

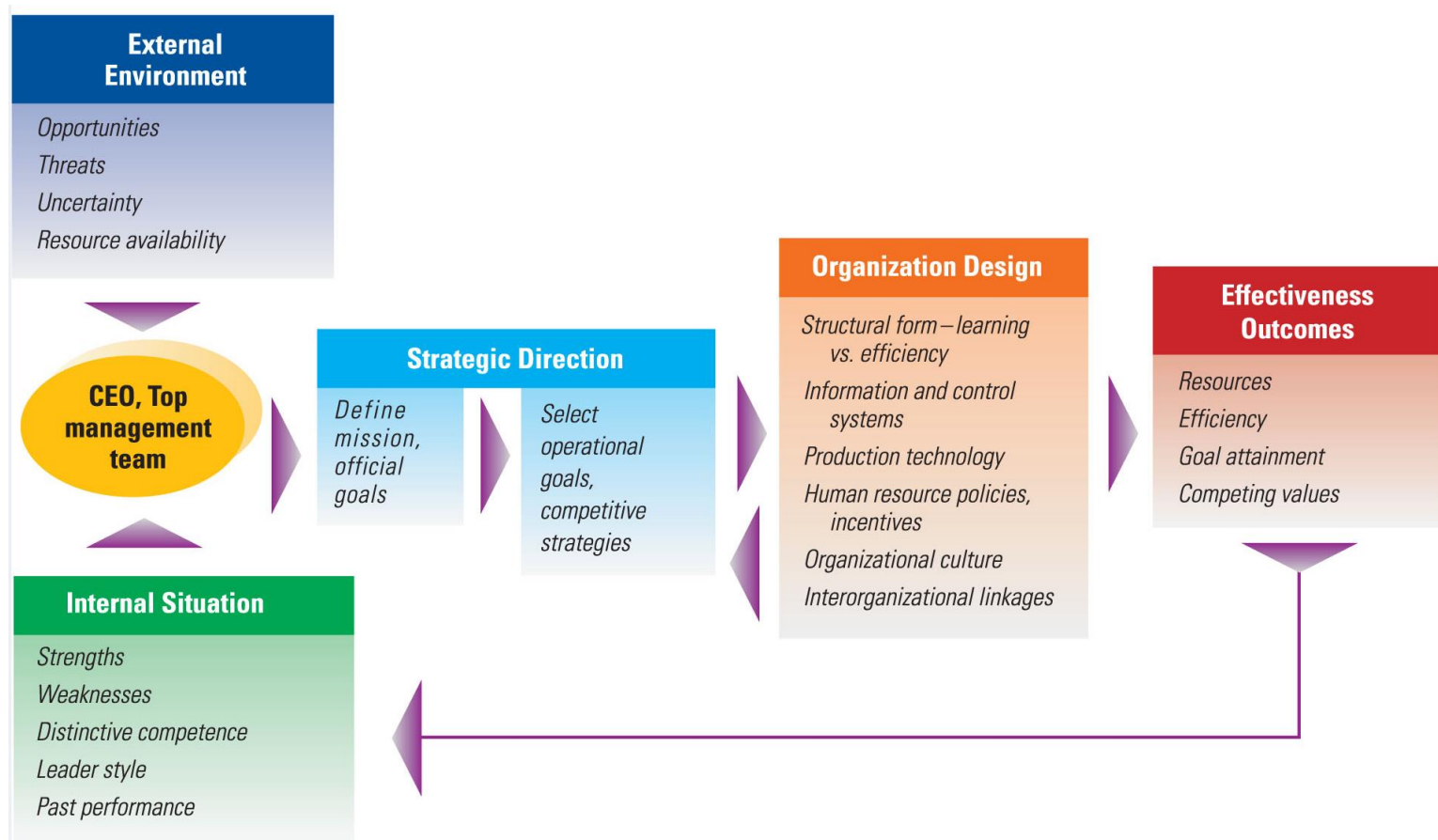
CHAPTER 3

STRATEGY, ORGANIZATION DESIGN AND EFFECTIVENESS

The Role of Strategic Direction in Organization Design

- **Organization design** is used to implement goals and strategy and thereby influences the prospects of success.
- Organization design is not always a highly rational process which involves careful calculation and proceeds smoothly through a series of stages. In fact, the design of organizations is a political process in which established routines and vested interests are challenged and defended.

Organization Direction, Design and Effectiveness



Source: Adapted from Arie Y. Lewin and Carroll U. Stephens, 'Individual Properties of the CEO as Determinants of Organization Design', unpublished manuscript, Duke University, 1990; and Arie Y. Lewin and Carroll U. Stephens, 'CEO Attributes as Determinants of Organization Design: An Integrated Model', *Organization Studies* 15: 2 (1994), 183–212.

Organizational Purpose

➤ Mission

- The mission describes the organization's vision, its shared values and beliefs and its reason for being.
- It is sometimes called the *official goals*, referring to the formally stated definition of business scope and outcomes that the organization is trying to achieve.
- A mission statement communicates to internal and external stakeholders.

Organizational Purpose

➤ Operative goals

Operative goals describe specific measurable outcomes and are often concerned with the short run.

- Overall performance
- Resources
- Market
- Employee development
- Innovation and change
- Productivity

Organizational Purpose

➤ The importance of goals

- *Official goals* and mission statements describe a value system for the organization. They legitimize the organization.
- *Operative goals* relate to key tasks of the organization. They are more explicit and comparatively well defined. Operative goals serve several purposes:
 - Employee direction and motivation
 - Decision guidelines
 - Standards of performance

Selecting Strategy and Design

■ What is a strategy?

It is a plan for interacting with the competitive environment. Managers must select a specific strategy and design options in order to achieve official and operative goals within the competitive environment.

■ Two models for formulating strategies:

- Porter's Competitive Strategies
- Miles and Snow's Strategy Typology
- Each provides a framework for competitive action.

Porter's Competitive Strategies

■ Three competitive strategies

(1) **Low cost leadership:** This strategy tries to increase market share by emphasizing low cost compared to competitors (e.g. Ryanair).

(2) **Differentiation:** Organizations attempt to distinguish their products or services from others in the industry (e.g. Rolex watches).

(3) **Focus:** *Focused low cost and focused differentiation.* The organization concentrates on a specific regional market or buyer group (e.g. Puma).

Porter's Competitive Strategies

Miles and Snow's Strategy Typology

■ *Prospector*

- Learning orientation; flexible, fluid, decentralized structure
- Values creativity, risk-taking, and innovation

■ *Defender*

- Efficiency orientation; centralized authority and tight cost control
- Emphasis on production efficiency, low overheads

■ *Analyzer*

- Balances efficiency and learning; tight cost control with flexibility and adaptability
- Emphasis on creativity, research, risk-taking for innovation

■ *Reactor*

- No clear organizational approach; design characteristics may shift abruptly depending on current needs

How Strategies Affect Organization Design – Examples

➤ Porter's competitive strategies

- Strategy: *Differentiation*

- Organization design:

- Learning orientation; strong horizontal coordination
- Strong capability in research
- Values and builds in mechanisms for customer intimacy
- Rewards employee creativity, risk taking and innovation

➤ Miles and Snow's strategy typology

- Strategy: *Prospector*

- Organization design:

- Learning orientation; flexible, decentralized structure
- Strong capability in research

Other Factors Affecting Organization Design

- Organization design is a result of numerous contingencies.
- One responsibility of managers is to design organizations that fit the contingency factors of strategy, environment, size and life cycle, technology and culture.
- A poor fit with the contingency factors can lead to decline or even the demise of the organization.
- However, there is also a danger of assuming that design is the only key to success.

Assessing Organizational Effectiveness

- *Organizational effectiveness* is a broad concept, and it refers to the degree to which an organization realizes its goals.
- *Efficiency* is a more limited concept and it refers to the amount of resources used to produce a unit of output.
- *Effectiveness* evaluates multiple goals (official and operative goals).
- Overall effectiveness can be difficult to measure.
- Managers determine what to measure.

Contingency Effectiveness Approaches

- **Contingency approaches** to measuring effectiveness focus on different parts of the organization.
- Three approaches to organizational effectiveness are:
 - *Goal approach*
 - *Resource-based approach*
 - *Internal process approach*

Contingency Approaches to Organizational Effectiveness

Goal Approach

- The *goal approach* is concerned with progress towards attainment of output.
- *Indicators*: Efforts to measure effectiveness have been more productive using operative goals than official goals.
- *Usefulness*: This approach is widely used in business organizations because output goals can be readily measured.
- *Problems*:
 - The issue of multiple goals.
 - Subjective indicators of goal attainment.

Resource-based Approach

- The *resource-based approach* assesses effectiveness by observing the beginning of the process and evaluating whether the organization effectively obtains resources necessary for high performance.
- *Indicators* include bargaining position, the ability to interpret external environment, the ability to use tangible and intangible resources in operations (i.e. supplies, people), and the ability to respond to changes.
- *Usefulness*: It is valuable when other indicators of performance are difficult to obtain.
- *Problems*: It fails to adequately consider the changing value of various resources.

Internal Process Approach

- The *internal process approach* looks at internal activities and assesses effectiveness by indicators of internal health and efficiency.
- *Indicators*: There are seven indicators (e.g. strong corporate culture and positive work climate, and team spirit and teamwork).
- *Usefulness*: It is important because the deployment of resources and harmonious internal functioning are ways to assess organizational effectiveness.
- *Problems*: Evaluations are often subjective.

An Integrated Effectiveness Model

- The *competing values model* tries to balance a concern with different kinds and aspects of effectiveness rather than focusing on one approach.
- *Indicators*: Two value dimensions are *focus* (internal versus external) and *structure* (stability versus flexibility)
 - Open systems emphasis
 - Rational goal emphasis
 - Internal process emphasis
 - Human relations emphasis
- *Usefulness*:
 - Integrates diverse concepts of effectiveness.
 - Calls attention to effectiveness criteria as management values.