Aligning Processes and People: Organisational Mechanism and Culture

- **Organisational Culture**, the values and the assumptions shared within an organisation. Values and Assumptions are usually hidden, while Culture is expressed through artifacts. Culture is a powerful determinant of behaviour, and it influences how organisations work, and how it is modelled in it. Changing the culture of an organisation is hard
  - **Types of Organisational Culture**
    - Innovation
    - Stability
    - Respect for People
    - Outcome Orientation
    - Attention to Detail
    - Team Orientation
    - Aggressiveness
  - **Values**, beliefs about what is good or bad, in terms of desired outcomes or courses of action. **Conscious**
    - **Exposed Values**, those that corporate leaders want other to believe guide the organisation
    - **Enacted Values**, those that leaders and employees really rely on to guide their decisions and behaviour
  - **Assumptions**, perceptual, mental and physical models of those behaviours that are taken fro granted. **Non conscious**
  - **Subcultures**, culture of specific groups in the organisation when it is different than the culture espoused by the corporate leaders
    - Can create conflicts, but they are useful as sources of **surveillance** and **critical review**. Moreover, they are the ground in which **new values can emerge**
  - **Countercultures**, those subcultures that actively reject the organisations that directly oppose the dominant culture
- **Organisational Artifacts**
  - **Organisational Stories and Legends**
    - **Social Prescription** of the way things should or should not be done
    - They add **Human realism** to expectations and produce emotions
    - **Effective Communication Tool** because they tend to spread and be remembered
  - **Organisational Language**
    - **Unique Dialects**, acronyms, jargon, slang, caste-jokes and abbreviations
    - Speaking the same language foster a **sense of unity and membership**
    - **Language conveys values** and leaders may want to **control language to enforce the desired culture**
  - **Rituals and Ceremonies**
    - **Rituals**, programmed routines of daily organisational life that dramatise the organisational culture
    - **Ceremonies**, planned activities for an audience, with the purpose of announcing projects and celebrating achievements
  - **Physical Structures and Symbols**
    - **Colourful office of IDEO**, a leading global design consultant
    - **Brunello Cucinelli Factory**, an Italian luxury apparel brand
- **Organisational Culture Functions**
  - **Control System**, it directs the behaviour of employees so that is consistent with organisational expectations
  - **Social Glue**, it bonds people together and make them feel part of the organisations. It shifts employees' need for a social identity. It attracts new staff and retain top performers
  - **Sense Making**, it helps employees make sense of what goes on and why things happen in the organisation, reducing stress and increasing role perception
- **Positive Consequences**, it is more likely that organisational culture have positive consequences when
  - It is **aligned to the external environment**
  - It is **not at the level of a cult**, because it may lock people into a mindset that blocks out new opportunities, and suppress subcultures
  - It is **Adaptive**, it is open to learning and measures success in terms of how it adapts environment, which is always changing
- **Merging Organisational Cultures**
  - **Cult-like Organisations**, some organisations tend to create a workplace as a cult, where the culture is so powerful that it is almost a religion, characterised by a proper terminology and rituals. Although these institutions are out of date in Europe are still in use the Asia
  - **Assimilation**
  - **Deculturation**
  - **Integration**
  - **Separation** (LinkedIn and Google, Pixar and Apple)

Competitive Strategies

- **Low-Cost Strategy** efficient use of resources **Lidl**
  - **Low-Cost Advantage**
    - **No Frills and Standardisation**
    - Ancillary Revenues & Load factor
    - **Ryanair**
    - **Risk of overlooking customers' needs**
    - **Acceptability**
    - Relative parity in product features that customers value
    - **Drive to lower costs**
  - **Niche - Cost Focus**
    - **Vulnerable to imitation and intense price competition**
    - **Fast-buying, lower-cost, difficult to serving these ppl**
    - **Lower rivalry & Lower Bargaining power of suppliers**
    - **Checkers - Rally's**, it's a drive-in fast food restaurant chain with a cost focus targeting only drivers and avoiding the expenses of providing indoor seating
  - **Whole Market**
    - **Fast buyers, lower-cost, difficult to serving these ppl**
    - **Lower rivalry & Lower Bargaining power of suppliers**
    - **Sometimes was equipped small businesses can serve focused markets on global scale**
    - **Magazines, books, quality chains**
- **Dual Advantage**
  - **Differentiation Strategy** Dwell ways of satisfying customers needs **Apple**
    - **Differentiation Advantage**
      - **Horizontal differentiation** (different characteristics)
      - Customers know that the products are different and will choose according to their preferences
      - **Vertical differentiation** (Better Quality)
      - Customers know which product is better, but WTP is different
      - **Development of features that differentiate products in ways that customers value**
      - The differentiator commands a **Premium Price**
      - **Erosion over time** (new competitor innovation)
    - **Niche - Differentiation Focus**
      - **Fast buyers, low-cost, difficult to serving these ppl**
      - **Lower rivalry & Lower Bargaining power of suppliers**
      - **Sometimes was equipped small businesses can serve focused markets on global scale**
      - **Magazines, books, quality chains**
  - **Whole Market**
    - **Reapness**, High quality Coffee , Heavy depending on Marketing, Stylish owned shops, Luxurious brand
    - Customers know which product is better, but WTP is different
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    - The differentiator commands a **Premium Price**
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Resource- Based View

Excellence in activities is achieved with superior resources with certain characteristics that can be protected from imitation.

- The Resource Based View see firms as **Collection of resources**, and firms are more **heterogeneity of resources**.
- **Strategically Valuable Resources**, resources decide how **efficiently** and **effectively** a firm performs, therefore it **can exploit** these most opportunities and
- **Type of Resources**
  - **Intangible Assets** (Brands, Patents, Technological Know-How)
  - **Capabilities** (Routines, Process, Culture)
    - **Corporate Functions**
    - **Information Systems**
    - **Research & Development**
    - **Operations**
    - **Product Design**
    - **Marketing**
    - **Sales and Distribution**
  - **Physical Assets** (Plants and Physical Infrastructure)
- **Tests for a valuable resource**
  - **Factors that make a resource valuable**
    - **Demand**
    - **Scarcity**
    - **Appropriability**
    - Whether the resource allows the firm to create and deliver value for customers (a talented designer)
    - Whether the resource is durable and it is difficult for rivals to imitate (a young & talented employee)
    - Whether the firm is able to appropriate the value that the resource creates (an employee cannot easily leave the company)
  - **Human Capital**
    - **Customer Intimacy**
    - Awareness of customer's need and values
    - **Product Leadership**
    - Ability to deliver cutting-edge products
    - **Operational Excellence**
    - Ability to be always capable of innovating
  - **Hard to copy**
    - **Physical Uniqueness**
    - A CEO cannot work for a competitor for a certain time due to a contract of exclusivity
    - **Path Dependency**
    - Built over the years through progressive accumulation, it leads to a firm's unique history
    - **Causal Ambiguity**
    - Difficult to be identified by rivals
    - **Economic Deterrence**
    - Size of the investment
    - **Depreciate Slowly**
    - Depending on rate of innovation in the industry
    - **Value controlled by the firm**
    - The resource is owned by the firm or protected by contracts
    - **Not easily substituted**
    - No different resource can play the same role
    - **Better than competitors' similar resources**
    - Distinctive resource or competence
- **VRIO Model** is an analytical technique for the evaluation of company's resources and their competitive advantages
  - **Valuable**
    - Enable a firm to be efficient (ratio between outputs and inputs) and effective (quality of the outputs)
  - **Rare**
    - Available only to a small number of firms in the industry: a reputable brand, a talented project manager who is especially good at product innovation Wine, Jewelry
  - **Inimitable**
    - Those that rivals cannot replicate
    - Those that rivals cannot replicate
    - Competitors cannot buy it on the market (hire the excellent managers or development of pay road)
    - Those that can't be copied (access confidential but not proprietary knowledge of your rival, for example Coca-Cola's secret recipe)
  - **Organized**
    - Resources are organised if they are exploited wisely by the firm to support current capabilities (Kanbu related organisation)
- **Strategic Implication**
  - **Investing in Resources**
    - Continuous renewal and growth of existing resources
  - **Upgrading Resources**
    - Planning of acquisition of new resources to move beyond existing resources
  - **Leveraging Resources**
    - Deploying existing strategically valuable resources in other businesses

Value Chain

- Value Chain is a framework that enable companies to see the activities
  - **Support Activities** (activities that support primary activities in creating value)
    - **Procurement**
      - Purchasing the inputs
    - **Technology development**
      - Research & Learning, but also Design
    - **Human Resource Management**
      - Selecting, Hiring, Training and Rewarding employees
      - Even Hiring the right shop-assistants can be a key element to achieve success
    - **Firm Infrastructure**
      - Planning, Finance, Accounting & Legal
  - **Primary Activities** (activities that directly generate a good, that is, create value for the consumer)
    - **Inbound Logistic**
      - Receiving, Storing and Moving inputs
    - **Operations**
      - Transforming inputs into Outputs. Manufacturing
    - **Outbound Logistic**
      - Storing and Distributing Outputs. Speed of delivery
      - Amazon is extremely good in fast delivery
    - **Marketing and Sales**
      - Promoting (brand) and Selling (availability, ease of purchase)
    - **After-Sale Services**
      - Assistance after purchase for the service of the product
  - **Identify a Value Chain** that allows to obtain the desired efficiency
  - **Diagnose the Cost Drivers**
  - **Develop policies to control the cost drivers** and reconfigure the value chain according to the changes in the surrounding environment
  - **Any activity in the Value Chain can affect customers' WTP**

Economies of scale, Fixed-Cost Absorption and Economies of Learning

- **Variable and Fixed Costs**
  - **Structural Determinants of Costs**
    - **Standardisation of Products**
    - **Technologies**
    - Economies of Scale
    - **Size of the Plants**
    - Fixed-Cost Absorption
    - **Volumes of Production**
    - **Diversification of Businesses**
    - **Degree of Vertical Integration**
  - **Variable Costs** change in direct proportion with a change in the volume of production to zero. VC = Q. **TVC = MC · Q**
  - **Fixed Costs** remain unchanged as volume changes. They exist even when there is no production occurs
    - **Depreciation**
    - **Maintenance**
    - **Research & Development**
    - **Advertising**
    - **Indirect Labor Costs**
    - **TC = VC + FC**
  - **Labor** is regulated and it is not easy for firms to modify workers depending on volume of production
    - **Direct Labor** is a **Variable Cost**
      - Factory workers who participate in production
    - **Indirect Labor** is a **Fixed Cost**
      - Maintenance, Repair, Supervision and Clerical work and white-collar employees
- **Economies of Scale**, costs per unit decrease as the size of the firm and its production capacity increases
  - **Production Capacity** is the maximum output of a plant in a certain time under given operating conditions
  - **Sources of Economies of Scale**
    - **Indivisibility of Inputs**
      - When the process needs several machines with different stages you need a large size to use all of them at full capacity
    - **Specialisation**
      - Large plant can employs specialised labor, which is more efficient
    - **Geometric Properties of Containers**
      - Cost of containers varies with surface, while capacity varies with their volume
    - **Greater Efficiency of larger engines or plants**
      - It is not technically viable to produce certain products on small scale, so firms have to buy big plants (oil, chemicals, electricity)
    - **Market Power**
      - Larger firms can obtain lower prices from suppliers as a result of buying in bulk
    - **Diseconomies of Scale**
      - Due to technical constraints, managerial complexity and transportation costs, A large firm may become inefficient to scale
    - **Range of Variation**
      - Some costs do not vary in a large set of volumes and have a range of variation. For example, a classroom size from 150 to 200 may not increase cost a lot, but increasing to 400 does
    - **Quality**
      - As the size increases, the quality may decrease (classroom example, more students, more difficult to interact with the professor)
    - **Rate of Utilisation**
      - If you have a very big plant but you cannot use it at full capacity, economies of scale are often compensated by diseconomies of fixed-cost absorption
  - **Sources of Economies of Scale**
  - **Fixed-Cost Absorption**, results from dividing fixed-costs across larger units of output produced, so the impact on fixed-cost absorption depends entirely on increase of the **rate of utilisation**
- **Economies of Learning**, unit cost reduction (and enhanced output quality) which occur as additional units of a given output are produced, and firms gain experience
  - **The decrease of cost is constant**, usually each time the cumulative production doubles, the unit cost decreases by a constant amount. For example, the **80% learning** curve is a curve that depicts a 20% reduction in costs every time the cumulative production doubles
  - **Sources of Economies of Learning**
    - **Enhanced Skills**
      - Experience allows people to improve work and perform quicker and better
    - **Better Selection of Materials**
      - Understanding which production resources are most appropriate for carrying out a given activity
    - **More Efficient Coordination**
      - From the continuous interaction, employees get to know rhythms and habits of others
    - **Higher Programmability of Activities**
      - Experience makes events more predictable
    - **Simplification of Products and Processes**
      - People group possible pathways to simplification and greater efficiency
  - **Strategic Implication**
    - **Building cumulative volumes faster than rivals**
      - Aggressive pricing policy and keeping capacity ahead of demand
    - **Trying to have a steeper curve than the rest of the industry**
      - Investing on productivity improvement

Management

Acquisitions and Alliances

- **There are three ways of increasing the scope of a firm's operations**
  - **Acquisitions**, acquiring complete ownership of other organisations' assets
    - **Merger**, **two firms integrate their operations on a relatively co-equal basis**. Often a new company is created, combining all resources of the two participants. The name also combines those of participating firms. Proceeding of the exit companies receive shares of the new one. **Fiat - Chrysler, Exxon Lowdrica**
      - Practically mergers are as common as acquisitions
    - **Acquisition, a firm purchases controlling or 100% interest in another firm**. The name of the company acquired disappears, or it survives only as a brand. The shareholders of the acquired company are paid cash, but they may also receive a mix of cash and shares of the acquiring company. **CocaCola and Costa Coffee, Lynkin and Villany**
      - The **Economic Logic of Acquiring a Firm** is to "**Buy the Margin**", of a
      - **Integration Issues**
        - **Structure**
          - **Autonomus**, relatively independent divisional structure in which the acquired firm survives as an autonomous division and cultural and resources are respected, but it is difficult to realise synergies and cultural
          - **Coordinated**, Functional or fully coordinated divisional structure in which the acquired firm is organisationally integrated in the acquiring firm (synergies are more likely to be obtained, but resources can be harmed, and cultural issues are more likely to emerge)
        - **Results**
          - **Business-Unit Benefit**, A produces 45 and B produces 45, with an increase of 5 units each after the merge, due to synergies
          - **Corporate Benefit**, A produces 60 and B produces 40, because synergies are obtained through more intensive use of resources of B. **Corporate Benefit should have the priority**, even it exists the risk of worsening morale and motivation at B
      - **M&A process**
        - **Analysis**
        - **Consult**
        - **Due Diligence**
        - **Agreement**
        - **Closing**
        - **Integration**
      - **M&A Benefits**
        - **Speed**, purchasing existing firms is faster than internal development
        - **Overcoming entry barriers**, the acquired firms have already the right size and the required resources for operating in the industry
        - **Prevention** of rivals' acquisitions of the same firms
      - **M&A Risks**
        - **Paying a High Premium** for convincing the owners of the target firm to sell their shares
        - **Cultural and Integrations Issues** of combining two different set of resources
  - **Greenfield Investment** requires less significant resources
    - It has no synergies, no integration issues, but it is slower and it may be difficult to achieve the same levels of efficiency or quality of existing companies
  - **Alliances and Joint Ventures**, pooling resources with those of other organisations, both Alliances and Joint Ventures involve a partial combination of resources between organisations
    - **Joint Ventures**, firm partners found a new company contributing financial and other resources with 50-50 shares. Joint Ventures are usually limited in scope of operations of the partners
      - **BMW and China Joint Venture** **to 75% in 3-Bln deal**
    - **Alliances**, partners invest resources in a joint project, such as developing new products, sharing new technologies, entering new markets, or coordinating complementary activities for distribution and production
      - **Equity Alliances**, one firm buys stock of an alliance partner (**Toyota and Suzuki**)
      - **Non-Equity Alliances**, a long-term contract
      - **Licensing**, a firm licenses out its brand to a partner that takes care of production and distribution
      - **Franchising**, a firm hires a franchisee to run distribution of its products under the brand of the firm (**Mc Donalds**)
      - **Partnership** (Starbucks & Percasso)
    - **Benefits**
      - **Ways of accessing complementary scarce resources of other firms with committing to expensive M&A**
      - **Quicker than M&A**
      - **Alliances are flexible** (easy exit if the benefits do not materialise)
      - **Joint Venture are less flexible but support commitment of resources**
      - **May facilitate reciprocal knowledge and learn to M&A later, reducing integration issues**
      - **Risk sharing in new projects**
      - **Reduce rivalry or vertical rivalry**
      - **May be necessary to enter a market**
    - **Problems**
      - **Since resources of different organisations are combined, some integration and cultural issues**
      - **Problems with knowledge transfer in absence of full integration; if knowledge transfer is too good, the partner may appropriate scarce knowledge resources**
      - **Sharing profits**
      - **Free-Riding risk**
      - **Risk of creating a new competitor**

Break - Even Analysis

(is an important and widely used framework that allows companies to see the relationship among volumes produced and sold by a firm and its operating income)

- **Break - Even Point**
  - **Operating Income**
    - Operating Income = Total Revenues - Total Costs
    - Operating Income = (P * Q) - (VC * Q + FC)
    - (P - VC) is called **Unit Contribution Margin (CM per Unit)**
    - (P - VC) * Q is called **Total Contribution Margin (CM)**
  - **Break - Even Point (BEP)**
    - Is the volume in which Total Revenues equal Total Costs
    - **BEP = TFC / (P - VC)** = Fixed Costs / Unit Contribution Margin
    - A natural way of interpreting BEP is that **total contribution margin (Revenues - Total Variable Costs) must be large enough to cover Fixed Costs.**
    - We are assuming **linearity of Total Variable Costs and of Total Fixed Costs**
  - **Break - Even Revenue (BER)**
    - Is the amount of revenue that makes Operating Income equal to zero.
    - **BER = BEP * P** or **BER = TFC / CMR%**
    - **BER** is used when different products have different prices, but CMR is the same (for example if you know the average CMR%)
  - **CM Ratio**
    - Contribution Margin as a percentage of Revenue.
    - **CM % = CM / TR** or **CM% = CM per Unit / P**
  - **Profit Point** or **Overall BEP** is the amount of revenue that covers both fixed and variable operating costs
    - **Profit Point = Revenues =(TFC + TOI) / CM**
    - **Profit Point = Revenues =(TFC + TOI) / CM%**
  - **Target Operating Income (TOI) = Interest + Taxes + Target Net Income**
- **The Operating Risk**
  - Is the variability of operating income as a result of different volumes. It amplifies losses, but also profits
  - It depends on:
    - **BEP**, the higher, the riskier
    - **Operating Leverage**, which is the use of fixed costs to the point where it exceeds BEP
      - **Rigid Cost Structure** means a **High Ratio of Fixed Costs to Total Costs**
      - **Flexible Cost Structure** contains a **Low Ratio of Fixed Costs to Total Costs**
  - **Operating Elasticity** = Total Variable Costs at BEP / Fixed Costs
    - **The higher the elasticity, the higher the leverage**
    - **Marriott Hotels**
      - **Franchising**
        - Royalties (12.5%)
        - No costs
        - A 1% decrease in revenue = 1% decrease in profits
      - **Managed Hotels**
        - Management Fee
        - Fixed costs (Employees' salaries
        - A 1% decrease in revenue = 2% decrease in profits
      - **Owned Hotels**
        - Gets all the Revenuels
        - Higher Fixed costs : Salaries + Fees + depreciation + interests on loans
        - A 1% decrease in revenue = 8% decrease in profits
- **Return on Investment**
  - When a firm have financial constraints, the investment with the **highest ROI** should be adopted, instead than the one with the highest operating income
  - Is used to measure the **profitability of a company** or compare the profitability of different investments.
  - **ROI = Operating Income / Investment**

Innovation and Technology

- **Technology Strategy**, is the way an organisation produces outputs from inputs. If it satisfies needs, then the work is organised, the round of plants, etc. Changes in technology are essential to economic development.
  - **Schumpeter**, identified the **essence of capitalism with creation and destruction of businesses through revolutions in technology (Creative Destruction)**. Capitalism is credited with being the best way to stimulate and support innovation
    - **Evolution**, long periods of incremental change (Chemist Die Ka ia Matka)
    - **Revolutions (Discontinuities)**, periods of dramatic improvements (1890 Memory 1956 vs USB Stick)
  - **Competitive Strategy**, is about how to develop a competitive advantage by doing something particularly well for given customers. **Technology Strategy** is about how to use new technologies to produce superior financial results in the long run. **Competitive Strategy** is about how to use technology. **Technology strategy impacts corporate strategy**.
  - **Innovation**, a firm that introduces a new technology into the market. It can be an **Existing Firm** or a **Start-Up**. It can target an **Existing Market** or a **New Market**. In any case, a new technology needs to enable something with an intrinsic value and appeal to the non-technologist.
  - **Strategic Issues**, are **important decisions about technological uncertainty**
    - **Genentech (Uncertainty reduction)**, subcontracted experiments to external institutions, giving them patents or royalties on innovations, to achieve a proof of concept
    - **Risk that the new technology will not work**
    - **Difficult to foresee the uses**
    - **Difficult to predict the time required to fully develop a new technology**
    - **Complementary inventions may be necessary to make an invention important**
  - **Identifying Customers**
    - **Value of the technology**, for different markets or customer segments
    - **Amazon** choose to start with **books**
      - Good product for web-users
      - Easy transportation
      - Not required to be tried
      - Competitors were fragmented
      - Suppliers were fragmented
    - Possible **Competitive Response** by industry players (Free Kindle analysis)
  - **Commercialisation**
    - **Issues**
      - **Existence of Intellectual Property**
      - Efficient **Market for Ideas**
      - Possibility of **Communicating the value of the innovations** without **Discloser Informations** that allow buyers to imitate (**Paradox of disclosure**)
      - **Complementary Assets**, complementary assets/services that add significant value to the innovation or make it possible to bring it to the market.
      - **Market Knowledge** required to appreciate the potential of the innovation
      - **Technical expertise to imitate the innovation**
    - **Strategies**
      - **Attacker's Advantage**, the innovator enters the product market because there is no practical way of selling the idea to incumbents
      - **Challenge**, the innovator has to develop new assets and skills to implement the idea
      - **Ideas Factories**, the innovator can safely sell the idea to incumbents
      - **Challenge**, the innovator must develop the idea up to a point where risk is reduced
      - **Reputation-Based Idea Trading**, the innovator cannot protect the idea from imitation and have to trust incumbents
      - **Challenge**, the innovator has to develop a viable product that improves on what incumbents already do
      - **Greenfield Competition**, the innovator could sell the idea but there are no incumbents interested in buying it.
      - **Challenge**, the innovator must enter the product market, which is usually new
      - **How to Grow**, innovators initially **target early adopters**. Then they should **move to mainstream customers**. It is essential to **establish and protect competitive advantage**
        - **Pre-Emption**, build a market position because rivals do so
        - **Creating Ecosystems**, skills of mutually dependent suppliers, customers and complementors) to generate larger value
        - **Creating switching costs for customers**, innovation needs to provide enough benefits to offset the switching costs
        - **Network Effects**, Network effects are engaged to grow the installed base quickly, even using zero pricing if necessary
        - **Establishing and controlling a Dominant Design**, Standard Wars could arise because of conflicts about which design should become dominant
        - **Commoditising the other elements of the eco-system**
      - **Maturity Stage**, further growth depends on transitioning to the next new technology. The decision depends on the relative attractiveness of incumbent and complementary assets that are needed for the new wave
        - **Investing in the transition and adapt to the new technological wave**
        - **Being acquired by incumbents**
    - **Timing and Other Issues**
      - Being the leader means being the first to enter the mass market. **Leaders can establish first-mover advantages**. However, first-mover advantages are not guaranteed and they are not easy to achieve. Late movers enter the market with superior products that are built on the experience of the leader. **technological leapfrogging**, **Blackberry vs Apple**
        - **Customer lock-in** (Switching costs)
        - **Pre-empting scarce resources** (patents, alliances with owners of complementary assets)
        - **Technology lead** (Accumulate learning)
        - **Scale Advantages** (achieving network effects and economies of scale)
      - **Strategic Issues for Incumbents**
        - Foreseeing and following **Technology roadmaps**
        - **Evaluating the strategic implications of innovations**
        - **Protect specialised complementary assets that are barriers to entry**
        - **Continuous innovation and protection of existing customer base**
        - **Watch for convergence** and be ready to occupy new markets when opportunities arise
      - **Platforms**, environments that connect different groups that derive benefits from other participating in the platform
        - **Google**, three sided platform: internet users - advertisers - providers of contents
        - **Uber**, two sided platform: drivers - passengers
        - **Indirect Network Effects**, the value of the platform for an individual of a group depends on the number of participants of the other group. Therefore, platforms can become monopolies and companies are interested in turning their product into a platform, to encouraging wide adoption and to achieve critical mass. Because of network effects, platforms can be very valuable. A possible strategic is to maintain the ownership of the technology and limit access to avoid that other could capture the value (Apple OS)

Scope Advantages: Diversification and Vertical Integration

- **Corporate Strategy**
  - **Diversification**, a firm diversifies when it enters a new business
    - **Related**, when the businesses share owns in technologies
      - **Advantages**
        - **Cost Savings**, derive from activities that complement each other or common manufacturing facilities, distribution systems or sales forces
        - **Complementarities in Revenue Streams**
        - **Leveraging Competencies**, operating in multiple businesses that are related to a firm's core competencies (Amazon computers, watches, ...)
        - **Increased Market Power**, pooled negotiating power, strengthening a firm's position in relation to suppliers and buyers
      - **Poole Italiane**
        - **Communications, Logistic, Financial products and services**
        - **Common resources**
          - Wide network of boat branches
          - Traditional well-known brand that adds value to trust-sensitive services
    - **Unrelated**, (**conglomerate**), when the businesses do not share owns in technologies
      - **Advantages**
        - **General Management Capabilities**
        - Business units receive benefits from **Useful Activities at the Corporate Level** (Budgeting, Planning, **Industry and Government relations**, general administrative functions, finance)
        - **Diversification of Risk**, unrelated business do not move together during economy experiences/season
    - **Risks of Diversification**
      - **Loss of Focus**
      - **Knowledge, Competencies and Intangibles may be difficult to transfer elsewhere**
      - **Complexity and Coordination problems**
      - **Diversification Discount**, the reduced value that investors place on the shares of diversified companies, and especially on conglomerates
  - **Vertical Integration**, is direct ownership of parts of the value chain it was owned in integrating
    - Some industries have actually been characterised by high degree of vertical integration (oil industry). However, in the same industry competitors may vary considerably in their degree of vertical integration (Zara, H&M, Benetton, Calvin Klein & Lacoste)
    - **Chevron** (Extreme Vertical Integration)
    - **Hermès** (Extreme Vertical Integration)
    - **Vertical Integration is the result of overcoming difficulties** and it is more likely when:
      - **High Transaction Costs**
      - **High Risk of Partner Opportunism**
      - **Context does not support contracting**
      - **Transaction is important enough to justify the investment of resources**
    - **Customers' activities**, downstream or forward integration
    - **Suppliers' activities**, upstream or backward integration
    - **Transactions**, are all economic exchanges between organisations
      - **Ownership**, transactions between organisations under the same owner
        - **Benefits**
          - Allows a firm to avoid opportunism and reduced transaction costs by using "**hierarchy**" to govern transactions
          - **Access to distribution channels**
          - **Access to informations** (market-related or technological)
          - **Quality of products**
          - **Control of costs**
          - **Protection of technological assets**
        - **Problems**
          - **Expensive**
          - **Reduces Flexibility**
          - **Scarce resources are diverted from the core business**
          - **Difficulties in managing ostentior operations**
          - **Lack of the incentives of competition**
          - **Internal opportunism**
          - **Constraints so transactions with better partners**
          - **Increased internal coordination costs**
      - **Types of Transactions**
        - **Long-term contracts**, many types, involving repeated transactions under the same terms
          - **Benefits**
            - **Risk of hold up is reduced**
            - **Frequency is increased**
            - **Uncertainty is better managed**
            - **Lower transaction costs**
          - **Costs**
            - **Difficult for both parties to exit the transaction**, which means that flexibility and competition are reduced as well
            - **Coordination costs are higher than in spot markets**
            - **Contracts may favour opportunism**
            - **Contracts are always incomplete and may generate litigation**
          - **Effectiveness depends on contextual factors**
            - **Trustworthiness of partners**
            - **Small numbers**
            - **Robustness of legal and economic institutions**
            - **Stability of markets and technologies**
        - **Spot Market Transaction**, single transactions
          - A short-term perspective stimulates opportunistic behaviour
      - **Transaction Costs Determinants**, cost of searching for suppliers, negotiating with them, and monitoring them
        - **Asset Specificity**, difficulties in redeploying assets involved in the transaction to some other purposes, the supplier has no bargaining power and is afraid of the "hold up".
        - **Frequency**, when the transaction is infrequent, there are larger incentives to opportunism, when it is frequent, searching costs are reduced and partners are afraid of losing the streams of income of future transactions, reducing opportunism
        - **Uncertainty**, when contingencies are difficult to anticipate or there is technological changes, contracts become more complex and transaction costs increase

Managing Teams and Leadership

- **Teams, Groups, Informal Groups**
  - **Teams** are groups of two or more people who collaborate to achieve common goals, and perceive themselves as teams
    - Internal and influence each other (**task interdependence**)
    - Are mutually accountable for achieving **common goals** for the organisation
    - Perceive themselves as **a social entity** within the organisation
  - **Informal Groups**, satisfy social needs as teams and may give individuals organisational power, but they do not have organisational purposes and they don't have to work together
    - **Groups** do not have an organisational purpose or task interdependence
- **Characteristic of Teams**
  - **Degree of Permanence**, task forces or action teams are temporary, while departmental teams are stable
  - **Skill Differentiation**, advisory teams are usually diverse, while communities of practice share the same profession
  - **Authority Differentiation**, action teams or self-directed teams usually have no hierarchy, while departmental teams do
- **Team Effectiveness**
  - **Resources and Support**
    - **Task Interdependence**
    - **Team Size**
    - **Team Composition**
    - **Team Diversity**
    - **Team Development**
    - **Team Trust**
    - Calculus-Based Trust
    - Knowledge-Based Trust
    - Identification-Based Trust
- **Managing Teams**
  - **Benefits of Teams**
    - **Information sharing**
    - **Coordination of tasks**
    - **Motivation**
    - **Reciprocal monitoring**
    - **Benchmark**
    - **Fear of Comparison**
  - **Costs of Teams**
    - **Process losses** (Team development and Maintenance)
    - **Time and effort to integrate and coordinate**
    - **Social loafing** (lower effort, particularly in large groups)
  - **Team Decision Making Problems**
    - **Time Constraints** (a team requires more time than an individual to take a decision)
    - **Production Blocking** (people don't develop the idea of their own to be able to participate only on what they want to say in a good manner)
    - **Evaluative Apprehension** (reluctance to take a position to protect desired self-presentation)
    - **Pressure to Conform**
      - **Overconfidence** (false sense of the competencies of the team and the reconsiderness of the situation)
- **Leaders can be**
  - **Formal Leadership**, positions to which it is associated the formal role to lead others. Often it is associated with a formal title, but not all individuals compete to reach these positions
  - **Shared Leadership**, roles that can be assumed by different individuals in various ways and at various times. Associated with a more cooperative organisational culture
- **Four Perspectives**
  - **Leadership**, is about **influencing** (being able to change the behaviour of others), **motivating** (provide internal drive and **enabling** (arrange the work environment) others to contribute to the organisations of which they are members
  - **Transformational Leadership**, leaders as **change agents**
    - Strategic Vision
    - Good at fostering effective vision and communicate it
    - "Walk the Talk", they lead by example and "can do" attitude
    - Full of charisma, the kind of attractiveness that inspire devotion or others
    - These ten types of leadership can co-exist
  - **Managerial Leadership**, leaders as **providers of support and guidance**
    - **Path-Goal leadership theory**, presents leader as capable of selecting the most appropriate behaviour styles for each situation
    - Assumes that organisations objectives are stable and aligned with the external environment
    - Concentrate on the effectiveness of employees and work units. Micro focused and concrete
    - **Task Oriented** or **People Oriented**
      - **Servant Leaders'**, and managers with people orientation who contribute to the growth and performances of others
  - **Implicit leadership Theory**, leadership as stereotype. People evaluate a leader's effectiveness in terms of how well the person fits preconceived terms about **leadership prototypes**. Moreover, people tend to inflate the influence of leaders in organisational events
- **Leadership Competencies**, skills you need to be an effective leader. Leaders seem to have characteristics that make them effective in their role
  - **Personality**
  - **Self-Concept**
  - **Leadership Motivation**
  - **Drive**
  - **Integrity**
  - **Knowledge of Business**
  - **Cognitive and Practical Intelligence**
  - **Emotional Intelligence**