industry where a similar opportunity could exist.

Send me your analysis, by email, *before* the start of the class. Your report should be at most 2 pages (single spaced, Times New Roman font, 12 points). Focus half of your report on the first question.

II. Dynamics of Learning

Session **6**
Date **Thursday, April 20**
Topic **Feedback Processes and Credit Assignment**

Required Readings

Nassim Taleb, 2005. *Fooled by Randomness: The Hidden Role of Chance in Life and the Markets*. Random House, New York. Chapter 6.

Teaching Note on Competency Traps

Required Cases

Bank of America (A) (HBS Case 5-603-086)

Feedback Simulations (To Be Distributed)

Assignment Questions

1. Suppose you want to learn about the effectiveness of an advertising campaign. How could you measure the impact of advertisements? What measure could you use if the effect on sales and profitability could only be evaluated after a long time?
2. Taking the role of Amy Brady in the I&D unit at Bank of America, how would you propose to resolve the following issues:
 - a. What is the appropriate time-frame for evaluating new experiments? Currently, experiments are evaluated after 90 days? Is this too long or too short? What are the implications for learning of using different evaluation periods?
 - b. What is the best measure of the performance of experiments? Should sales, customer satisfaction, costs, or profitability be used? What are the implications for learning of using different measures?
3. What is the process leading to a “competency trap”? How does it complicate learning from observed outcomes? How can the competency trap be avoided? What are the costs of trying to avoid the competency trap?
4. Do the feedback simulations (links to these are available on the course web)

II. Dynamics of Learning

Session 7
Date Monday, April 24
Topic Learning Ecologies

Required Readings

Thomas Schelling, 1978. "Critical Mass," pp. 91-99 in *Micromotives and Macrobehavior*, W. W. Norton & Company, New York.

Teaching Note on Adaptation and Coordination

Required Cases

Lincoln Electric: Venturing Abroad (HBS Case 9-398-095)

Assignment Questions

1. (Management Accounting 101): What are the difficulties of determining the profitability of individual products in a multi-product firm? How does this complicate learning from observed outcomes?
2. What are the most important elements of Lincoln's approach? How do the different elements reinforce each other?
3. What were the main challenges Lincoln faced in adapting its approach to new countries?
4. In discussing the example of a "dying seminar", Thomas Schelling writes that everybody may be sorry "...that the others didn't find it worthwhile. The conclusion is drawn that the interest just wasn't there." (page 92). Why might this inference be invalid? If people may draw such invalid inferences, could this be a source of market opportunities? Try to come up with an example of such an opportunity.

III. Learning in Competitive Contexts

Session 8
Date Thursday, April 27
Topic Chance and Performance

Required Readings

Nassim Taleb, 2005. *Fooled by Randomness: The Hidden Role of Chance in Life and the Markets*. Random House, New York. Chapters 9 and 10.

Teaching Note on Regression to the Mean in Financial Performance

Michelle Clayman, 1987, "In Search of Excellence: The Investors Viewpoint," *Financial Analyst Journal*, May-June, pp. 54-63.

Recommended Reading

Brian Arthur, 1990, "Positive Feedbacks in the Economy," *Scientific American*, Vol. 262, No. 2, February, pp. 92-97.

Required Exercises

Exercise on Growth & Exercise on Dominance (On the CourseWeb)

Assignment Questions

1. Look at five firms that were featured as examples of good management or high performing firms in an issue of Fortune, Business Week, or Harvard Business Review, during the middle of the 1990's. Examine the stock market returns and the return on equity for these firms during 5 years before the firms were featured and 5 years after. Comment briefly on your findings and speculate about a) why these firms were featured in the business press b) how much could be learned from them.
2. Why does the financial performance of firms regress towards the mean?
3. Do the Exercise on Growth and the Exercise on Dominance (available on the course web)
4. What are the implications of increasing returns, positive feedbacks and network externalities (discussed by Taleb [chapter 10] and by Arthur) for learning about the determinants of performance by observing and comparing successful and less successful firms?

III. Learning in Competitive Contexts

Session **9**
Date **Monday, May 1**
Topic **Selection Bias and Reverse Causality**

Required readings

Jerker Denrell, (2005). "Selection Bias and the Perils of Benchmarking". *Harvard Business Review*, April, 2005, 114-119.

Nassim Taleb, 2005. *Fooled by Randomness: The Hidden Role of Chance in Life and the Markets*. Random House, New York. Pages 135-148.

Danny Miller, 1990. "The Icarus Paradox," Chapter 1 in *The Icarus Paradox: How exceptional companies bring about their own downfall*, HarperBusiness.

Required case

Exercise on the Potential Advantages of Focusing on the Core.

Assignment Questions

1. A well known Swedish prisoner ward claimed that the explanation for why some individuals become criminals is that they had a bad childhood. She based this claim on her observation that almost all prisoners she had been in contact with had a bad childhood. What is the fallacy in this line of reasoning?
2. Do the Exercise on the Potential Advantages of Focusing on the Core.
3. Danny Miller describes how successful companies may become more and more extreme, undermining their competitive advantage. How would such a process complicate learning from successful firms?
4. Some attributes of firms that are claimed to be the cause of the success of firms (such as a strong culture) may actually be the result of success (it may be easier to maintain a strong culture if things go well). Make a list of at least three attributes that people have claimed could be the cause of success (for example, high market share, talented employees, strong leadership etc), and describe why and how these attributes could also be, at least in part, the result of success.

III. Learning in Competitive Contexts

Session **10**
Date **Thursday, May 4**
Topic **Pathways to Success: Luck and Serendipity**

Required readings

David Perkins, 2000. “The Logic of Lucking Out”, Chapter 3 in *Archimedes Bathtub: The Art and Logic of Breakthrough Thinking*, W.W. Norton & Company, New York.

Teaching Note on Strategic Factor Markets (To Be Distributed)

Required case

Honda (A) (HBS Case 9-384-049)
Honda (B) (HBS Case 9-384-050)

Assignment Questions

1. What, according to Case A, were the main reasons for Honda’s success? If you compare case A with case B, in what sense was the description in Case A misleading? Were the lessons drawn in Case A false?
2. How did Honda’s Strategy develop in reality? Do you believe that this development is an illustration of bad or good management? What are the lessons that can be learned from the development of Honda’s strategy?
3. Do you believe that Honda’s strategy process followed “the logic of lucking out”, as described in Perkins chapter? If so, are there any general lessons to be learned from Honda’s strategy process?

Written Individual Assignment:

During the course we have mentioned various problems with imitating and learning from successful firms. Despite these problems, it seems sensible to imitate successful rather than unsuccessful firms. In your opinion, when and how should firms imitate successful firms? How can potential problems be avoided? Are there any reasons for imitating unsuccessful firms (for example, firm with low financial performance)? Send me your analysis, by email, *before* the start of the class. Your report should be at most 2 pages (single spaced, Times New Roman font, 12 points).

III. Learning in Competitive Contexts
--

Session 11
Date Monday, May 8
Topic Byproducts of Success: Inertia and Competition

Required readings

Donald N. Sull, 1999. "Why Good Companies Go Bad," *Harvard Business Review*, Jul/Aug, Vol. 77, Issue 4, pp. 42-50.

Michael Porter, 1979. "How Competitive Forces Shape Strategy," *Harvard Business Review*, March-April, Vol. 57, No. 2, pp. 137-145.

Teaching Note on Problemistic Search

Required case

Sam Walton, 1992. "Meeting the Competition," Chapter 13 in "*Made in America*", Bantam Books, New York.

Assignment Questions

1. How has WalMart, according to Sam Walton, been influenced by the competition? How has the competition stimulated WalMart? If WalMart now is so big and dominant, will this pose a problem?
2. Suppose that a firm achieves competitive advantage by managing the "competitive forces" as suggested by Porter. What are the consequences for the learning processes of this firm?
3. Are firms that successfully "manage the competitive forces" more or less likely to fall into the traps described by Sull? Examine, for each of the four "hallmarks of inertia" that Sull examines, whether and how successfully managing the "competitive forces", might contribute to the problems that Sull describes.
4. Suppose that search is stimulated by problems (as explained in the teaching note on problemistic search). In this case, would you expect that firms in more or less competitive environments to be more competent? What are the implications for business strategy?
5. When should you, or you firm, strive to avoid competition and when should you seek out competition?

IV. Learning Within Organizations

Session 12
Date Thursday, May 11
Topic Incentives for Learning

Required readings

John Roberts, 2004. "Organizing for Growth", Pages 253-274 in *The Modern Firm*, Oxford University Press, Oxford, U.K..

Required case

Nokia Corporation: Innovation and Efficiency in a High-Growth Global Firm (GSB Case S-IB-23)

Assignment Questions

1. How did Nokia manage the tension between exploration and exploitation? How, and using what mechanisms, did Nokia provide incentives for both innovation and efficiency? What problems do you think the system might run into?
2. What are the problems of providing incentives for innovation and efficiency? Why not simply use a system where rewards depend on some combination of how innovative and efficient a person or a team is?
3. Consider again the exercise on the one-armed bandit in session 2. In this exercise, you could choose between a certain alternative, that always generated a payoff of zero, and an uncertain alternative that generated, in each period, +1 with probability p and -1 with probability $1-p$. You did not know p but could only learn it by trying out the uncertain alternative. How could you provide appropriate incentives for someone playing this game? What would be the problems of using incentives based on immediate outcomes?
4. The following is a passage from the report on the Challenger Disaster:

“While not specifically related to the Challenger accident, a serious problem was identified during interviews of technicians who work on the Orbiter. It had been their understanding at one time that employees would not be disciplined for accidental damage done to the Orbiter, provided the damage was fully reported when it occurred. It was their opinion that this forgiveness policy was no longer being followed by the Shuttle Processing Contractor. They cited examples of employees being punished after acknowledging they had accidentally caused damage. The technicians said that accidental damage is not consistently reported, when it occurs, because of lack of confidence in management's forgiveness policy and technicians' consequent fear of losing their jobs. This situation has obvious severe implications if left uncorrected.”

One of the functions of incentives is to assign blame and credit. Yet, as this quote suggests, this property of incentive systems can make organizational learning difficult. How can the incentive system be designed to avoid these potential problems?

IV. Learning Within Organizations

Session **13**
Date **Monday, May 15**
Topic **Exploration and Exploitation in Organizations**

Required readings

James March, 1991, "Exploration and Exploitation in Organizational Learning," *Organization Science*, Vol. 2, No. 1, pp. 71-87.

Required case

Ericsson and the Creation of the Mobile Telephony Business

Assignment Questions

1. What were the main events in the development of the mobile telephony strategy at Ericsson?
2. Compare the views of Åke Lundqvist at SRA and the top management of Ericsson in 1980.
 - a. What were their expectations about the future market for mobile telephony? Were their expectations realistic?
 - b. What explains these differences between the perspectives of Åke Lundqvist at SRA and the top management of Ericsson?
3. Why did top management resist rather than embrace mobile telephony? When can such behavior be expected in large organizations?
4. Is the way Ericsson's mobile telephony strategy developed an example of good or bad management? What, if anything, should they have done differently?
5. What is the role of top management in exploration and strategy development? Can and should top management be active leaders in exploration of new business opportunities?
6. What does the case suggest about the problems of managing exploration and exploitation in large organizations?

IV. Learning Within Organizations
--

Session 14
Date Thursday, May 18
Topic Knowledge Transfer Within Organizations

Required reading

Morten T. Hansen, Nitin Nohria, and Thomas Tierney, 1999. "What's your strategy for managing knowledge?" *Harvard Business Review*, Vol. 77, Issue 2 (March-April), pp. 106-116.

Required case

British Petroleum (B): Focus on Learning (GSB Case S-IB-16B)

Assignment Questions

1. Why does Brown believe that learning across units is critical for BP? To what other types of organizations does his reasoning apply?
2. Evaluate the approaches BP is taking to learning and knowledge management. Which technique/approach do you believe is most effective?
3. What do you believe are the most important obstacles towards effective knowledge transfer in organizations? How can these obstacles be overcome?
4. How can IT systems be used productively to ensure knowledge sharing and transfer among members of organizations?
5. How can organizations ensure that individuals in the organization can identify others who have knowledge who is relevant for them?
6. How can incentives be created for knowledge sharing within organizations?

V. External Pressures and Conformity

Session 15
Date Monday, May 22
Topic Managerial Fashions, Management Gurus, and Management Research

Required reading

Danny Miller and Jon Hartwick, 2002. "Spotting Management Fads," *Harvard Business Review*, Vol. 80, Issue 10 (October), pp. 26-27.

Jeffrey Pfeffer and Robert I. Sutton, 2006, "Evidence-Based Management," *Harvard Business Review*, Vol. 84, Issue 1 (January), pp. 62-74.

Chip Heath, 2005. "Discredited "Mozart Effect" Remains Music to American Ears," *Stanford Business Magazine*, May, 2005.

Donald McCloskey, 1994. "An Economic Uncertainty Principle," *Scientific American*, November, p. 107.

Assignment Questions

1. Can you give an example of something you believe is a management fashion? On what basis do you believe that this is a management fashion?
2. How can we explain the spread of management fashions? Do you believe that firms adopt worthless practices or practices with questionable value? If so, why do they do it?
3. What is the role of management "gurus" and management consultants in the spread of management fashions?
4. Do you agree with Pfeffer and Sutton that management should be "evidence based"?
5. Given McCloskey's arguments, can a well-known model, such as the five forces, provide a source of competitive advantage? More generally, do you believe that management research can result in principles that can be applied by firms and give them a competitive advantage?

Written Individual Assignment:

Please provide a response, of maximum 2 pages, to the following questions. Your paper must be delivered to me (by email or in person) before the start of the class.

1. One theory about why firms follow management fashions goes like this:
"Managers adopt management practices like teenagers adopt fashionable clothing. If many start to use them, everybody has to have them. There is no concern about whether the practices work or are effective. Managers just follow the crowd because they do not want to be seen as deviants"
To what extent do you agree with this statement? If you do not entirely agree, why do you think firms follow management "fashions".
2. If some firms adopt management practices without regard for the evidence for them, as suggested by Pfeffer and Sutton, can this be a source of profit opportunities for other firms?

V. External Pressures and Conformity

Session 16
Date Thursday, May 25
Topic Conformism in Markets

Required readings

Rakesh, Khurana, 2002. "The Curse of the Superstar CEO," *Harvard Business Review*, Vol. 80, Issue 9 (September), pp. 60-67.

Required case

Imitation in the Swedish Mutual Fund Industry

Assignment Questions

1. What explains the difference in the adoption of the three product categories (mixed assets, index, and socially responsible)?
2. If you were a manager and you wanted to introduce an index or SRI fund, what are the costs you would need to take into account?
3. What is the role of the security analysts in product innovation, imitation, and adoption in this industry?
4. What type of firms do you believe are more likely to adopt index and socially responsible funds? List three characteristics of such firms (e.g, large?, small?, profitable? Etc)
5. If some firms do not want to adopt product categories that are not considered appropriate, can this generate profit opportunities for other firms? What is required to capitalize on such opportunities?
6. Do you agree with Khurana's arguments?

V. External Pressures and Conformity

Session 17
Date Thursday, June 1
Topic Innovating in Resistant Markets

Class Visitor: Barclay Corbus, Co-CEO W.R. Hambrecht +Co

Required case

W.R. Hambrecht +Co. (GSB Case E-62)

Assignment Questions

1. Why would existing Investment bankers be resistant to or feel threatened by the new IPO system developed by W. R. Hambrecht +Co?
2. Why would potential customers hesitate to use their services? What actions could W. R. Hambrecht +Co take to overcome such initial resistance among customers?
3. What type of firms should W. R. Hambrecht +Co be targeting?
4. Is their strategy sustainable? Cannot other firms imitate their new IPO system?

VII. Presentations

Session	18
Date	Monday, June 5
Topic	Presentations of Projects (1)

VII. Presentations

Session 19
Date Wednesday, June 7
Topic Presentations of Projects (2)