

Organisation Design

WEEK 8 S1 2019

DR VALERIE CAINES

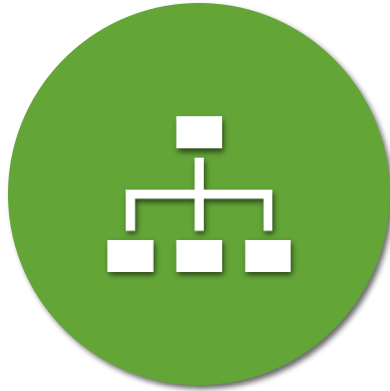
SLIDES ADAPTED FROM: BURTON, R. M., OBEL, B., & HÅKONSSON, D. D. (2010, 2015). ORGANIZATIONAL DESIGN: A STEP-BY-STEP APPROACH. CAMBRIDGE UNIVERSITY PRESS.

Introduction to Organisation Design



[This Photo](#) by Unknown Author is licensed under [CC BY-SA-NC](#)

Organisation design:



IS AN EVERYDAY
ACTIVITY



HAPPENS ONGOING



HAPPENS IN ALL TYPES
OF ORGANISATIONS

Organisation design is driven by:



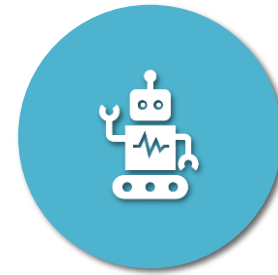
GLOBALISATION



WORLDWIDE COMPETITION



DEREGULATION



NEW TECHNOLOGIES

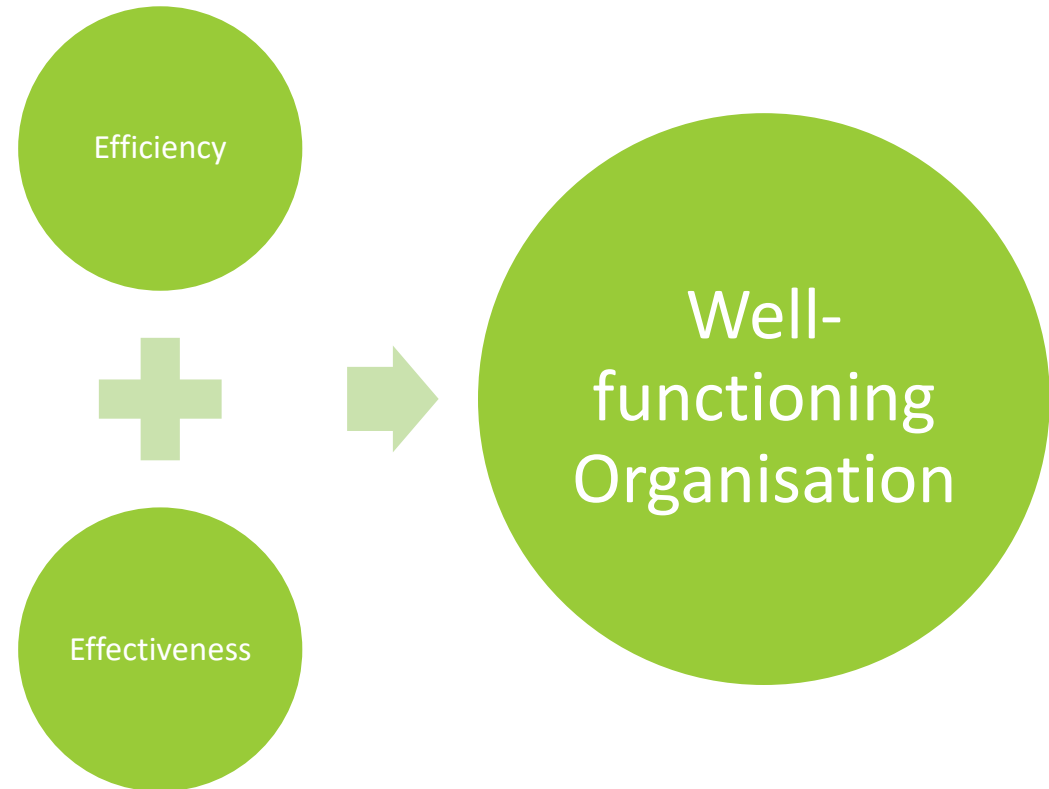
Continual reassessment of the organisation

■ New forms of organisation design:

- Virtual
- Learning
- Modular
- Cellular
- Network
- Alliance
- Spaghetti

Not really new!

All organizations still require a formal design to be well-functioning



Organisation Design Basics



WHAT ARE OUR
GOALS?



WHAT ARE THE
BASIC TASKS?



WHO MAKES THE
DECISIONS?



WHAT IS THE
STRUCTURE OF THE
COMMUNICATION?



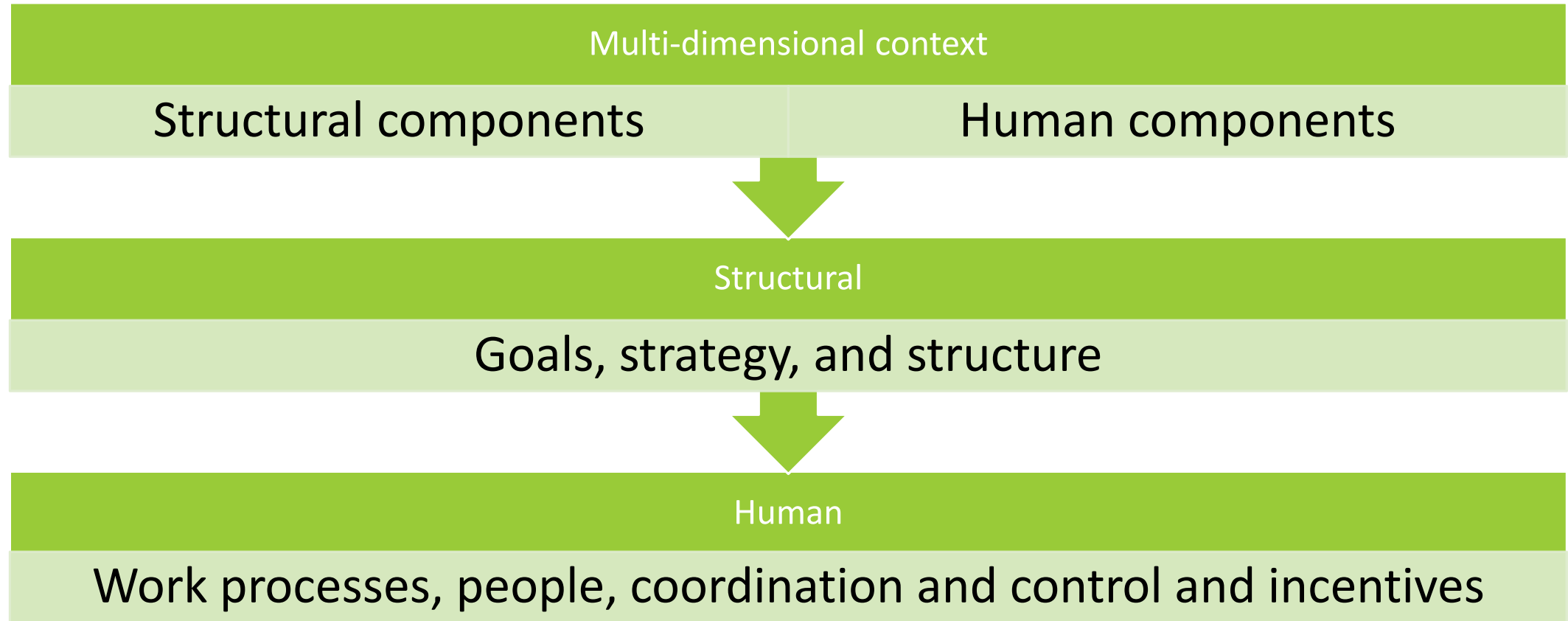
WHAT IS THE
INCENTIVE
STRUCTURE?

Defining the scope of the organisation and assessing it's goals



[This Photo](#) by Unknown Author is licensed under [CC BY-ND](#)

Organisation design choice

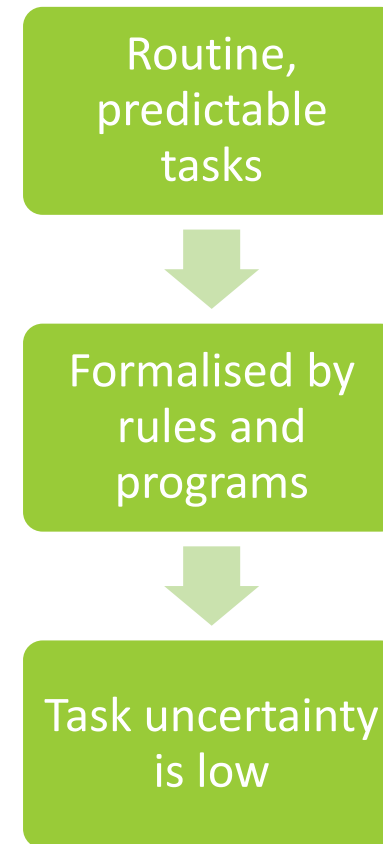


Information processing view

- Idea: Organisations use information in order to coordinate and control their activities in the face of uncertainty (Arrow, 1974, p.34)
- Information systems and people process information
- Scarcity of information-handling ability
- Idea: Work requires information processing
- An organisation's work is to:
 - Observe,
 - Analyse,
 - Transmit,
 - Understand,
 - Decide,
 - Store, and
 - take action for implementation

Information processing view (2)

- We want our organisations to be able to process information efficiently and effectively
- “The greater the **uncertainty** of the task, the greater the amount of information that has to be processed between decision makers” (Gallbraith, 1974, P.10)
- Uncertainty - technology and business environment



Where there is uncertainty the decision goes up the hierarchy (exception based hierarchical decision making)

A green thought bubble with a tail pointing towards the bottom of the flowchart.

When uncertainty exceed the capacity of the hierarchy

- Move to targets and goals
- Coordination moves from efficiency to effectiveness
- Tasks become more independent
- Organisation trade-off: reduce need for information processing or increase their capacity to process information

Reduce need for information processing

- Increase slack resources
- Creating self-contained teams

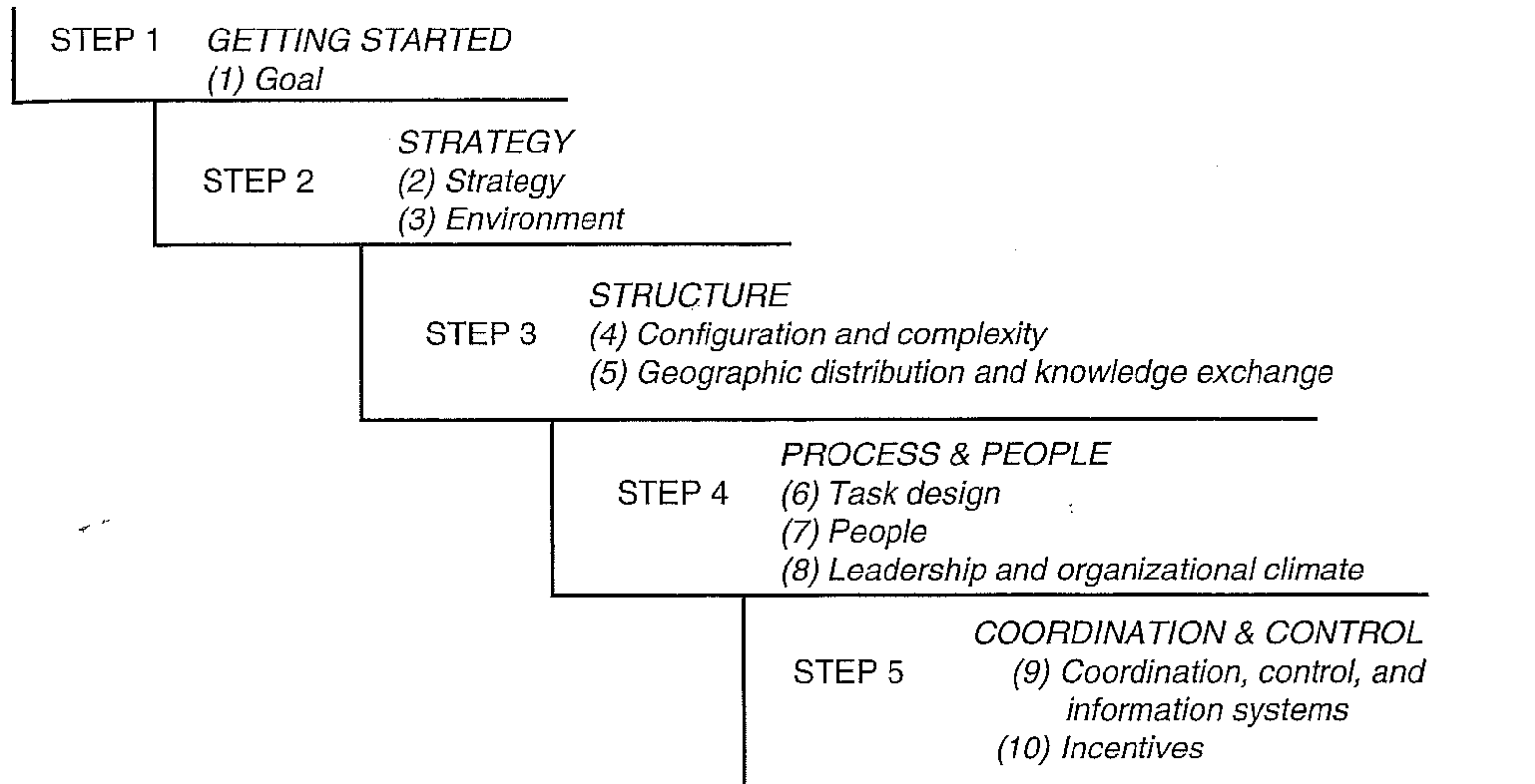
Increase capacity to process information

- Invest in vertical information systems to increase speed of information exchange (i.e. CAD-CAM, Internet)
- Upgrade the skills of the workforce
- Creating lateral communications across the organisation (Liaison roles, task forces)

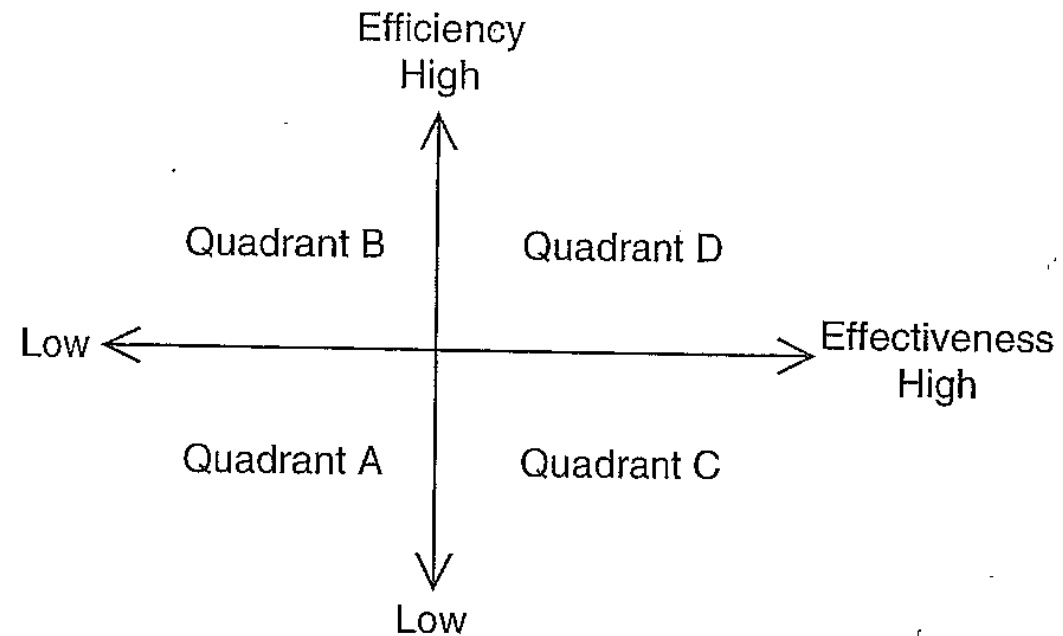
Scoping the organisation design problem

1. How to partition big tasks into smaller subunit tasks
2. How to coordinate these smaller subunit tasks so they will fit together nicely
3. Achieve effective coordination
4. Design from corporate level down
5. Divisions can be structured differently to each other
6. Design one unit of analysis at a time (i.e. division, team, whole organisation)

Five steps of organisation design



Step 1: Defining the scope of the organisation



Assess the organisation's goal

- How important is efficiency and effectiveness to the organisation.
- **Effectiveness:** is a focus on outputs, products, services and revenues
- **Efficiency:** is a focus on inputs, use of resources and costs
- NOTE: All organisations value both efficiency and effectiveness to some degree
- Examples:
 - No-frills airlines focus on efficiency (Jet Blue)
 - Firms with significant R & D investment focus on effectiveness (3M)
 - Both (Singapore airlines, GE)

Who falls in what quadrant?

Quadrant A = low efficiency + low effectiveness

- Little focus on using resources well and has few/no goals to higher-level ideas
- Monopoly

Quadrant B= high efficiency + low effectiveness

- Focus on using smallest amount of resources to produce goods or services
- Stable environments
- Continue to do what they have done in the past
- Defend their position with a low-cost focus

Who falls in what quadrant? (2)

Quadrant C = low efficiency + high effectiveness

- Focus on goals with less attention to the use of resources
- Highly volatile environments
- Innovation and low cost required
- First mover advantage

Quadrant D= high efficiency + high effectiveness

- Competitive, complex and volatile environments
- Product innovation and low cost
- Equal effort put into both efficiency and effectiveness

Finding balance

- Finding balance is difficult
- Doesn't always work (i.e. Xerox)
- Successful companies have an emphasis on both somewhere in the organisation at all times

Diagnostic Questions

1. What is the unit of analysis?
2. What does the organisation do? What is the major work activity?
3. How does the organisation score on efficiency?

1	2	3	4	5
Very low		Moderate		Very high

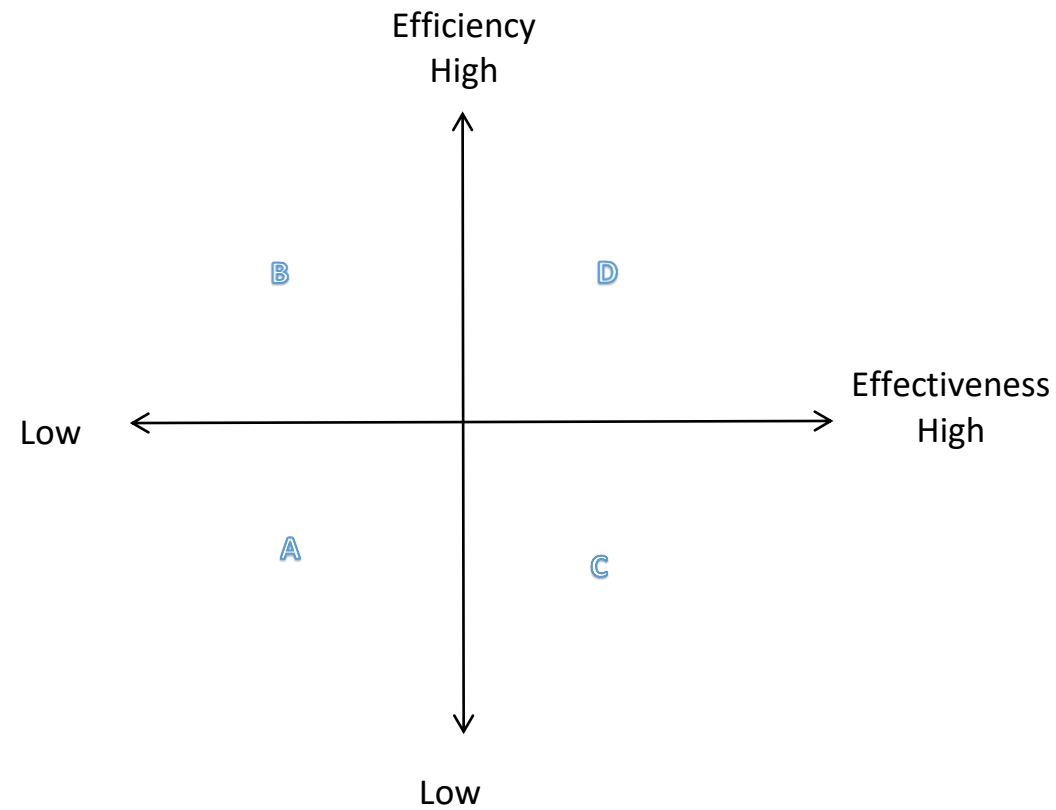
4. How does the organisation score on effectiveness?

1	2	3	4	5
Very low		Moderate		Very high

Plot the organisation in the efficiency/effectiveness graph.

Where would the organisation like to be in terms of efficiency and effectiveness?

Efficiency/Effectiveness Space



Step 2: Strategy



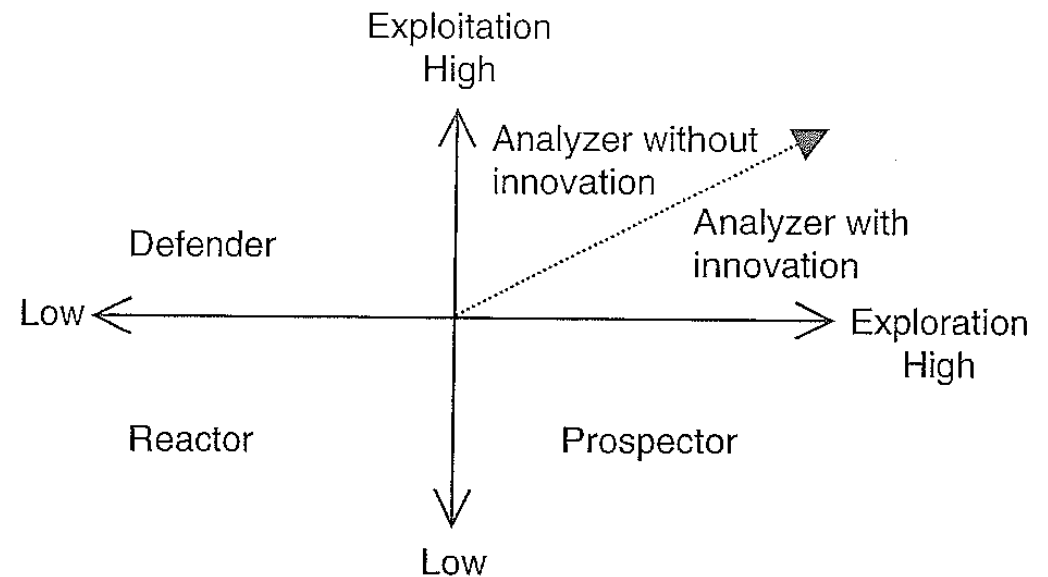
[This Photo](#) by Unknown Author is licensed under [CC BY-NC](#)

What is the organisation's strategy and operating environment?

- Strategy Determines organisational design – Chandler (1962)
“Structure follows strategy”
 - Strategy is the end and structure is the means
- High performance in an organisation requires achieving a fit between strategy – organisational design – environment (Roberts, 2004, pg.12)
- Ways to look at strategy:
 - The organisation's **economic situation** (Porter, 1985) – suppliers, buyers, substitutes, potential entrants and competitor activity.
 - Marketing – product, price, place, promotion (Kottler, 2000)

Miles & Snow's (1978) Typology

1. Reactor
2. Defender
3. Prospector
4. Analyser (with or without innovation)



What does a **reactor** look like?

- Neither explorer or exploiter of opportunities
- Neither efficient or effective
- Acts without focus
- Adjusts to a situation once the opportunity to capture an opportunity is lost
- Executive does not plan, or project into the future
- Could pursue innovation without focus
- Make decisions based on bad news
- Common strategy after a merger
- Will eventually go out of existence (i.e. Digital Corporation)

What does a defender look like

- Greater focus on exploitation than on exploration
- Little innovation
- Executives focussed on keeping market share
- Less emphasise on developing new ideas, products or services.
- Historical sales used to extrapolate future sales
- Plans to fend off competitors
- Competitive price or product niche
- Good at being efficient
- Process innovation
- Can not change much or quickly
- Can do well but vulnerable when products or services are no longer desired in the market.
- Slow to make significant change

i.e. Lego/Coke

What does a **prospector** look like?

- High exploration and low exploitation
 - Innovation of new things to the detriment of exploiting existing opportunities
 - Competitive because they bring new things and a competitive situation that others must adjust to
 - Change oriented
 - New products or services continually required
 - Risky strategy
- Will fail if it does not continually innovate
i.e. 3M, Google

What does an **analys**er without **innovation** look like?

- Strong focus on exploitation and weak on exploration
- Like a defender but does have a passive innovation strategy
- Copy innovation of others
- Focussed on keeping the organisations position in the market
- Keeping an eye out for what others are doing and quick to follow
- Efficiently uses resources
- Not change much
- Doing the same thing differently
- Can be successful for a long time following what others do but is vulnerable if they follow the wrong trend.
- Fashion industry has lots of analysers without innovation.

What does an analyser **with** innovation look like?

- Strong focus on both exploitation and exploration
- Combines defender and reactor
- Efficient and effective
- Searches for new products or services
- Market driven or technology driven innovation
- Defend current position while innovating new products or services
- Great skills and managerial expertise needed
- Dual goals of efficiency and effectiveness cause conflict
- Needs a flexible and robust organisational design.
- Xerox and IBM are successful examples.

Diagnostic: Exploration

1. How innovative are the organisation's products?
2. What is the price compared to the value of the product?
3. What is the price level compared to the quality level?
4. How frequently does the firm develop new products?
5. How difficult is it for other firms to develop related products?

Use the scale below. Add up your five scores and divide by 5. Now mark the organisation's location on exploration on the chart in the next slide.

1	2	3	4	5
Very low		Moderate		Very high

Strategy Space

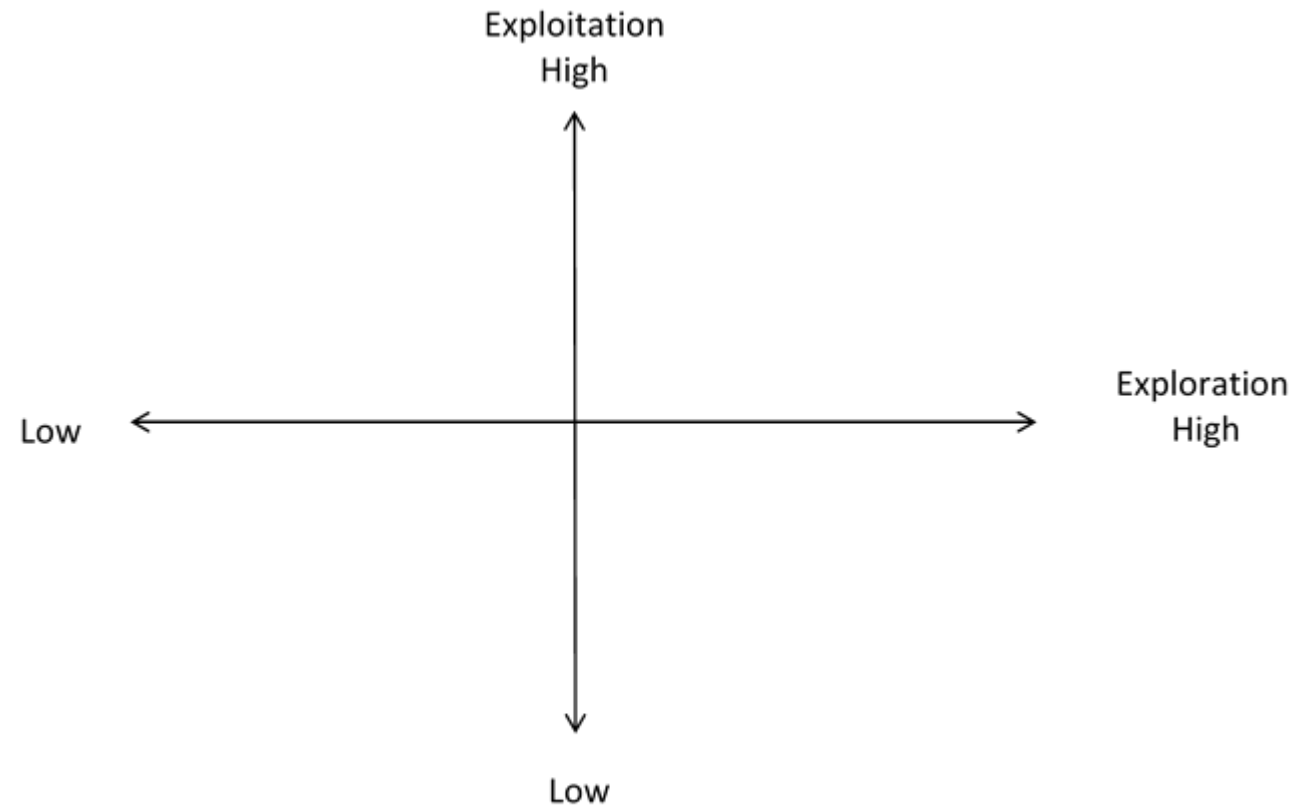


Figure 2.1 The strategy space

Diagnostic: Exploitation

1. What is the organisation's degree of process innovation?
2. What are the prices compare to the competition?
3. What is the quality in terms of it's standardisation and reliability?
4. What are the number of products the organisation has compared to it's competitors?
5. What barriers are there to entry in it's industry?

Add up your scores and divide by 5. Now mark the origination's location on exploitation. With these values of exploration and exploitation, locate the organisation on the graph (previous slide). What is it's strategy?

Fit and Misfit

Burton, DeSanctis, and Obel

Table 2.1. Fit between strategy and organizational goals

Corresponding quadrant in organizational design space	A	B	C	D	
Strategy types	Reactor	Defender	Prospector	Analyzer with innovation	Analyzer without innovation
Organizational goals	Neither	Efficiency	Effectiveness	Efficiency and effectiveness	

Environment



[This Photo](#) by Unknown Author is licensed under [CC BY-ND](#)

Organisation environment

- The environment is everything outside of our unit of analysis (team, department, organisation)
- Performance requires fit with the environment
- Open systems view of organisations
- Limits and opportunities
- Increased uncertainty in the environment causes organisations to need more differentiation.
- Many ways to describe an organisations environment.
- We will use two dimensions: **complexity and unpredictability** to assess our organisation. Fits well with an information processing view.

Complexity

- The number of powerful forces affecting the organisation
i.e. two competitors = low complexity

Unpredictability

- Degree of uncertainty about the forces impacting the organisation.
- Uncertainty reduces the accuracy of forecasts

Calm Environment

- Low complexity, low unpredictability
- Simple with few surprises
- Political or financial issues not a challenge for management unless a government owned monopoly
- Perception of calm environment by executives is a risk
- Can get a shock
- Time lag for change is long

i.e. Samsonite, Banks, Mortgage Brokers?

Varied Environment

- Many factors to take into consideration
- Factors are interdependent
- Relatively predictable
- Change occurs with known limits
- Market forecasts
- Political trends

i.e. LEGO in earlier times (demand, seasonal variations)

Locally Stormy Environment

- Highly unpredictable but not very complex
- Any adjustment can be made one at a time
- Can be dealt with on a local basis
- Factors are relatively independent

Turbulent Environment

- High complexity and high unpredictability
- Many interdependent factors – farmer: rain fall, price of grain (interdependent)
- Most difficult environment to operate in
- Organisations in this environment require large and fast data processing capability
- i.e. global airlines

Diagnostic: Degree of Complexity

1. List all the factors in the organisation's environment (tally)
2. What is the overall interdependence of the factors?

Table 3.1. Complexity scores

Interdependency of factors	Number of factors in the environment				
	1-3	4- 6	7-9	10-12	More than 12
Low	1	1	2	2	3
Medium	1	2	3	4	5
High	3	4	4	5	5

Diagnostic: Unpredictability

1. For each factor on your list score it's unpredictability using the scale below, total and calculate the average score.

Now plot the complexity and unpredictability to locate the firm's environment.

1	2	3	4	5
Very low		Moderate		Very high

Environment Space

