

Week 4 Lecture

21512 Understanding Organisations:
Theory and Practice



Dr/ Rebecca Dong UTS Business School

Learning objectives

At the end of the session, you should be able to:

1. Organisational Performance
2. Structural Contingency Theory (SCT)
3. Uses, benefits and criticism of SCT



**Reflection Of
the lecture 4**

Performance and Effectiveness Outcomes



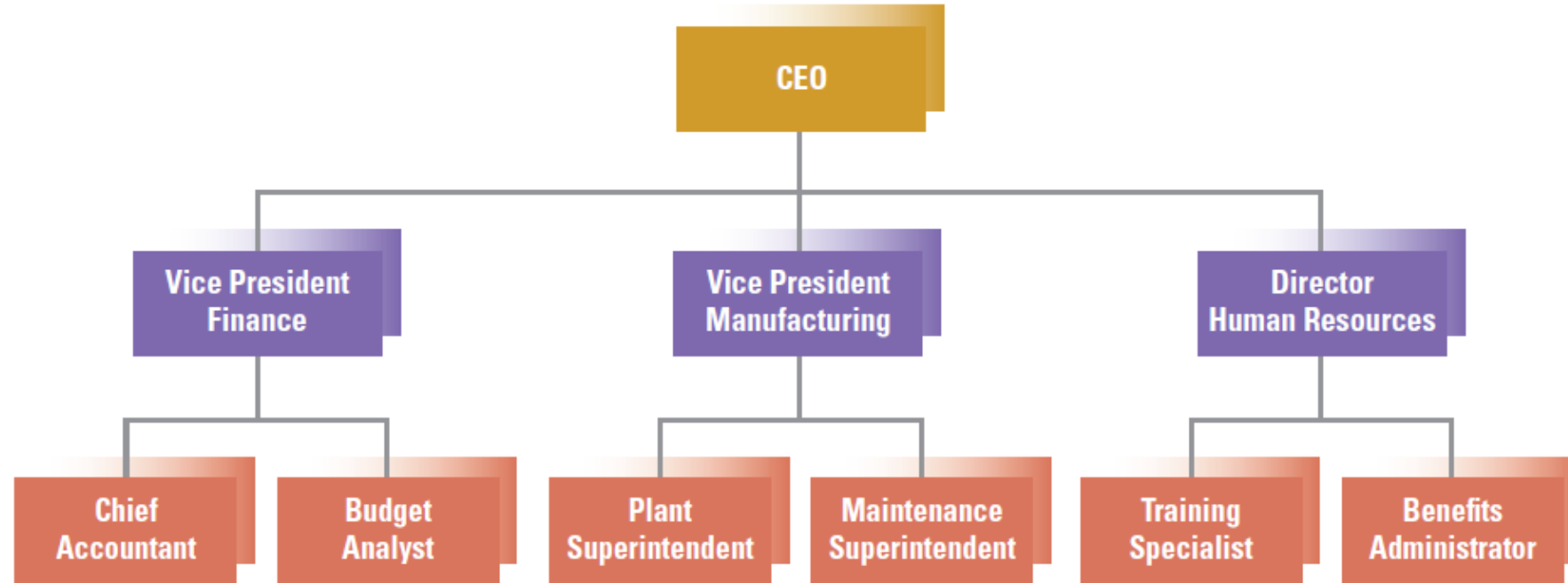
Efficiency: Amount of resources used to achieve the organization's goals

Effectiveness: The degree to which an organization achieves its goals

Stakeholder Approach: Balancing the needs of groups within and outside of the organization that have a stake in the organization's performance

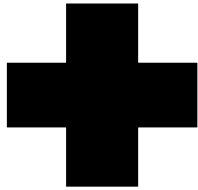
- **Measuring Effectiveness:**
 - The Goal Approach
 - The Resource-Based Approach
 - The Internal Process Approach
 - The Strategic Constituents Approach

A Sample Organization Chart



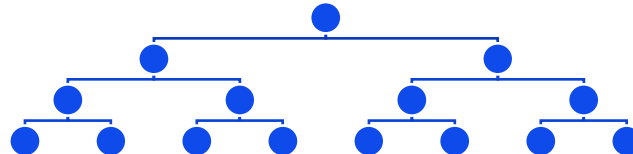
Hierarchy problem: how flat?

Configuration = hierarchical levels + span of control



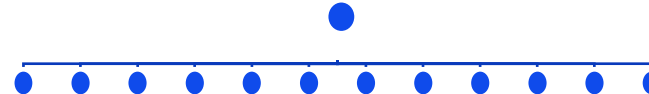
Tall structures:

- Large complex organisations
- Long chain of command
- Narrow span of control
- Vertical communication takes time



Flat structures:

- Simple, small organisations
- Short chain of command
- Wider span of control
- Heavy managerial workload – many subordinates!



Hierarchy problem: optimal span of control



Contingencies to determine 'optimal' span of control:

1. Similarity of functions
2. Geographic contiguity
3. Complexity of functions
4. Control and direction required
5. Coordination required
6. Planning required



It All Depends: Key Contingencies



Contingency: The correct organizational design approach is contingent on the organization's situation.

Size

Technology

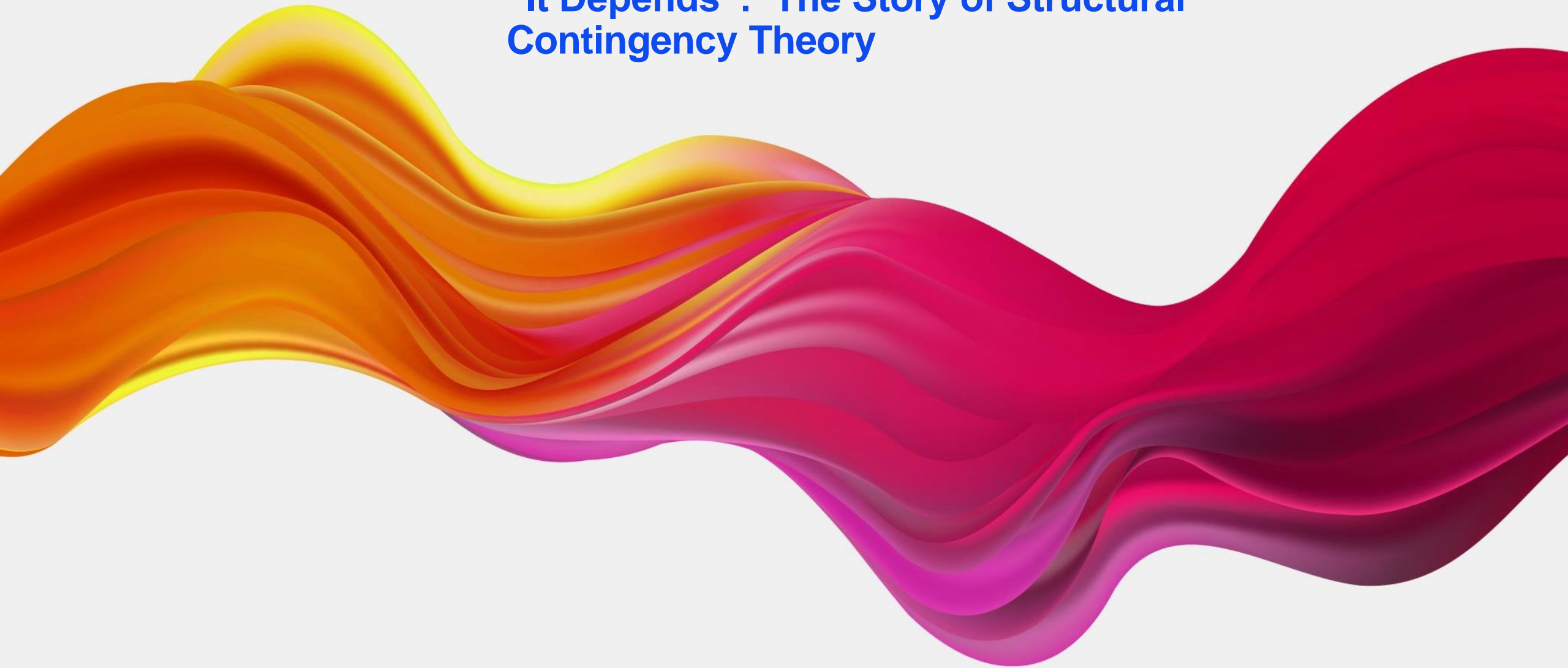
Environment

Goals

Strategy

Organizational culture

“It Depends”: The Story of Structural Contingency Theory

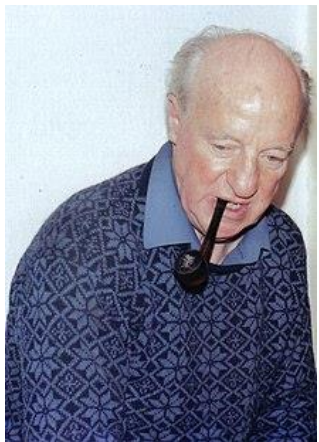


Beyond '*one best way*': contingencies



(1960s-1970s): Aston School

Tom Burns, George Stalker, Joan Woodward, James Thompson, Lex Donaldson



- **Empirical studies** on organisations: what seem to work best in different contexts

Management style: Contingency Theory

UTS
BUSINESS
SCHOOL



MARKETING

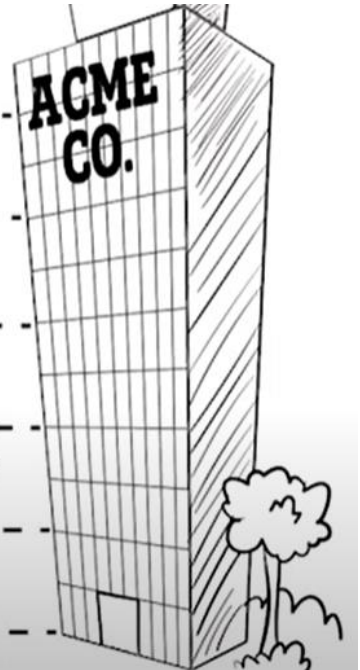
SALES

PUBLIC RELATIONS

CREATIVE DEVELOPMENT

INFORMATION TECHNOLOGY

HUMAN RESOURCES



Key principles of Contingency Theory



There is **no one best way** to manage

Organizational design must **fit with the environment** (technology, predictability, competition etc.)

Effective organisations must also achieve **fit within** their units/subsystems

Both **organisational structure and management styles** need to be aligned and fit the environment

Organisational adaptation and survival can be achieved in more ways than one (some are better than others).

Best way to organise is contingent on the environment

Open systems perspective:

- views the complex organisation as a set of interdependent parts that, together, constitute a whole which, in turn, is interdependent with some larger environment
- the interactive nature of the elements within the organisation — and between the organisation and the environment — results in at least two open system characteristics that are central to the contingency approach:
 - *Adaptation*: the elements within the system adapt to one another to preserve the basic character of the system – “homeostasis”
 - *Equifinality*: holds that a system can reach the same final state from differing initial conditions and by a variety of paths

Theoretical Foundations

- *Adaptation: the elements within the system adapt to one another to preserve the basic character of the system – “homeostasis”*
- *Equifinality: holds that a system can reach the same final state from differing initial conditions and by a variety of paths*

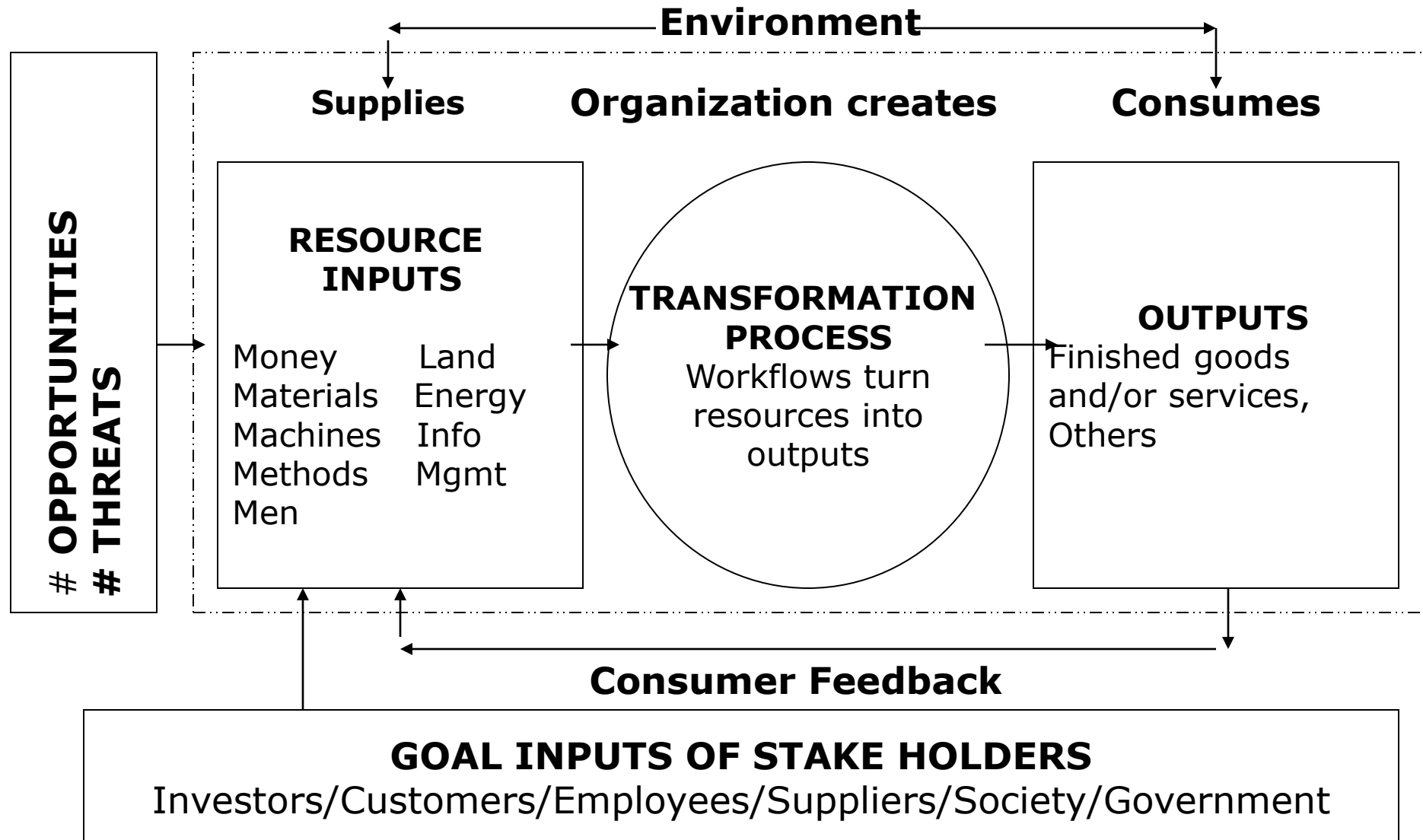
Failure to adapt ultimately leads to organisational demise:



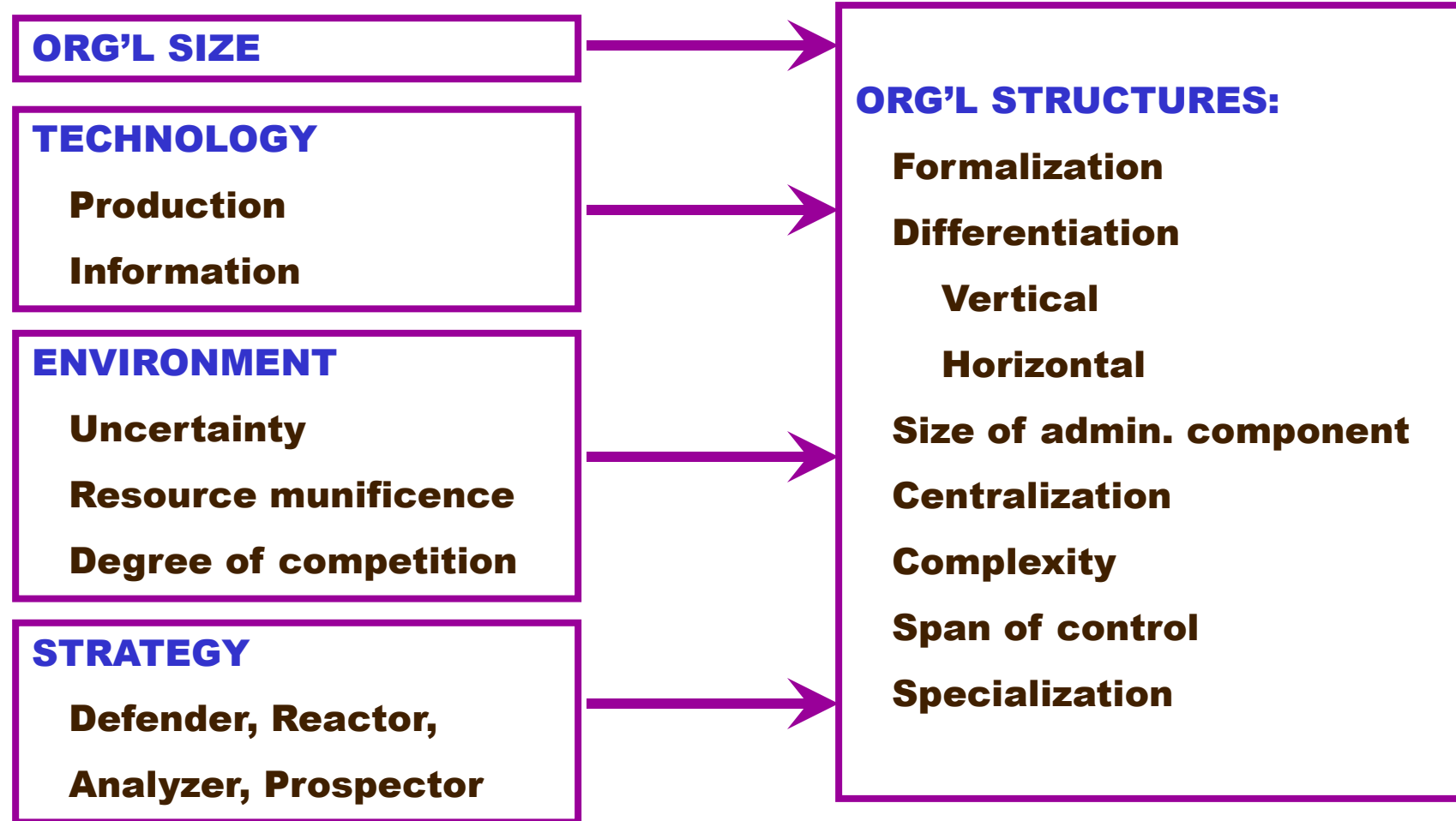
You can manipulate any of the four levels to Δ profitability.

equifinality

Open Systems View Of Organisations



Overview of SCT



SOURCE: Adapted from Pfeffer (1982:149 & 157)

Overview of SCT

of employees
Local, regional, global business?
Family business? Multinational corporation?

ORG'L SIZE

TECHNOLOGY

Production
Information

ENVIRONMENT

Uncertainty
Resource munificence
Degree of competition

STRATEGY

Defender, Reactor,
Analyzer, Prospector

ORG'L STRUCTURES:

Formalization
Differentiation
Vertical
Horizontal
Size of admin. component
Centralization
Complexity
Span of control
Specialization

Nature of operations?
Factory?
Research?
Innovation? service?
Product?

Inability to predict
nature and impact of
change in
environment?

Availability and
accessibility of
resources

Adaptive Strategies

Defenders	Prospectors
<ul style="list-style-type: none"> seek moderate growth retain customers 	<ul style="list-style-type: none"> seek fast growth emphasize risk-taking & innovation
Analyzers	Reactors
<ul style="list-style-type: none"> blend of defender & prospector strategies imitate others' successes 	<ul style="list-style-type: none"> use an inconsistent strategy respond to changes

SOURCE: Adapted from Pfeffer (1982:149 & 157)

Overview of SCT

of employees
Local, regional, global business?
Family business? Multinational corporation?

Rules, policies and procedures, guidelines

Nature of tasks
Nature of operations?
Factory?
Research?
Innovation? service?
Product?

ORG'L SIZE

TECHNOLOGY

Production
Information

ENVIRONMENT

Inability to predict
nature and impact of
change in
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Uncertainty
Resource munificence
Degree of competition

STRATEGY

Defender, Reactor,
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Availability and
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ORG'L STRUCTURES:

Formalization

Differentiation

Vertical

Horizontal

Size of admin. component

Centralization

Complexity

Span of control

Specialization

'departmentalisation'

of layers in hierarchy (locus
of decision making)

of specialised units
(e.g functional units)

Who makes the decision? Top
management or delegated?

Differentiation across sub-
units and processes (use of
resources)

organisation's activities are
divided into specialised roles.

of administrative staff =
support services

defines how many employees
each manager is responsible
for within the company.

Adaptive Strategies

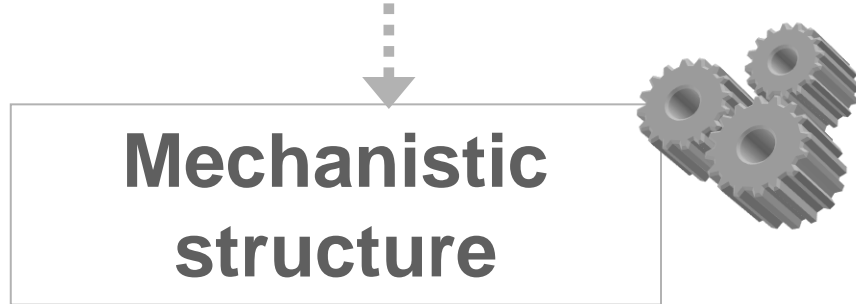
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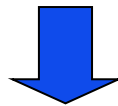
No one best way: design trade-offs



Low task
uncertainty fits

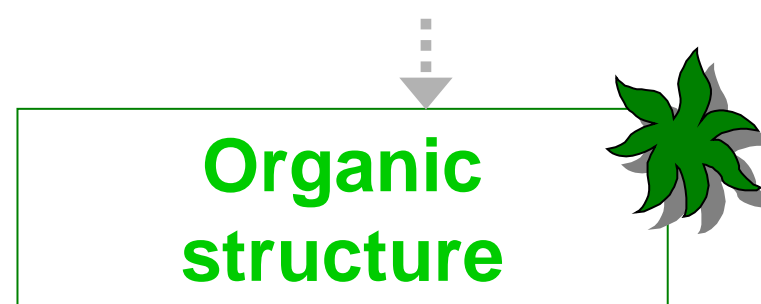


- ✓ High formalisation
- ✓ Focus on control, planning and procedures
- ✓ Top-down decisions, low participation



Emphasis on
control & compliance
(high standardisation)

High task
uncertainty fits

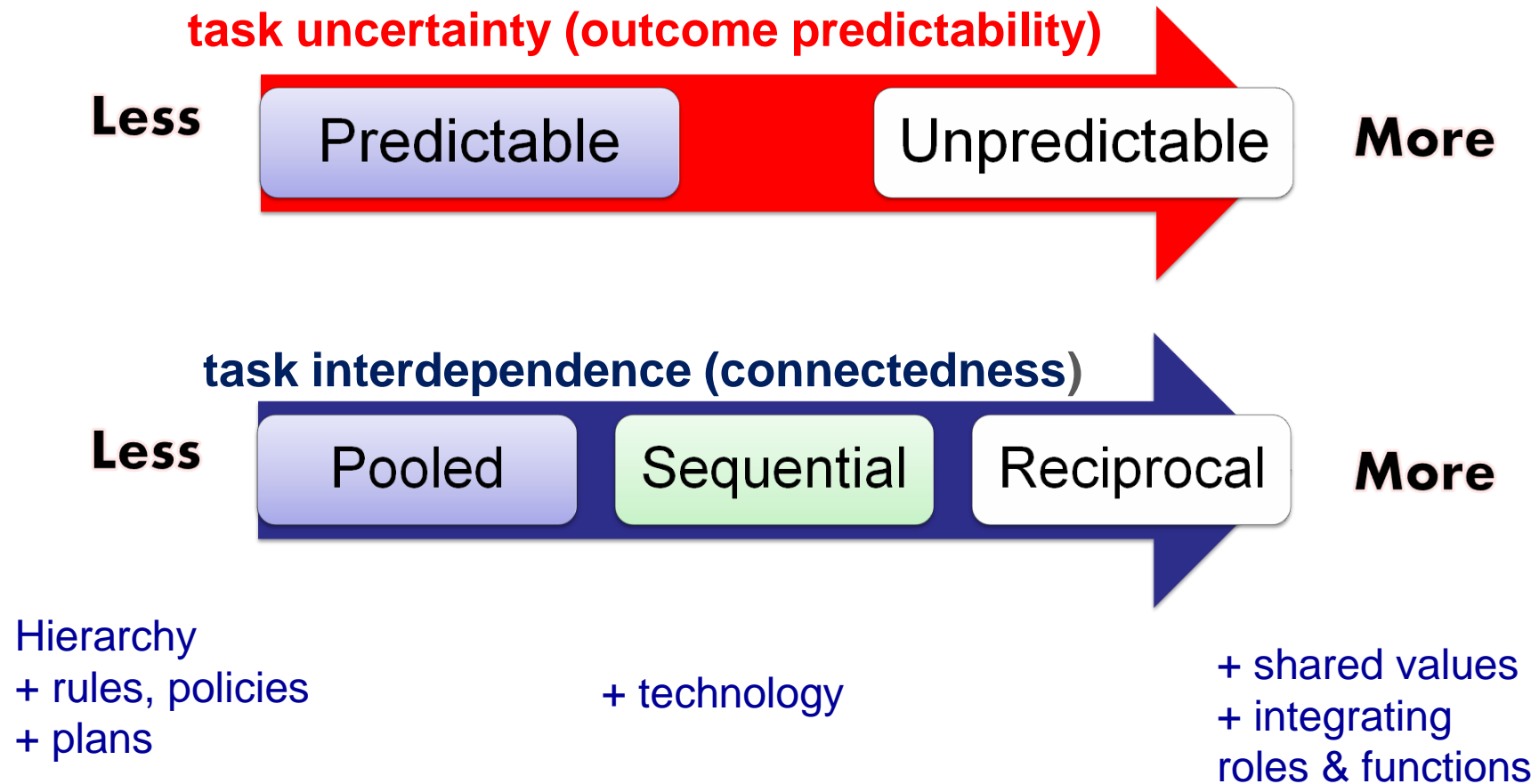


- ✓ Low formalisation
- ✓ Focus on learning, feedback, mutual adjustment
- ✓ Encourage initiative, high participation, open communication



Emphasis on
learning & adaptation
(low standardisation)

No one best way: design trade-offs



Thompson 1967

Example of task interdependence

task interdependence (connectedness)

Pooled

Sequential

Reciprocal



Hierarchy
+ rules, policies
+ plans

+ technology

+ shared values
+ integrating
roles & functions

Thompson 1967

Environment-Structure Fit

As organizations adapt their structures to fit their contexts,
Variations among org'l forms reflect their diverse environments:

If environment is:

Placid, Predictable,
Homogeneous, Stable,
Resource Munificent

If environment is:

Turbulent, Uncertain,
Complex, Unstable,
Resource Scarce



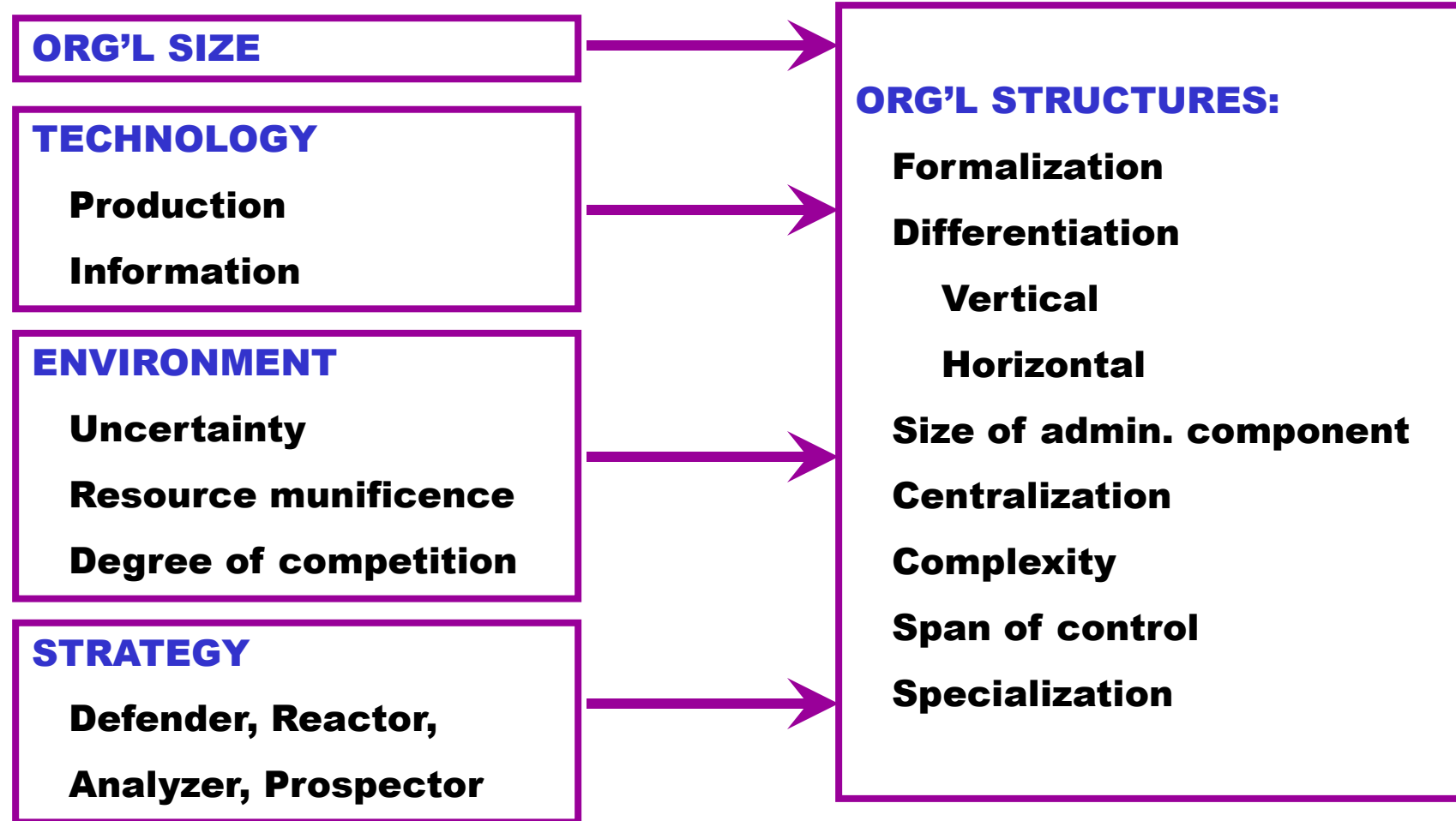
Then structural form is:

Mechanistic, Bureaucratic,
Centralized;
Clear Goals

Then structural form is:

Organic, Informal,
Networked;
Ambiguous Goals

Overview of SCT



SOURCE: Adapted from Pfeffer (1982:149 & 157)

Technological Determinism?

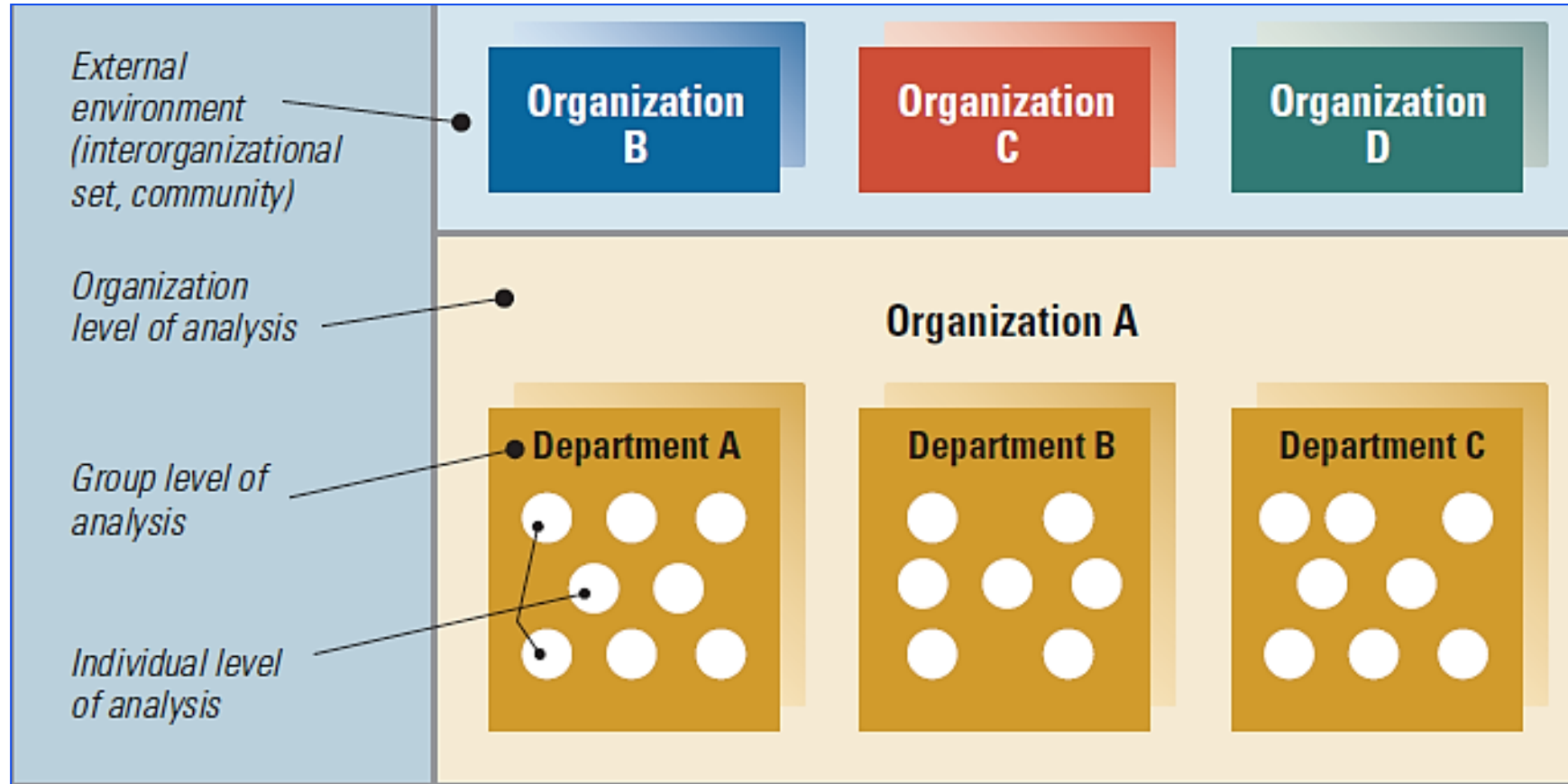
SCT hypothesizes that structural complexity of org's core production & information technologies (a.k.a. the "task environment") are primary constraints on internal division of labour and performance outcomes

TECHNOLOGY "the physical combined with the intellectual or knowledge processes by which materials in some form are transformed into outputs" (Hulin & Roznowski 1985:47)



English researchers such as Joan Woodward (1958) and the Aston group (Hickson et al. 1971), linked variations in the core organizational technologies, such as batch vs continuous production, to systematic differences in organizations' work group structures, managerial & employee behaviors, and outcomes.

Levels of Analysis in Organizations



contingency theory principles



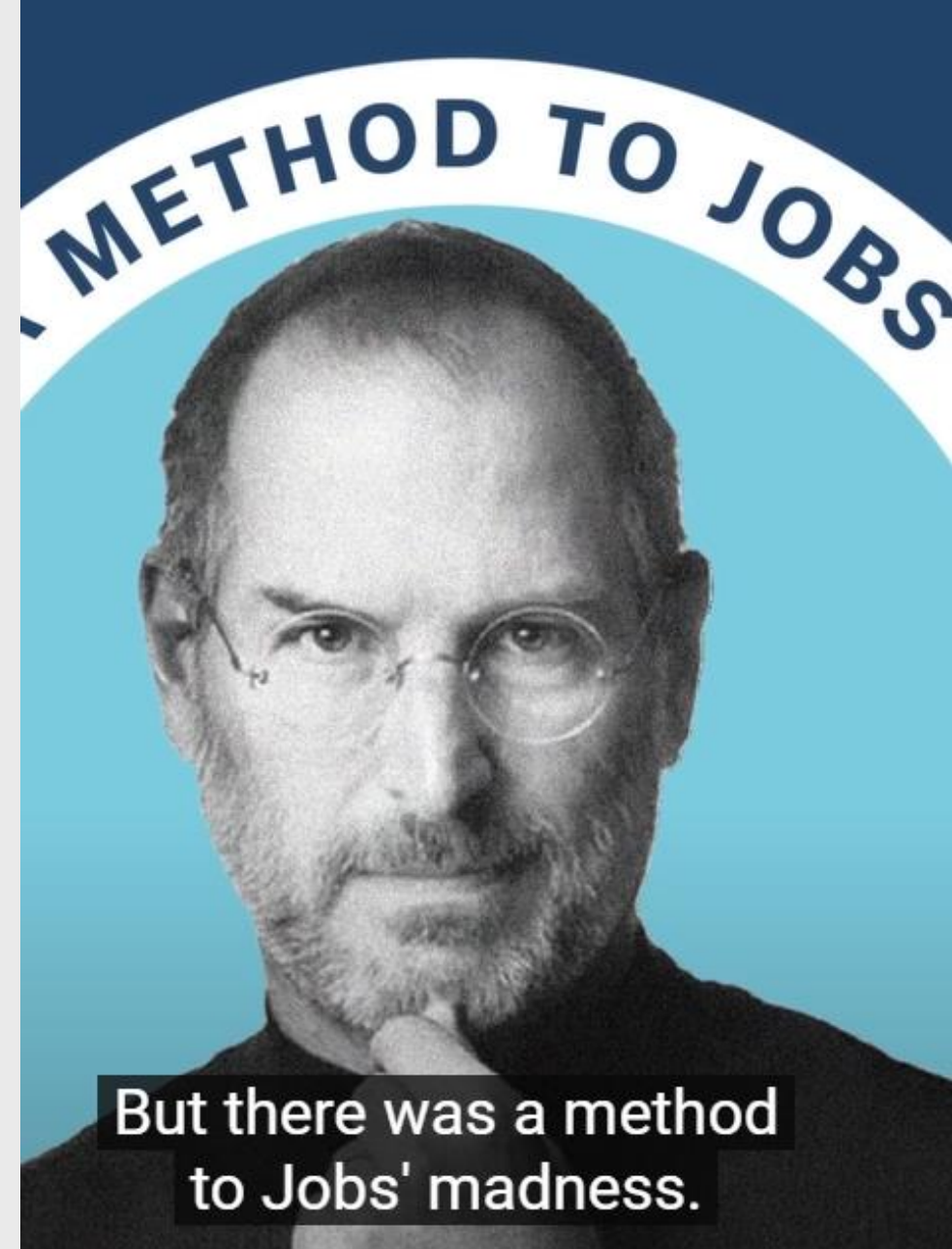
Different structural designs fit different contingencies

Contingencies = independent contextual variables (e.g. technology, product, size).



**How to apply
contingency theory to
organizational design?**

Case study: Apple



How Apple Is Organized for Innovation: The Functional Organization

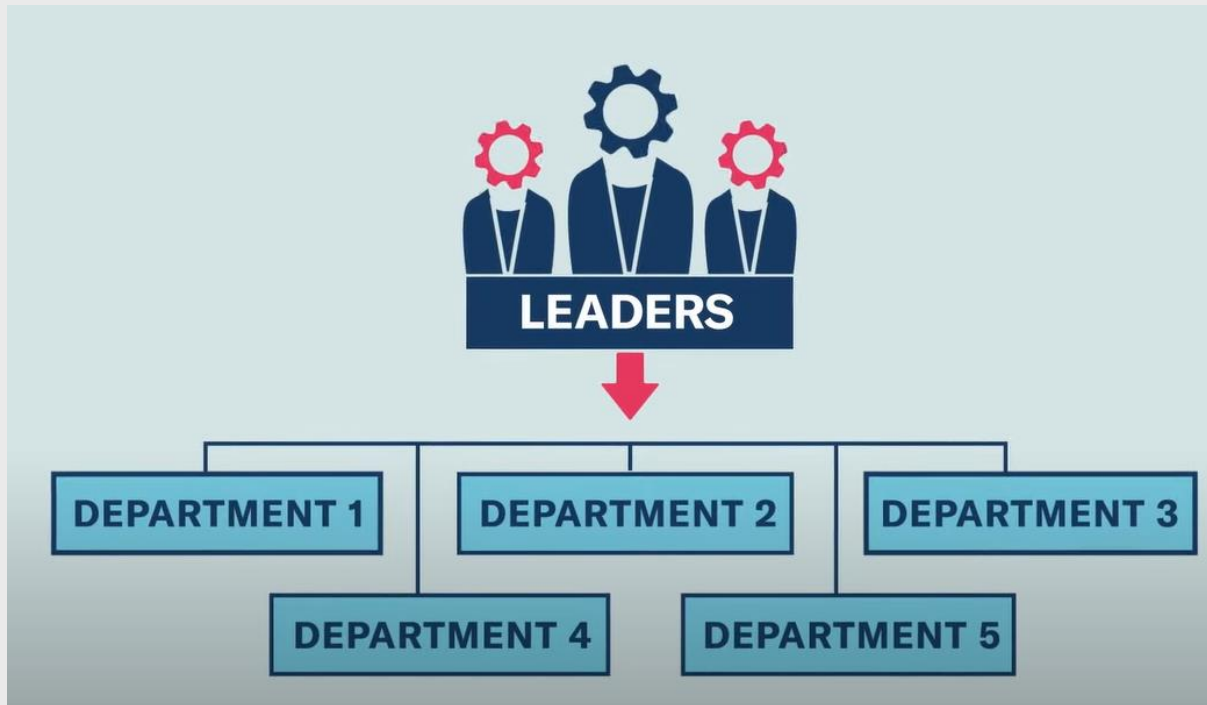
When Steve Jobs arrived back at Apple in 1997, he laid off general managers of all business units and combined disparate functional departments into one functional organization. The adoption of a functional structure may have been unsurprising for a company of Apple's size at the time. What is surprising—in fact, remarkable—is that Apple retains it today, even though the company is nearly 40 times as large in terms of revenue and far more complex than it was in 1998. Senior vice presidents are in charge of functions, not products. As was the case with Jobs before him, CEO Tim Cook occupies the only position on the organizational chart where the design, engineering, operations, marketing, and retail of any of Apple's main products meet. In effect, besides the CEO, the company operates with no conventional general managers: people who control an entire process from product development through sales and are judged according to a P&L statement. (**Harvard Business Review**)



How Apple Is Organized for Innovation: The Leadership Model

As Apple has grown, its functional structure and leadership model have had to evolve. Deciding how to organize areas of expertise to best enable collaboration and rapid decision-making has been an important responsibility of the CEO. The adjustments Tim Cook has implemented in recent years include dividing the hardware function into hardware engineering and hardware technologies; adding artificial intelligence and machine learning as a functional area; and moving human interface out of software to merge it with industrial design, creating an integrated design function. (**Harvard Business Review**)

How Apple Is Organized for Innovation: Leadership at Scale



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Organizational Design Essentials

(slide 1 of 3)



- Organization design provides tools to understand, design, and manage organizations more successfully.
- Organizations are open systems that obtain inputs from the environment, add value, and discharge products and services.
- Many types of organizations exist, such as for-profit and non-profit.
- Structural dimensions and contingency factors provide labels for measuring and analyzing an organization.

Organizational Design Essentials

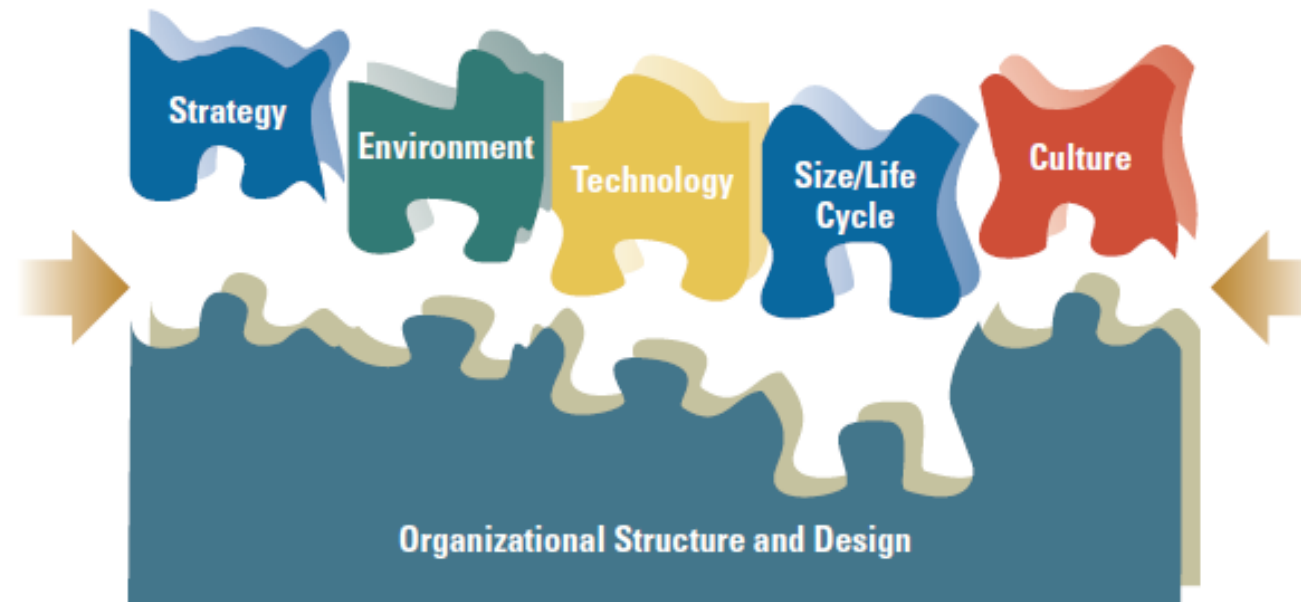
(slide 2 of 3)



- Structural dimensions include formalization, specialization, hierarchy of authority, complexity, and centralization.
- Contingency factors include size, organizational technology, environment, goals and strategy, and culture.
- Various contingency factors will influence whether an organization is more effective with a primarily mechanistic or a primarily organic design.
- Current challenges require greater flexibility and decentralization for most organizations.

- Some organizations have shifted to an extremely organic, “bossless” design.
- Organization theory and design is a macro examination of organizations because it analyzes the whole organization as a unit.
- Most concepts in organization theory and design pertain to the top- and middle-management levels of the organization.

Contingency Factors Affecting Organization Design

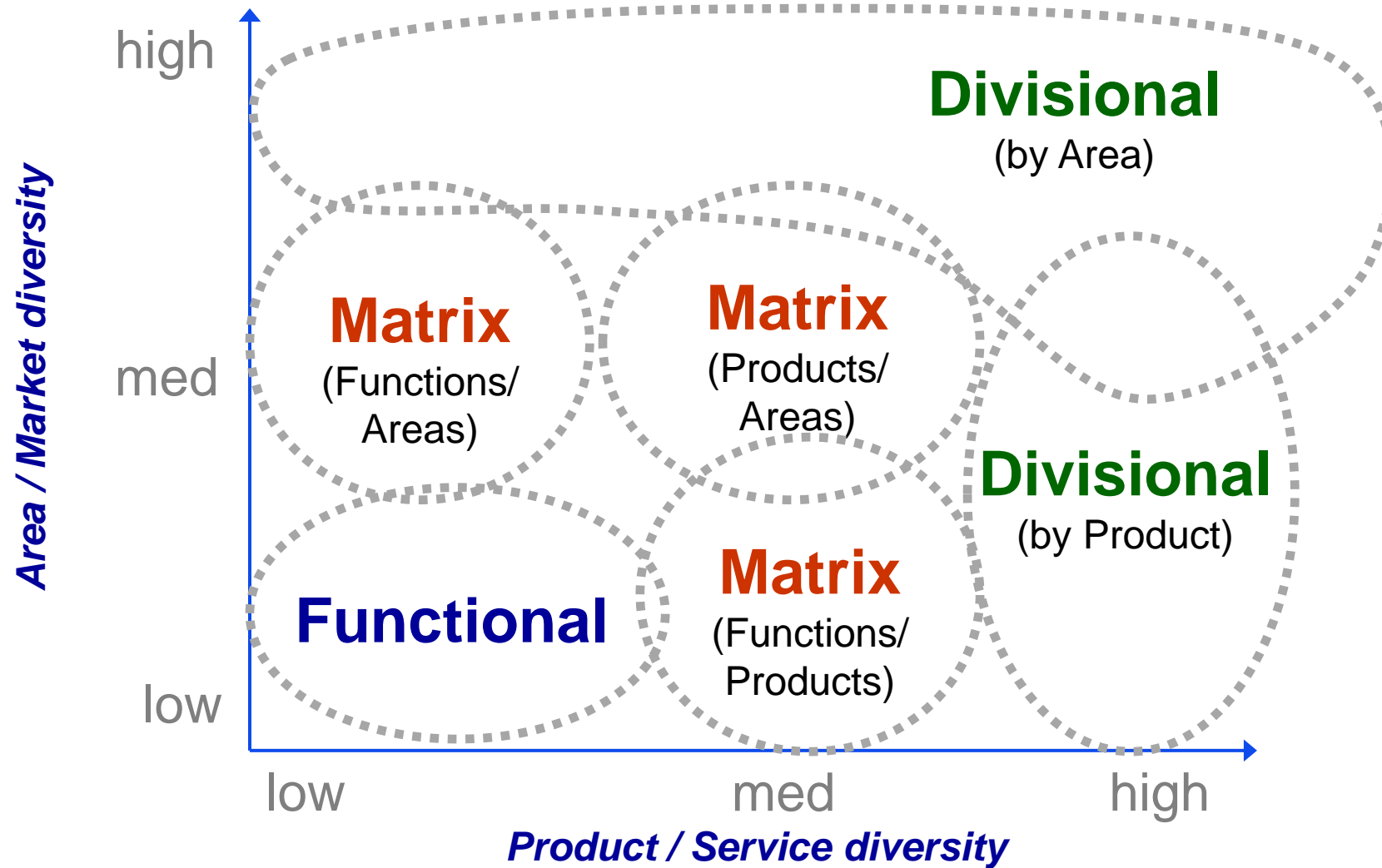


The Right Mix of Design Characteristics Fits the Contingency Factors

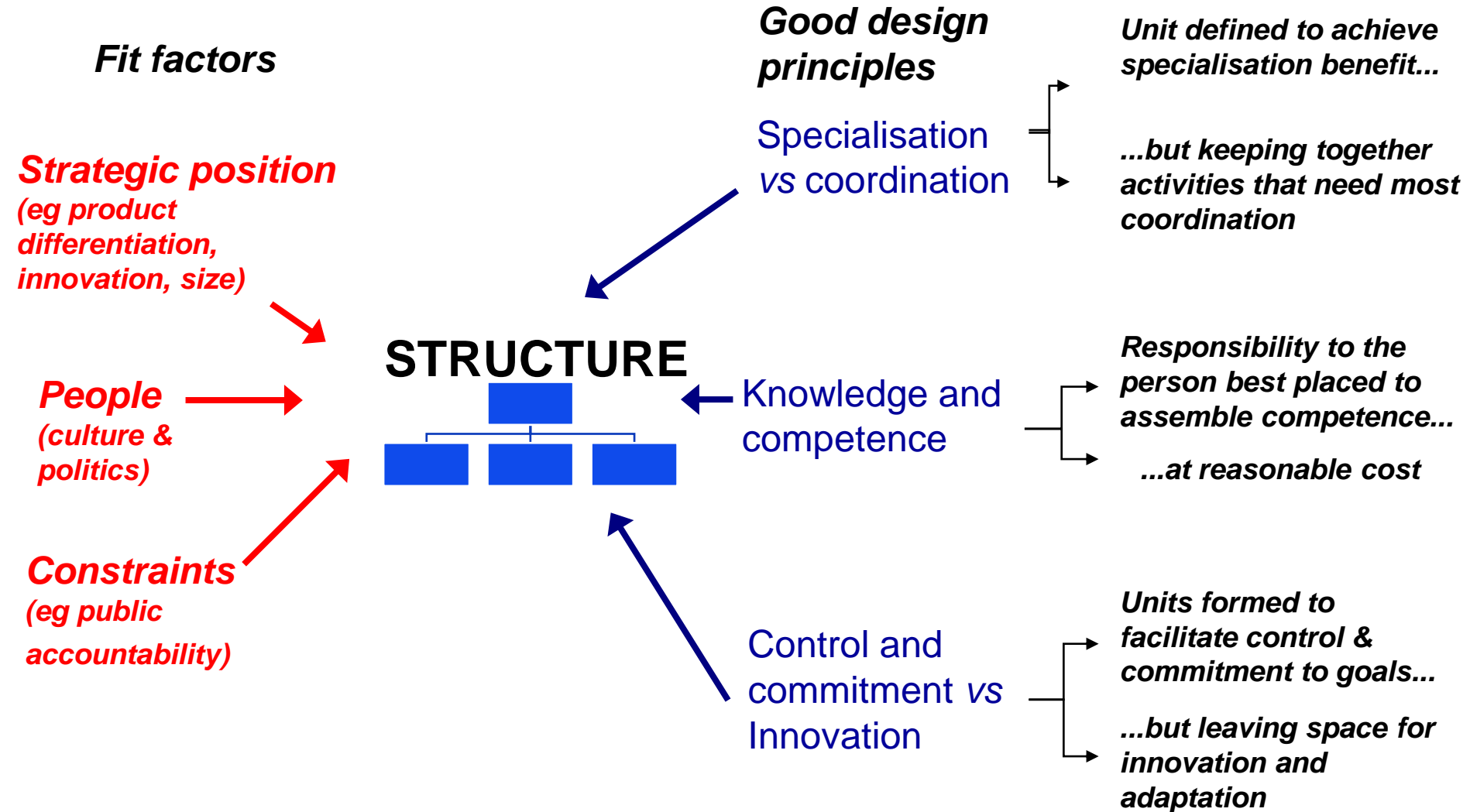
Other Contingency Factors Affecting Organization Design

- Emphasis given to efficiency and control (mechanistic) versus learning and flexibility (organic) is determined by the contingencies of strategy, environment, size and life cycle, technology, and organizational culture
- Design must fit the workflow technology of the organization

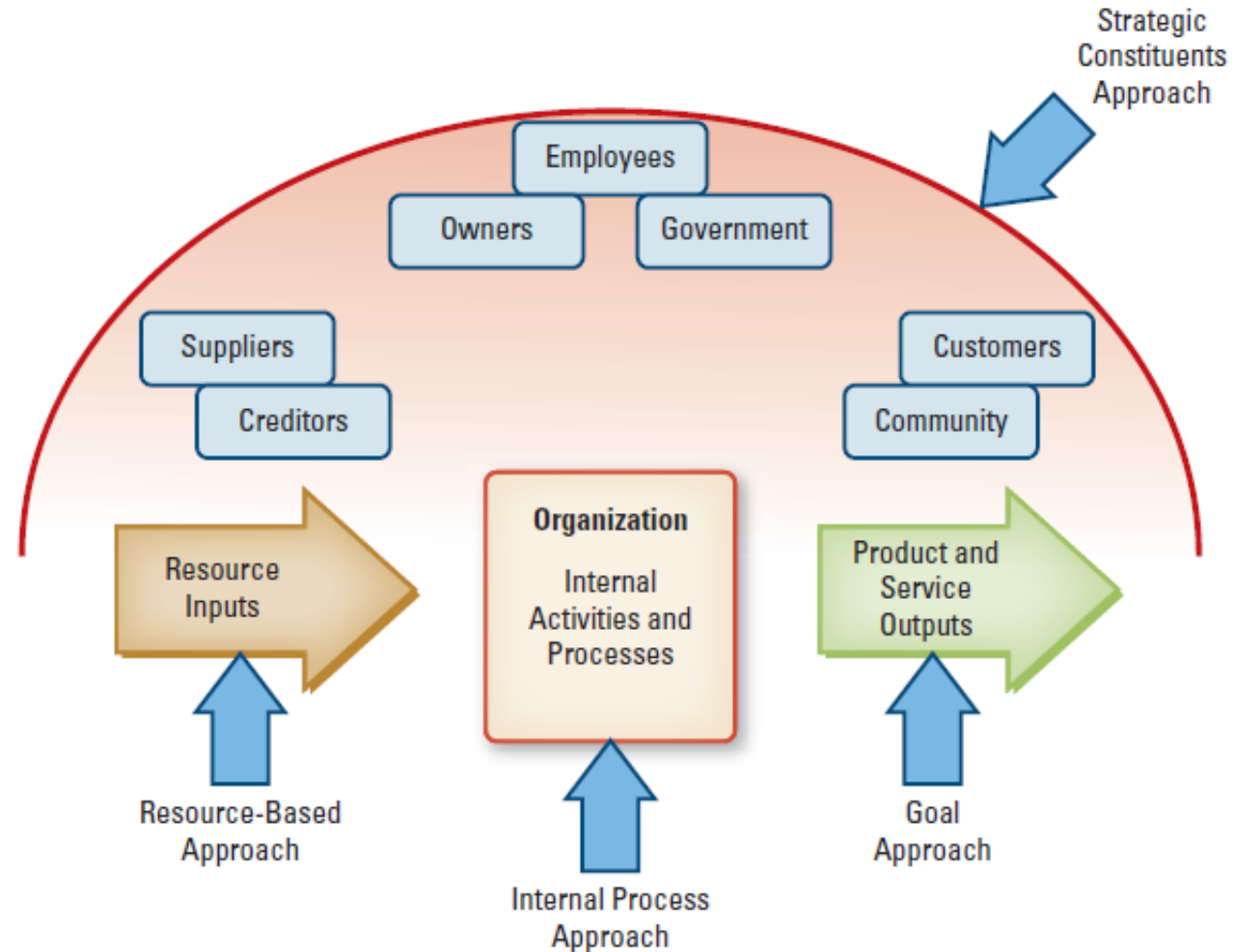
Structural design fit



Summary: fit and good design factors



Approaches to Measuring Organizational Effectiveness



Indicators of Organizational Effectiveness



1. Meeting deadlines; on-time delivery
2. Timely material and equipment acquisition
3. Quality of product or service
4. Customer satisfaction/complaints
5. Market share compared to competitors
6. Employee training and development (number of hours)
7. Staying within budget
8. Shareholder satisfaction
9. Reduction in costs
10. Supply chain delays or improvements
11. Productivity; dollars spent for each unit of output
12. Employee engagement
13. Achieving sales targets
14. Product development cycle time (reduction in cycle time)
15. Number of hours/days and so on to complete tasks

An Integrated Effectiveness Model



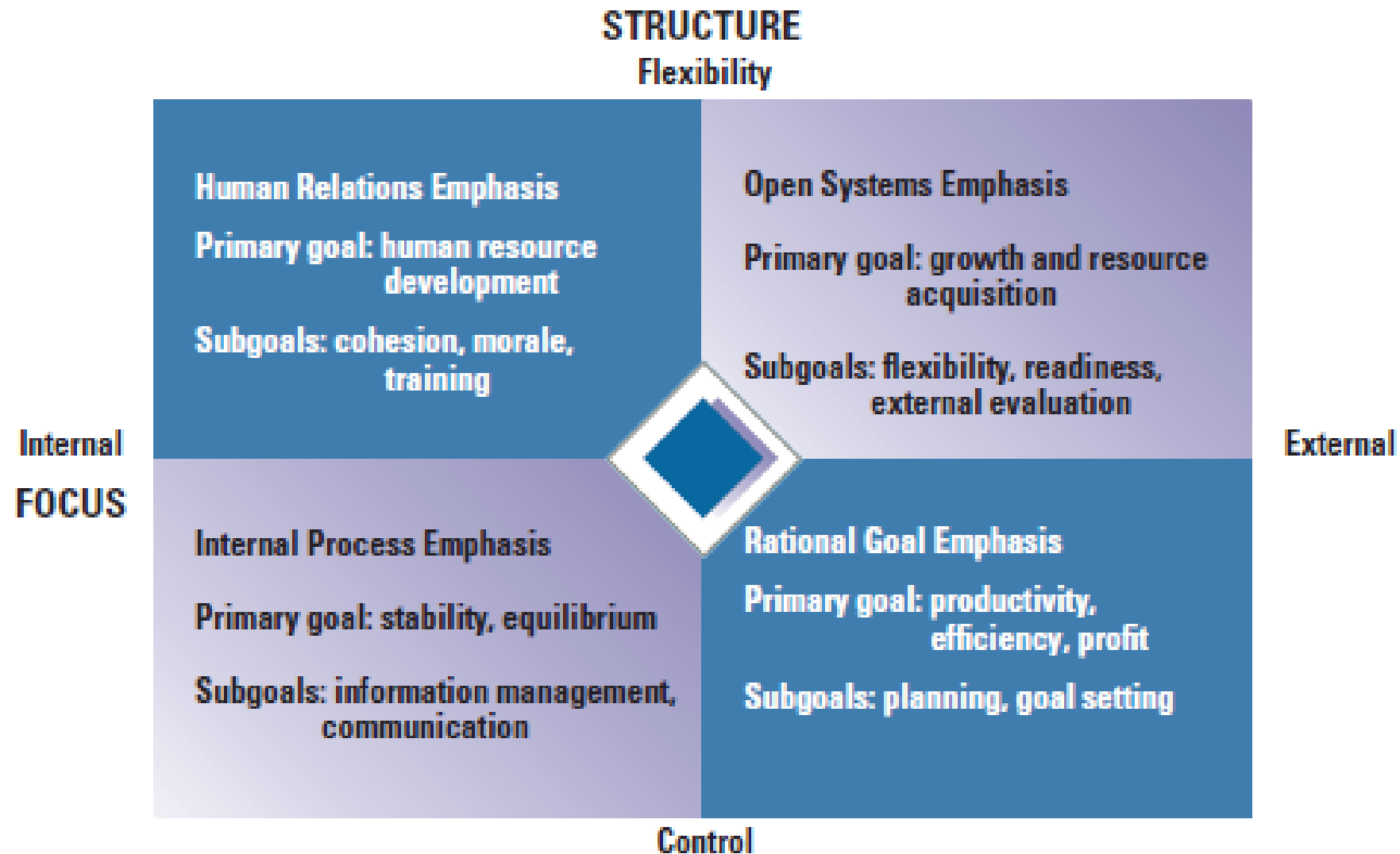
The **competing values model** tries to balance concern with various parts of the organization

Effectiveness is shown through a combination of two dimensions: focus and structure

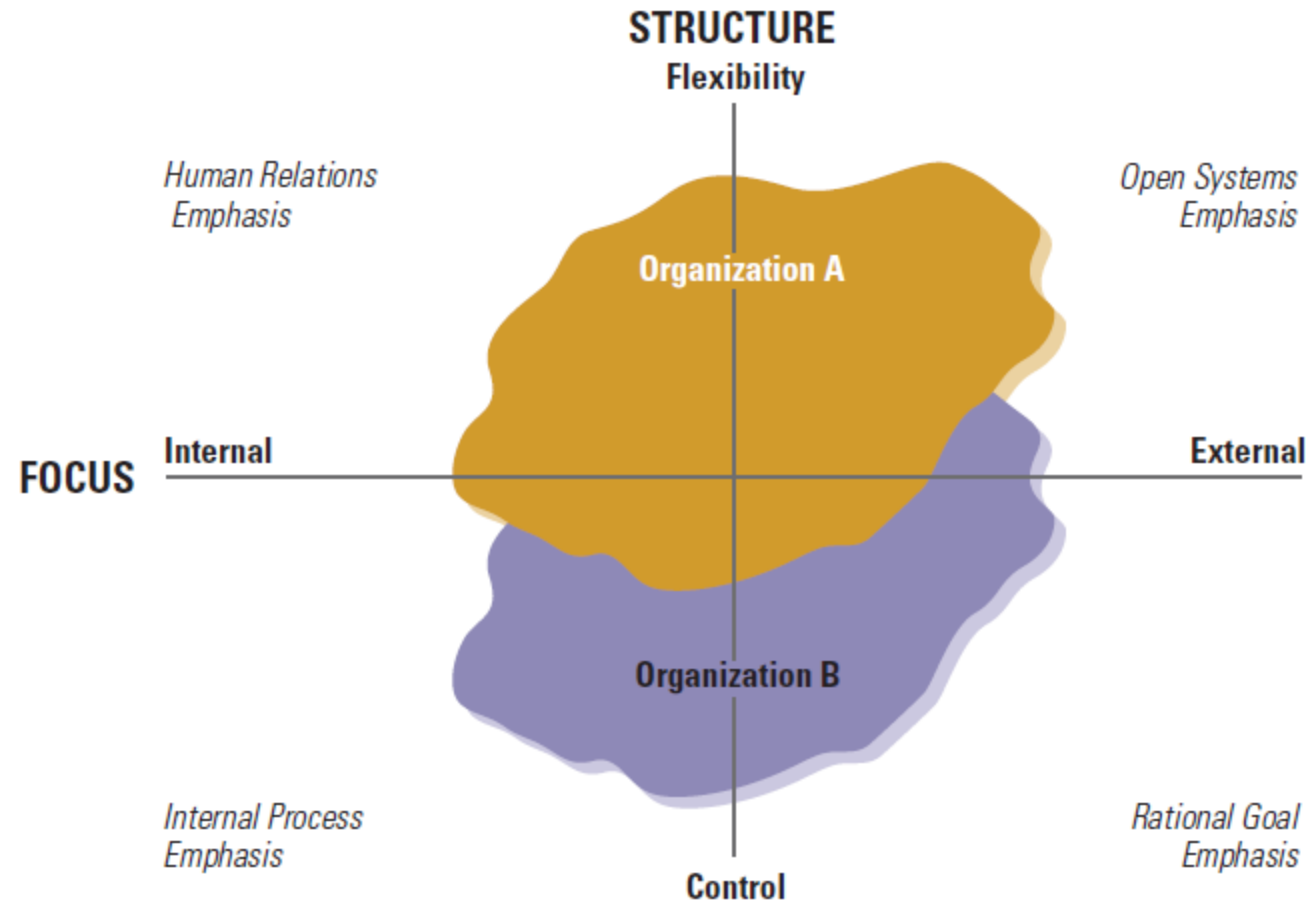
Four approaches to effectiveness values:

- Open systems emphasis
- Rational goal emphasis
- Internal process emphasis
- Human relations emphasis

Four Approaches to Effectiveness Values



Effectiveness Values for Two Organizations



Organizational Design Essentials

(slide 1 of 2)



- Leaders' choices of mission and purpose influence how the organization should be designed and have a tremendous impact on organizational effectiveness.
- Setting a direction for the organization begins with top leaders looking at both the external environment and the organization's internal situation.
- Operating goals designate specific ends sought through the actual operating procedures of the organization.
- Official and operating goals are a key element in organizations because they meet certain needs, such as providing employees with a sense of direction and motivation.

Organizational Design Essentials (slide 2 of 2)



- Strategies may include any number of techniques to achieve the stated goals.
- Organization design should fit the firm's competitive approach and the various contingency factors to contribute to organizational effectiveness.
- No easy, simple, guaranteed measure will provide an unequivocal assessment of effectiveness. To be successful, organizations must perform diverse activities well.
- The competing values model acknowledges different areas of focus (internal, external) and structure (flexibility, stability) and allows managers to choose the values to emphasize in their organization.

SCT and Organisational Structure



Choosing the most suitable organisational structure is **CONTIGENT** on a myriad of organisational and external environmental factors, including:

- Nature of the organisation (business)
- Nature, breadth, depth of products or processes
- Complexity of operations
- Size of the organisation
- Breadth of geographic or market operations
- Strategic objectives or goals of the firm
- Capabilities
- Technology
- Customer demand
- Link to suppliers
- Management and leadership style
- Culture

Advantages and Disadvantages of Contingency Theory

The primary advantages of contingency theory include:

- It rightfully situates an organisation within the wider open system
- A more realistic view of management and organization – (if there is one way best way to become a successful organisation – show me the way?)
- Takes into account that organising does not happen in a vacuum (or in an ivory tower?)
- Managers are situation-oriented and not stereotyped.
- Lends itself to an innovative and creative management style.

The negatives of contingency theory include:

- It does not have a clear theoretical base – it depends on practically anything and everything?
- it is a descriptive theory (as opposed to a prescriptive)
- It does not prescribe a course of action.
- As situation can be influenced by many factors - it is rather difficult to analyse all these factors.
- Difficulty in measuring the relationships of variables: additive? multiplicative? compensatory? Interactive?

Critique of SCT

- (1) Imprecise concepts & propositions: “more an orienting strategy or metatheory” than a falsifiable system of theoretical propositions
- (2) Empirically, environment-technology & structures “loosely coupled”: **equifinality** – a multiplicity of org'l forms can thrive in identical environmental conditions \Rightarrow complex environ'l-form interactions
- (3) Emphasizes managerial adaptation to environ'l constraints, but underspecifies how managers can/should respond to particular external forces when redesigning internal organizational structures

- John Child's (1972) strategic choice explanation that managers are not highly constrained by environments & technologies, but may exercise substantial choice (agency) in shaping their orgs' structures
- By obtaining sufficient political power resources to cope with uncertainties threatening their orgs, managers may overcome environmental-technical constraints on org'l survival and performance

Assumptions of contingency theory



Organizations are open systems that need to adapt to environmental conditions.
This implies that:

- Organizational characteristics are objective and measurable
- Organizations are clearly separated from their environment
- Environments are independent from the organization

Problems with these assumptions?

Pros and cons of contingency theory?



- Environment are not totally independent from organizations: are there enacted
- The distinction between organization and environment is not clear cut (e.g. supply chain, alliances, joint ventures, contractors, consultants, attempts at influencing stakeholders, etc.)
- Organizations are not stable and are constantly changing

So what have we learned today?



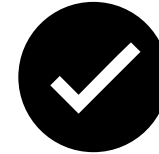
Organisational Performance



Structural Contingency Theory



Uses, benefits and criticism of SCT



Assignment Help: Q&A



Assessment overview

Assessment task 1: Individual essay

| 30 % | Due **11.59pm Friday 28 April 2023** (to be uploaded via Turnitin)

In this Essay, you must use two organizational theories to analyse an organization of your choice. The purpose is to demonstrate both your capacity to effectively summarize these theories (capturing their key principles) and your ability to apply them to real context. In this, you also must show you can appreciate both the value and the limitations of these theories.

Bonus points:

Considering that some theories are more complex and sophisticated than others there is also a bonus for those students who choose to meet the challenge. Here are the possible theoretical lenses you can use for your essay, and the bonus points that will be added to the assessment mark for those who choose to consider these theories (up to a maximum of 30/30):

- scientific management/bureaucracy theory (0 bonus points);
- contingency theory (0 bonus points);

You don't have to include the following theories in your essay unless you hope to achieve Bonus Points (extra grades):

- design thinking/open collaboration (1 point);
- power/organization politics (1 points);
- organizational culture (1 point);
- institutional theory (1 point);
- critical management/stakeholder/ethic theories (1 point);
- paradox theory (2 point);

The assignment must be written in "Essay" form: for information, refer to the [The UTS Business School Writing Guide \(2020\)](#)

Make sure you include several references (at least 4-5) from the recommended readings and/or from the references cited in the Lecture slides.

The essay must be submitted as a **Word document, of approximately 2000 words (+/- 10%) references excluded.**

Your work will be assessed individually but you are encouraged to collaborate with your study group in its preparation, by exchanging information, discussing ideas, seeking feedback. However, each individual essay must be absolutely original (and authored by a single student).

How to gain BONUS points?



Design thinking applied to management	<p>Gruber, M., de Leon, N., George, G., & Thompson, P. 2015. Managing by design. <i>Academy of Management Journal</i>, 58(1): 1-7</p> <p>Martin, R. L. 2007. Design and business: why can't we be friends? <i>Journal of Business Strategy</i>, 28: 6-12</p> <p>Jacobides, M. G., Cennamo, C., & Gawer, A. 2018. Towards a theory of ecosystems. <i>Strategic Management Journal</i>, 39(8): 2255-2276</p>	<p>The first two two short papers (Gruber et al; Martin) discuss different aspects and potential managerial application of design thinking. They will be considered as a single source for the purpose of the assignment.</p> <p>Jacobides et al: We consider what makes ecosystems different from other business constellations, including markets, alliances, or hierarchically managed supply chains. Ecosystems, we posit, are interacting organizations, enabled by modularity, not hierarchically managed, bound together by the nonredeployability of their collective investment elsewhere. Ecosystems add value as they allow managers to coordinate their multilateral dependence through sets of roles that face similar rules, thus obviating the need to enter into customized contractual agreements with each partner.</p>
Stakeholder theory	<p>Donaldson, T., & Preston, L. E. 1995. The stakeholder theory of the corporation: Concepts, evidence, and implications. <i>Academy of Management Review</i>, 20(1): 65-91</p>	<p>The stakeholder theory has been advanced and justified in the management literature on the basis of its descriptive accuracy, instrumental power, and normative validity. These three aspects of the theory, although interrelated, are quite distinct: they involve different types of evidence and argument and have different implications. In this article, we examine these three aspects of the theory and critique and integrate important contributions to the literature related to each. We conclude that the three aspects of stakeholder theory are mutually supportive and that the normative base of the theory-which includes the modern theory of property rights-is fundamental.</p>
Organizational culture	<p>Giorgi, S., Lockwood, C., & Glynn, M. A. 2015. The many faces of culture: Making sense of 30 years of research on culture in organization studies. <i>Academy of Management Annals</i>, 9(1): 1-54</p>	<p>The study of culture is on the rise; still, this popularity comes with the cost of increasing fragmentation, as definitions and conceptualizations proliferate. The objectives of this review are twofold: first, we set out to disentangle the multiple conceptual strands used to describe culture, and second, we examine how culture relates to other key constructs, particularly identity, institutions, and practices.</p>
Power and politics	<p>Fleming, P., & Spicer, A. 2014. Power in management and organization science. <i>Academy of Management Annals</i>, 8(1): 237-298</p>	<p>This paper reviews and evaluates the concept of power in management and organization science. In order to organize the extant literature on this topic, we develop a framework that identifies four faces of power (i.e. coercion, manipulation, domination, and subjectification) and four sites of power (i.e. power enacted "in", "through", "over", and "against" organizations). This allows us to evaluate assumptions both shared and contested in the field. Building on the review, the paper then points to potentially novel areas of research that may extend our understandings of organizational power in management and organization science.</p>

Any questions?



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