

MASSACHUSETTS INSTITUTE OF TECHNOLOGY  
Sloan School of Management

**15.320 - Strategic Organizational Design**  
**Spring 2009**

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**Class Time:** Mondays and Wednesdays, 4:00 – 5:30

**Class Place:** Room: E51-395

**Office Hours:** By appointment

**Course Description:**

Traditional strategy courses focus on gaining competitive advantage from *products*. This course focuses on gaining competitive advantage from *organizational design*. Special emphasis will be placed on early examples of innovative organizational forms that haven't yet been proven but that may, in the future, provide significant competitive advantages.

The course should be especially useful for students who hope to be:

- Consultants helping companies develop effective organizational designs
- Entrepreneurs looking to leverage organizational design to create strategic advantage for their companies
- Leaders inventing new ways of organizing work to achieve their visions in any kind of organization

## Readings

The following book is required for the course:

T. W. Malone, *The Future of Work*, Boston, MA: Harvard Business School Press, 2004.

Additional course material is available in the course reader from CopyTech (E52-045). This reader includes all the readings that are *not* available on the web. Please note that links to all the readings that are available on the web are included in Stellar (so you won't have to retype the web addresses!).

Excerpts from the following books are required and included in the course reader, but the rest of the books are also highly recommended:

- (1) Kates, A. and Galbraith, J. R. *Designing Your Organization*. San Francisco, CA: Jossey-Bass, 2007.
- (2) Surowiecki, James. *The Wisdom of Crowds*. New York: Anchor / Random House (paperback edition), 2005.
- (3) Tapscott, D. and Williams, A. D. *Wikinomics: How Mass Collaboration Changes Everything*. New York: Portfolio / Penguin, 2006.
- (4) Hamel, Gary. *The Future of Management*. Boston: Harvard Business School Press, 2007.
- (5) Howe, J. *Crowdsourcing: Why the Power of the Crowd is Driving the Future of Business*. New York: Crown Business, 2008.

## Assignments

### *Class participation*

You are expected to participate actively in class discussions, and part of your grade will depend on your presence in class and the quantity and quality of your contributions to class discussion.

### *Reaction papers*

To help you integrate and think about the course readings, a very short paper (about 1 page) is due at the beginning of each class session for which readings are assigned, up to a total of 5 papers during the semester. (You can pick the 5 sessions for which you want to write papers.) These papers should contain your reactions to the readings for the session and possibly previous class discussions. Please do not just summarize the readings. Instead, please focus on your own thoughts about the readings. For instance, you might relate the readings to your own experiences, to other readings, to questions you have, or to other possibilities like those discussed in the readings.

You may, of course, discuss the readings with other students, but the papers are expected to be your individual work.

### *Team project*

The class will be divided into teams of about 5 people each, and each team will pick a "specialty"--an industry, a business function, a cross-functional process, or a specific company. Then, for the specialty your team picked, you will be responsible for doing two things: (1) using the frameworks developed in the class to analyze some aspect of the current organizational design in this specialty, and (2) describing at least 3 innovative ways this specialty may be conducted in the future. Some of the innovative ideas may be based upon real organizations already operating that way today, and others may be imaginative projections of future possibilities.

Sources for information about organizations of today can include published descriptions in newspapers, magazines, etc. However, you are encouraged, if possible, to obtain information about your specialty from personal contact with companies (in person or electronically). In addition to conventional business organizations of various types, you are free to study unconventional organizations, including organizations that exist only on the Internet (e.g., open source projects or businesses in Second Life).

You will report the results of your work in two ways: (1) an in-class presentation of about 10-15 minutes, and (2) a written report of about 20-30 pages.

This project should be treated as a collaboration of "Type 3" as defined in the "MIT Sloan Professional Standards" document. That is, all team members should contribute substantially to the deliverables. As long as each team member makes a substantial contribution, however, teams can divide the work among themselves in any way they deem appropriate.

In addition, teams can work with other teams in any way they wish. In general, teams are encouraged to reflect upon their own organization as examples of the issues studied in the class.

Your grade on the team project will depend partly on: (a) how your teammates rate your contribution to the team's output, and (b) how your classmates rate your team's presentation to the class.

Due dates:

- Feb 25 Identify team and specialty (send email to the TAs identifying team members and company, industry, function, or process)
- Mar 11 Preliminary outline of final report
- May 6-13 In-class presentations
- May 13 Final written report due

## Grading

Class participation	35%
Reaction papers (5)	15%
Team project	50%

## Logistics of Course Communications

The course is included in Stellar (<http://stellar.mit.edu>). Postings there include the syllabus, lecture slides, and assignments. This material will be updated periodically during the course. Updates will also be communicated on the class mailing list, and **it is your responsibility to be sure you are on this list**. To get onto the mailing list, you need to sign up for this class on Stellar. If you have questions about this, please contact a TA.

## Professional Standards

Students are expected to follow the standards described in the document “MIT Sloan Professional Standards.”

	<b>Date</b>	<b>Class Topic</b>	<b>Assignments Due</b>
<b><i>I. INTRODUCTION</i></b>			
1	Feb 4	What is strategic organizational design?	
2	Feb 9	Case: eBay	
3	Feb 11	Why are things changing?	
4	Feb 17	Case: InnoCentive	
<b><i>II. DESIGNING ORGANIZATIONS FOR STRATEGIC GOALS</i></b>			
5	Feb 18	Basic organizational designs	
6	Feb 23	Applying basic organizational designs Case: Procter & Gamble	
7	Feb 25	Designs for exploration – Product innovation. Case: Google Inc.	Team project identification emailed to TA
8	Mar 2	Combining exploration and exploitation. Case: USA Today	
9	Mar 4	Organizing across borders Case: Philips vs. Matsushita	
10	Mar 9	Maximizing employee motivation and creativity. Case: AES	
11	Mar 11	Designing networks that cross firm boundaries. Case: Procter & Gamble	Preliminary outline of team project report
12	Mar 30	The process of organizational design and change Case: Charlotte Beers at Ogilvy & Mather	
13	Apr 1	Case: Wikipedia	
14	Apr 6	How are things changing?	
15	Apr 8	Case: Threadless	
16	Apr 13	Harnessing democracy Cases: W. L. Gore and others	
17	Apr 15	Prediction markets	
18	Apr 22	Internal markets	
19	Apr 27	Self-organizing communities	
20	Apr 29	Organizational change in crowds	
21	May 4	What is the purpose of the organizations we are designing? Cases: Whole Foods and others	
<b><i>III. CONCLUSIONS</i></b>			
22	May 6	Project team reports	Team presentations
23	May 11	Project team reports (continued)	Team presentations
24	May 13	Project team reports (continued) Class conclusion	Team presentations Final team project reports due

## I. INTRODUCTION

### Feb 4 What is strategic organizational design?

Malone, *The Future of Work*, Ch. 1: A time to choose, pp. 3-14.

*Optional:*

Saloner, G., Shepard, A., and Podolny, J. *Strategic Management* (2001). New York: John Wiley & Sons, Ch. 3 (Competitive Advantage, pp. 39-54). (Note: You may have already read these sections in 15.900. If so, just review.)

### Feb 9 Example - eBay

*Case study:* eBay (A): The Customer Marketplace (HBS Case No.: 9-602-071)

*Case questions:*

1. What service does eBay provide? What is the role of customers in providing this service? [replace with something like: What is eBay's strategy, and how is its organizational design related to this strategy?
2. Who are eBay's potential competitors? How would you analyze eBay's strategic advantages and disadvantages relative to these competitors?
3. How did eBay's organizational design contribute to its success? To what else would you attribute eBay's success?
4. Can you think of new ways an eBay-like structure could be used in other industries

### Feb 11 Why are things changing?

Malone, *The Future of Work*, Ch. 2 (An Amazing Pattern) and Ch. 3 (The Amazing Pattern in Business). Skim Appendix.

Tapscott, D. and Williams, A. D. *Wikinomics: How Mass Collaboration Changes Everything*. New York: Portfolio / Penguin, 2006, Ch 1 (Wikinomics).

Hamel, Gary. The why, what, and how of management innovation. *Harvard Business Review*, February 2006, Reprint No. R0602C.

*Optional:*

Wyner, G. M., & Malone, T. W. Cowboys or Commanders: Does Information Technology Lead to Decentralization? *Proceedings of the International Conference on Information Systems*, Columbus, OH, December 15-18, 1996 (<http://ccs.mit.edu/icis1996.pdf>)

**Feb 16** Presidents Day Holiday – No class. Class meets on Tuesday (Feb 17) instead.

**Feb 17 Example - InnoCentive**

Malone, T. W. & Laubacher, R. J. The Dawn of the E-lance Economy. *Harvard Business Review*, September – October 1998, 76 (5), 144-152.

*Case study:* InnoCentive.com (A) (HBS Case No.: 9-608-170)

*Guest speaker:*

Alph Bingham, Former CEO, InnoCentive, Inc.

Note: As background for this class, you are encouraged to go to the InnoCentive website ([www.innocentive.com](http://www.innocentive.com)), register as a solver, and try to identify one challenge you might find interesting.

## II. DESIGNING ORGANIZATIONS FOR STRATEGIC GOALS

**Feb 18 Basic organizational designs**

Kates, A. & Galbraith, J. R. (2007) *Designing Your Organization*. San Francisco: Jossey-Bass, ch. 1 (Fundamentals of Organization Design)

**Feb 23 Applying basic organizational designs**

*Case study:* Procter & Gamble: Organization 2005 (A)  
(HBS Case No.: 9-707-519)

*Case questions:*

1. Why did the US organizational structure shift from product grouping in the 1950s to a matrix in the 1980s? Why did the European organizational structure shift from geographic grouping in the 1950s to category management in the 1980s? Why were the two structures integrated into a global cube in the 1990s?
2. What are the key distinguishing features of Organization 2005? Why did P&G adopt this structure?
3. Should Lafley make a strong commitment to keeping Organization 2005 or should he plan to dismantle the structure?

## **Feb 25 Designs for exploration – Product innovation**

*Case study:* Google Inc. (HBS Case No.: 9-806-105)

*Case questions:*

1. Do you think Google's organizational structure is well-designed to maximize product innovation? Why or why not?
2. Using any information you have about Google (from the case or other sources), please describe the processes and other managerial actions that Google uses to encourage product innovation.

*Hint:*

Additional information about Google's organizational structure is available from the following websites:

- (1) Google's official list of their management team members, including titles (<http://www.google.com/corporate/execs.html>)
- (2) The unofficial organization chart of Google on the CogMap website (<http://www.cogmap.com/chart/google>). This version is definitely not completely accurate, but it will give you at least some sense of what the Google org chart looks like.

## **Mar 2 Combining exploration and exploitation**

*Case study:* USA TODAY: Pursuing the Network Strategy (A) and (B)  
(HBS Case Nos.: 9-402-010 and 9-402-011)  
(Case (B) to be handout out in class.)

*Case questions:*

1. What context do Curley and his team face in February 2000?
2. What is the network strategy, what assumptions is it based upon, what hurdles does Curley face in pursuing it, and what will be required in order for it to succeed?
3. What should Tom Curley do? Why is he talking about a revolution?



## **Mar 4 Organizing across borders**

*Case study:* Philips vs. Matsushita: A New Century, A New Round  
(HBS Case Nos.: 9-302-049)

*Case questions:*

1. How did Philips become the leading consumer electronics company in the world in the postwar era? What distinctive competence did they build? What distinctive incompetencies?
2. How did Matsushita succeed in displacing Philips as No. 1? What were its distinctive competencies and incompetencies?
3. What do you think of the change each company has made to date—the objectives, the implementation, the impact? Why is the change so hard for both of them?
4. What recommendations would you make to Gerald Kleisterlee? To Kunio Nakamura?

## **Mar 9 Maximizing employee motivation and creativity**

Malone, *Future of Work*, ch. 4 (Loosening the Hierarchy)

Green, H. “How Meetup Tore Up the Rule Book,” *Business Week*, June 16, 2008, pp. 88-89

([http://www.businessweek.com/magazine/content/08\\_24/b4088088652060.htm?campaign\\_id=rss\\_tech](http://www.businessweek.com/magazine/content/08_24/b4088088652060.htm?campaign_id=rss_tech))

*Case study:* AES Honeycomb (A) and (B)  
(HBS Case Nos.: 9-395-132 and 9-395-122)  
(Case (B) to be handout out in class.)

*Case questions:*

1. Why is Sant feeling pressure in the summer of 1992? As Sant, what would be your concerns?
2. What are the origins of Sant’s problems? What is your diagnosis of the Cedar Bay and Shady Point episodes?
3. What changes, if any, would you advise Sant to endorse? Be sure to consider whether Sant should: (a) reorganize the company, (b) hire the recommended staff specialists, (c) revamp and strengthen the internal controls, (d) drop the emphasis on values.
4. The founders of AES thought they were creating a new form of business enterprise. In your opinion, is there anything new or distinctive in the AES approach?

**Mar 11 Designing networks that cross firm boundaries**

Malone, *Future of Work*, ch. 6 (Unleashing Markets, pp. 73-89). Excerpt from ch. 7 (“Lessons about markets”, pp. 104-109).

Huston, L., and Sakkab, N.. Connect and Develop: Inside Proctor and Gamble’s New Model for Innovation. *Harvard Business Review*, March 2006, Reprint No. R0603C.

*Skim:*

Gottfredson, M., Puryear, R., Phillips, S. Strategic Sourcing: From Periphery to the Core, *Harvard Business Review*, Feb 2005 (HBR Reprint R0502)

**Mar 16 - 27** Sloan Innovation Period (SIP) and MIT Spring Break – No classes.

**Mar 30 The process of organizational change**

Kotter, John P. Leading change: Why transformation efforts fail. *Harvard Business Review*, January 2007, Reprint No. R0701J.

*Case study:* Charlotte Beers at Ogilvy & Mather Worldwide (A and B)  
(HBS Case Nos.: 9-495-031 and 9-495-032).  
(Case (B) to be handout out in class.)

*Case questions:*

1. What is Beers trying to accomplish as CEO of Ogilvy & Mather Worldwide?
2. What is your assessment of the process Beers and her team went through to create the vision?
3. What are the key challenges facing Beers at the end of the case?

**Apr 1 Example – Wikipedia**

Marshall Poe, The Hive: Can thousands of Wikipedians be wrong? How an attempt to build an online encyclopedia touched off history’s biggest experiment in collaborative knowledge, *The Atlantic Monthly*, September 2006, pp. 86-94 (<http://www.theatlantic.com/doc/200609/wikipedia>)

*Optional case study:*

Wikipedia (A) (HBS Courseware No.: 9-607-712) (Note: This case study is not included in the readings packet because it is designed for viewing on the web. See: <http://courseware.hbs.edu/public/cases/wikipedia/>)

**Apr 6      How are things changing?**

Malone, T. W., Laubacher, R., & Dellarocas, C. *Harnessing Crowds: Mapping the Genome of Collective Intelligence*. MIT Center for Collective Intelligence Working Paper, January 2009 (<http://cci.mit.edu/publications/CCIwp2009-01.pdf>).

Surowiecki, J. *The Wisdom of Crowds*. New York: Doubleday, 2004. Introduction and Ch. 1.

*Optional:*

Surowiecki, J. *The Wisdom of Crowds*. New York: Doubleday, 2004. Ch. 2, 3, 4. (Note: These optional readings are not included in the course reading packet. You are encouraged to buy or borrow the book to read them.)

**Apr 8      Example - Threadless**

*Case study:* Threadless: The Business of Community  
(HBS Product No.: 608707)

*Case questions:*

1. What are the similarities and differences between a community-driven product development process and a traditional product development process within a firm?
2. What motivates community members to participate? What is Threadless offering its community members?
3. How are winning designs currently selected? Figure 1 and Table 1 show sample designs and their respective scores. How would you go about selecting winning designs?
4. What are the barriers to entry for this kind of business?
5. In what other areas might this model work? How might you leverage or exploit this model or innovation and product development in your business?
6. What should be Threadless's response to the offer from Large Retailer?

**Apr 13     Harnessing Democracy**

Malone, *Future of Work*, ch. 5 (Harnessing Democracy)

Hamel, Gary *The Future of Management*. Boston: Harvard Business School Press, 2007. Ch. 5 (Building an innovation democracy)

Colchester, M. One Team Gets 26,000 Owners—All With a Vote on Who Plays. Fifth-Tier English Soccer Side Set to Become First Pro Team Run by an Online Community. *Wall Street Journal*, January 2, 2008, p. B1  
(<http://online.wsj.com/article/SB119922623784960703.html>)

Jessi Hempel, Big Blue Brainstorm: IBM is putting some 100,000 heads together for an online Innovation Jam. *Business Week*, August 7, 2006, p. 70  
([http://www.businessweek.com/magazine/content/06\\_32/b3996062.htm?chan=innovation\\_innovation+%2B+design\\_the+creative+corporation](http://www.businessweek.com/magazine/content/06_32/b3996062.htm?chan=innovation_innovation+%2B+design_the+creative+corporation)).

Howe, J. *Crowdsourcing: Why the Power of the Crowd is Driving the Future of Business*. New York: Crown Business, 2008, pp. 223-233.

## **Apr 15 Prediction markets**

Malone, *Future of Work*, ch. 7 (Bringing the Market Inside). (Note: A slightly revised version of this chapter was reprinted as Malone, T. W. Bringing the market inside. *Harvard Business Review*, April 2004, 82 (4), 106-114.)

*Case study:* Prediction markets at Google  
(HBS Case No.: 9-607-088).

*Case questions:*

1. What are the best ways to encourage more traders and trading within internal company prediction markets? Are you more in favor of using “hard” incentives (e.g., cash rewards) or “soft” ones (e.g., t-shirts and “bragging rights”)?
2. Is it a good idea to encourage ALL employees to trade in these markets? Should insiders and/or highly uninformed people be allowed to trade? Do they help the market or hurt it?
3. What kind of decisions are prediction markets useful for?
4. How useful are corporate prediction markets? If they prove to be accurate and decisive, how can they be put to use most effectively?
5. Will most managers welcome prediction markets within their companies? Why or why not? Will they welcome a prediction market about a project or outcome that they’re responsible for?

*Guest speaker (by videoconference):*

Bo Cowgill, Google Inc. (manager responsible for Google’s prediction market experiments).

*Optional:*

Cass R. Sunstein, *Infotopia*, New York: Oxford University Press, 2006, pp. 113-118 (descriptions of prediction markets in Google and Microsoft).

Bo Cowgill, Justin Wolfers and Eric Zitzewitz, Using prediction markets to track information flows: Evidence from Google.  
(<http://bocowgill.com/GooglePredictionMarketPaper.pdf>).

## **Apr 20 Patriots Day Holiday - No classes**

## **Apr 22 Internal markets**

Malone, *Future of Work*, ch. 8 (When Should You Decentralize?), 9 (Coordinating Activities), review pp. 91-104.

Taylor, W. C. Here's an Idea: Let Everyone Have Ideas. *New York Times*, March 26, 2006 ([www.nytimes.com/2006/03/26/business/yourmoney/26mgmt.html](http://www.nytimes.com/2006/03/26/business/yourmoney/26mgmt.html)).

*Optional:*

Ackoff, Russell L. *The Democratic Corporation*. New York: Oxford University Press, 1994. Ch. 5 (The Organization as a Market Economy, pp. 142-167).

David McAdams and Thomas W. Malone, *Internal Markets for Supply Chain Capacity Allocation*. Cambridge, MA: MIT Center for Coordination Science Working Paper No. 224 (MIT Sloan School of Management Working Paper No. 4546-05), June 2005 ([http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=746707](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=746707))

## **Apr 27 Self-organizing communities**

Philip Evans and Bob Wolf, Collaboration Rules, *Harvard Business Review*, July-August 2005 (HBR Reprint No. R0507H).

*Guest speaker:*

Philip Evans, Senior Partner, Managing Director, and BCG Fellow, Boston Consulting Group.

## **Apr 29 Organizational change in crowds**

Howe, J. *Crowdsourcing: Why the Power of the Crowd is Driving the Future of Business*. New York: Crown Business, 2008. Read the following two case studies:

iStockPhoto: pp. 7-8, 182-196

Current TV: pp. 197-210.

*Case questions:*

1. What elements do you think contributed to the successful creation and growth of iStockPhoto?
2. How would you evaluate the way iStockPhoto's management handled the organizational change of increasing prices?
3. What lessons can you learn from comparing the organizational change processes at iStockPhoto and Current TV?
4. How is the process of organizational change in crowds similar to organizational change in hierarchies? How is it different?

*Hint:* Review Kotter article from Mar 30 session to help you answer these questions.

**May 4    What is the purpose of the organizations we are designing?**

Malone, *Future of Work*, ch. 10 (Cultivating People), ch. 11 (Putting Human Values at the Center of Business)

Hamel, Gary. *The Future of Management*. Boston: Harvard Business School Press, 2007. Ch. 4 (Creating a community of purpose)

**III. CONCLUSIONS**

**May 6    Project team presentations**

**May 11   Project team presentations**

**May 13   Project team presentations and Conclusions**

Project team reports due at the beginning of class

Kelly, K. We are the Web. *Wired*, August 2005.  
(<http://www.wired.com/wired/archive/13.08/tech.html>)