

Managerial Economics Case Studies

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#1. Three aspects of organizational architecture

The three vital components of organizational architecture are: a) assignment of decision rights; b) methods of rewarding individuals; and c) structure of systems to evaluate the performance of both individuals and business units. First, assignment of decision rights involves giving the responsibility of decision-making to top-level executives. It is imperative that an organization is able to delegate the duty of making a decision to a manager who has relevant information and knowledge on the internal and external factors that affects the operations and goals of the organization. The architecture of an organization and its environment will determine who will be the decision-maker for the company. In some organizations, the top-level executive may have them most relevant information and thus, a centralized decision-making process can be adopted. There are instances when the lower-level employees may have the most relevant information, thus, decision-making rights become decentralized. Second, methods of rewarding individuals determine how the organization will provide incentives to its employees. Organizational goals and employee's productivity play great roles in determining a scheme of remuneration. Some organizations repay their employees through financial rewards such as the monthly wage, and cost of living allowance, and other benefits. Also, some firms offer non-financial rewards such as improving the workplace and enhancing the employees' skills and knowledge through trainings and seminars. Third, structure of systems to evaluate the performance of both individuals and business units. Every company has its own way of evaluating the performance of each department and employees. Such evaluation system is dependent on how an employee's productivity contributed to the achievement of organizational goals.

Case Study: Eastman Kodak

1. The different factors that motivated Kodak to change its organizational architecture are:

A. stiff competition. For many years, Eastman Kodak had control on the film production industry. The firm had managed to time the release of its new products to meet customer demands. However, in the 1980s, Eastman Kodak's virtual monopoly of the film production industry was rattled by the entry of Fuji Corporation's high quality film. The new product from Fuji Corporation wore away the big market share of Eastman Kodak. In addition, other generic store brands of film began to emerge in the market, making the competition in film production industry tougher. The entry of new players as well as the improving market share of competitors has eroded Eastman Kodak's virtual monopoly of the film production industry.

B. technological advancement. While Eastman Kodak may have been one of the pioneers in film production, technological advances have paved the discovery and creation of new products. Advancement in robotics, design capabilities and improved communications has allowed faster and easier development of products. Thus, new products can be introduced in the market within months instead of years. Thus, consumers are presented different products in various styles with numerous functions. The availability of many products in the market made the film production industry more competitive.

C. changing market environment. With technological advancement and entry of new players in the film production industry, Eastman Kodak was faced with a very tough competition. The once biggest market share of Eastman Kodak was slowly falling apart. As Eastman Kodak loses its market share, the prices of its stock also went down. In 1982, Eastman Kodak's stock was valued at over \$85 per share by 1984; the firm's stock price has fallen to \$71. Consequently, earnings per share at Eastman Kodak also dropped.

2. In its goal to regain its profits and market share, Eastman Kodak decided alter its organizational structure which turned out to detrimental to the operations of the firm. One change in the organizational structure was the assignment of decision-making process. From its centralized decision making system where top-level approval was a requirement for most major decisions, Eastman Kodak decided to restructure its decision-making process. This resulted to the creation of 17 new business units with profit-and-loss responsibility. Business-unit managers were given the responsibility to decide on new products, pricing, and other important policy choices. The shift from centralized to decentralized decision-making process failed to help Eastman Kodak achieve its goal of recovering the lost market share and regain profits. The decentralization of decision did not make a substantial impact on the over-all market performance of Eastman Kodak.

Another mistake that Eastman Kodak made in changing its organizational structure was changing the company's performance-evaluation and reward system. The purpose of changing the methods of rewarding individuals; and structure of systems to evaluate the performance of both individuals and business units was to motivate managers to be more creative, industrious and responsive to customer needs and demands. Eastman Kodak adopted the Management Annual Performance Plan (MAPP) in 1987 which reduced by 10 percent the base salary of management employees. The reduced 10 percent was replaced with a variable bonus ranging from 0 to 20 percent. Bonus was given based on individual, unit, and company objective. However, this organizational architecture change failed to generate the expected results. Management employees were not motivated by the firm's performance evaluation system and new forms of rewards to improve their performance and help Eastman Kodak achieve its organizational goals of regaining its lost market share and profits.

3. Eastman Kodak could have designed an organizational structure involving the a) assignment of decision rights; b) methods of rewarding individuals; and c) structure of systems to evaluate the performance of both individuals and business units. Basically, Eastman Kodak failed in its organizational architecture restructuring because it changes the assignment of decision rights without considering the rewards methods and performance evaluation system. It is very important in restructuring organizational architecture to keep in mind that the three vital components of organizational architecture are interdependent. When one factor is changed, the other two factors should be changed too. The problem with Eastman Kodak is that it changes the assignment of decision-rights first, and then when it did not work, the firm decided to adopt a new reward form and performance evaluation system. Eastman Kodak could have implemented changes in three areas simultaneously, instead of doing each successively. The firm should also have considered the corporate culture and external business environment.

4. The experience of Eastman Kodak exemplifies the concept of economic Darwinism or “survival of the fittest” (Spencer, 1867, qtd. Blom, 1996). Eastman Kodak failed to respond to the challenges presented by tough competition, thus, the company lose its market share and profit. Eastman Kodak needed to be fit and tough in order to survive in the competitive market. In the same way, the top-level executives of Eastman Kodak must be fit, tough and competitive. When Eastman Kodak failed to achieve its organizational goal after restructuring its organizational architecture, the firm’s CEO was fired by the Board of Directors of Eastman Kodak. Both Eastman Kodak and Kodak CEO in 1993 were victims of the economic Darwinism. The CEO was fired because he was not tough and fit enough to survive the competitive world of film production. Eastman Kodak lost its market share and profit because it was not ready to compete head-on.

Case Study: Medford University

1. Instead of asking Medford University's human resources department to design a plan, President Hiromi Kobayashi appointed a task force to consider the issue of fringe benefits for the following reasons:

First, president Kobayashi appointed a task force because he believes that a better decision would be arrived at if the issue of fringe benefits is delegated to a task force made up of different members. Kobayashi's rationale could be based on the presumption that every member of a team or a task force has specific knowledge to help or to contribute in the decision-making process. Furthermore, Kobayashi is aware that decisions are more likely supported, agreed, and accepted when members of the organization participated in the process. Hence, Kobayashi decided to delegate the creation of a new fringe benefit plan to a taskforce so that the school's employee will be agreeable to the new plan. Whereas, if Kobayashi had asked the Medford University's human resources department to design a plan, the employees might have perceived that the new fringe benefit plans favor only the rich.

2. President Hiromi Kobayashi should not anticipate that all members of the task force will strive to cut the university expenses because each member has his or her beliefs, wants, and ideas. It will not be surprising that during the discussion among members of the taskforce concerning the fringe benefits plan, each member will be speaking his/her ideas, beliefs and wants. While there is no assurance that each member of the taskforce will listen to President Kobayashi's request that they should take into consideration Medford's University's tenuous financial, there is a probability that during deliberation among the taskforce members, all members will discuss about the request of President Kobayashi to determine the best possible design for the new fringe

benefit plan without sacrificing the quality of the faculty and staff of Medford University as well as without being unfair to the staff and faculty.

While President Kobayashi cannot impose or demand the members of the taskforce to do his request, there are ways for her to increase the likelihood that the taskforce members will make reducing expenditures on fringe benefits as their major priority. First, President Kobayashi can present to the members of the taskforce the financial report of Medford University. She can also ask an independent committee to present a report on the possible scenarios should the university continue to spend much of its fund on fringe benefits. She can also present the university's administration and management plan towards increasing its enrollment and revenues to ensure that the university remains operational.

3. President Hiromi Kobayashi appointed the administrator of the hospital as the chair of task force to ensure that head of the group has relevant information on benefits, specifically medical benefits. In addition, the hospital administrator has adequate knowledge on the Federal laws, state laws on health care regulation and insurance coverage. President Kobayashi believes the hospital administrator would be able to design a fringe benefit plan that meets the legal requirements. Moreover, President Kobayashi thinks that the hospital administrator can provide insights regarding medical care benefits as he/she has extensive knowledge on the matter.

It is normal that the hospital administrator chosen to lead the taskforce delegates much of the work to subcommittee. This is one way of ensuring that all members of the task force are able to contribute to the decision-making process. By delegating the different works to subcommittees, the hospital administrator is providing each member of the taskforce an opportunity to gather information, analyze available data, and evaluate information on its impact and importance to their task of designing a new fringe benefits plan. The hospital administrator

should appoint someone who has relevant knowledge on a specific task as the head of each subcommittee. Also, the hospital administrator must ensure that each subcommittee will have a diverse group of members to ensure that a bigger picture with a wider perspective and diverse opinions and ideas.

4. President Hiromi Kobayashi does not want to commit to accepting the committee report. She intends to reserve the right to make or suggest modifications. In fact, President Kobayashi has appointed one of her key assistants to serve as secretary of the task force to ensure that she has access to what is being discussed and what is happening during the taskforce meeting. President Kobayashi's main goal is to reduce the cost of fringe benefits without sacrificing the quality of faculty and staff. As the president of Medford University, Kobayashi is mainly concerned with the well-being of the university. She wants the university to maintain the quality of the faculty and staff and she is aware that one way of maintaining the quality of human resources is through an attractive fringe benefits plan. However, the financial status of the university indicates that it cannot sustain a costly fringe benefits plan. Thus, Kobayashi will compromise with the faculty and staff of Medford University. One way for her to be able to negotiate and compromise is through the modification of the new fringe benefits plan to ensure that all parties concerned: the university and the faculty and staff are remunerated and compensated fairly and legally.

5. President Kobayashi has appointed one of her key assistants to become the secretary of the task force so that she will have an inside source on what is happening within during the meeting of the members of the taskforce. In a way, President Kobayashi wanted to have a main and loyal staff within the taskforce so that she becomes aware of what is happening during the meeting. In this way, president Kobayashi can prepare for counter proposals, suggestions, and propositions on what the taskforce has created.

Case Study: Bagby Copy Company

1. Bagby Copy Company is faced between choosing specialized task assignment and broad task assignment. Specialized task assignment involved the assignment of the employee to a narrow set of tasks concentrated with one functional specialty. On the other hand, in the broad task assignment, the employee is assigned to a broader variety of tasks. Whether Bagby Copy Company decides to utilize specialized task assignment and broad task assignment, the company would have to face some trade-offs. Bagby Copy Company would have to lose one quality or aspect of something in return for gaining another quality or aspect. Should the company decide to use the specialized task assignment, it would be able to maximize on specialization and lower cross-training expenses. On the other hand, the Bagby Copy Company will be limiting the employee to perform one function, instead of performing multiple functions. Thus, utilizing specialized task assignment may mean the company may need to employ new staff, depending on the production technology and productivity rate. This is because employees of Bagby Copy Company will be limited, trained and constrained to perform one specific task only. They are not expected to be flexible and can perform other tasks.

On the other hand, should Bagby Copy Company decide to adopt the broad task assignment, it will be gaining workforce as employees are trained to perform not just one task but numerous interrelated tasks. By using the broad task assignment, Bagby Copy Company will not hire additional staff as employees can be rotated to perform specific tasks depending on the rate of productivity and production technology. One downside of broad task assignment is the cost of cross-training and seminars. As every employee is expected to be competent in different tasks, Bagby Copy Company has to provide training and seminars to its employees. Such trainings and seminars might be costly. Furthermore, while the firm may have employees who

are able to perform different tasks, Bagby Copy Company may be losing its specialist workers and may be endangering the quality of its products.

2. There are two methods of grouping wire harness makers into subgroups. One is through the creation of functional subunits group. This groups together all jobs performing the same functions in one department. Bagby Copy Company can group all those employees in-charge in the production of wire harness into one group. This would allow the easy flow of communication and coordination among workers involved in the wire harness. As of them are grouped together in one department, there will sharing of knowledge and resources in production. Also, troubleshooting will be easier as all members of the team are skilled and have expertise in handling wire harness. Should there be some trouble, other workers can offer help while waiting for the technical people to arrive and fix the problem. However, grouping all workers in wire harness in one department may affect the production of the firm. As wire harness is grouped into one place, these employees are not expected to report or discuss things with people in another department. In the same way, when the wire harness department loses a staff, it has to wait till a similar one can be found.

The other form of grouping wire harness makers into subgroups is based on product. Bagby Copy Company can create groups per product. All workers assigned to do different tasks on one specific products will be grouped together. With this type of grouping, Bagby Copy Company may suffer in terms of production. It could be too many workers are working on one product and there would be lesser number of workers for another product. Also, the introduction of new product will lead to hiring new staff and training them. More importantly, when one worker assigned to specific product is not able to work, the firm will not be able to get a worker from another product to pitch in, thus, affecting the productivity of the company.

3. In organizing its international operations, Bagby Copy Company has two options: organize its foreign operations around products or establish a matrix organization. Organizing its foreign operations around products will result to 10 international product managers with decision rights for managing the manufacturing and sale of a particular copier throughout Europe. As each product will have its own manager assigned with decision rights, there might be some problems in communication, coordination, and cooperation among managers. Bagby Copy Company will have to allocate additional resources for the communication and networking of the ten managers throughout Europe. Also, this type of operation has a risk of mismanagement. Should the manager of one product fail in his/her management tasks, then one product from manufacturing to sales will be affected. On the other hand, one trade-off of such kind of organization would be the specialization of production. All resources and workforce involved in one product will be located in one country. In this production will be coordinated, efficient and on time. This also allows easy troubleshooting of production problems as all manufacturing process will all be in one place.

Meanwhile, establishing a matrix organization will allow Bagby Copy Company to maintain an overlapping structure of functional, product and geographic offices. The positive trade-off in this kind of organization is the flexibility of team members to move from one task or function to another. Managers and workers are not limited to performing a specific function. Each is capable of moving from one task to another. This helps ensure that functional excellence and provide more clearly identified opportunities for advancement. On the other hand, a negative trade-off from matrix organization is the division of loyalty among employees. An employee may have problem focusing its loyalty between the goals of the project team or the goals of the functional department.

References

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