Unit 3

Controlling

Definition: Control is a primary goal-oriented function of management in an organisation. It is **a process of comparing the actual performance with the set standards of the company** to ensure that activities are performed according to the plans and if not then taking corrective action.

Every manager needs to monitor and evaluate the activities of his subordinates. It helps in taking corrective actions by the manager in the given timeline to avoid contingency or company's loss.

Controlling is performed at the lower, middle and upper levels of the management.

Features of Controlling

An effective control system has the following features:

- It helps in achieving organizational goals.

- Facilitates optimum utilization of resources.

- It evaluates the accuracy of the standard.

- It also sets discipline and order.

- Motivates the employees and boosts employee morale.

- Ensures future planning by revising standards.

- Improves overall performance of an organization.

- It also minimises errors.

Controlling and planning are interrelated for controlling gives an important input into the next planning cycle. Controlling is a **backwards-looking function** which brings the management cycle back to the planning function. Planning is a forward-looking process as it deals with the forecasts about the future conditions.

Process of Controlling

Control process involves the following steps as shown in the figure:
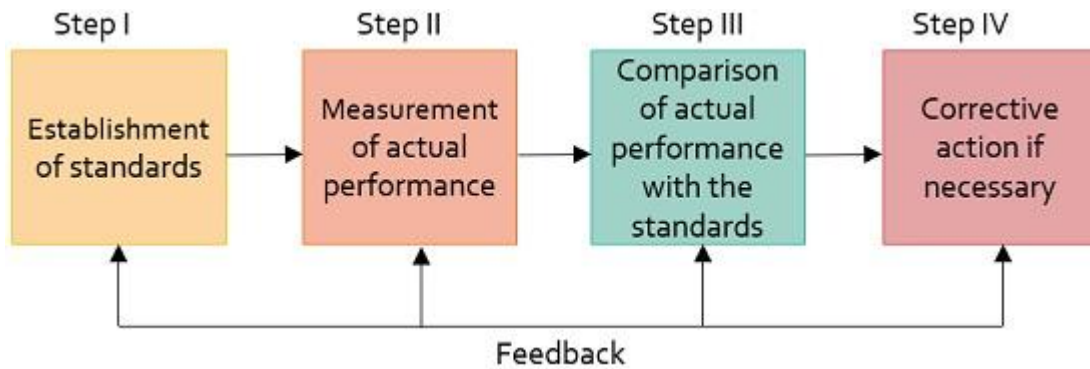
- **Establishing standards**: This means setting up of the target which needs to be achieved to meet organisational goals eventually. Standards indicate the criteria of performance.

  Control standards are categorized as quantitative and qualitative standards. **Quantitative standards** are expressed in terms of money. **Qualitative standards**, on the other hand, includes intangible items.

- **Measurement of actual performance**: The actual performance of the employee is measured against the target. With the increasing levels of management, the measurement of performance becomes difficult.

- **Comparison of actual performance with the standard**: This compares the degree of difference between the actual performance and the standard.

- **Taking corrective actions**: It is initiated by the manager who corrects any defects in actual performance.

Controlling process thus regulates companies' activities so that actual performance conforms to the standard plan. An effective control system enables managers to avoid circumstances which cause the company's loss.

Types of control

There are three types of control viz.,

1. **Feedback Control**: This process involves collecting information about a finished task, assessing that information and improvising the same type of tasks in the future.
2. **Concurrent control**: It is also called real-time control. It checks any problem and examines it to take action before any loss is incurred. Example: control chart.
3. **Predictive/ feedforward control**: This type of control helps to foresee problem ahead of occurrence. Therefore action can be taken before such a circumstance arises.

In an ever-changing and complex environment, controlling forms an integral part of the organization.

Advantages of controlling

- Saves time and energy

- Allows managers to concentrate on important tasks. This allows better utilization of the managerial resource.

- Helps in timely corrective action to be taken by the manager.

- Managers can delegate tasks so routinely chores can be completed by subordinates.

On the contrary, controlling suffers from the constraint that the organization has no control over external factors. It can turn out to be a costly affair, especially for small companies.

Motivation

Motivation is the act of stimulating someone or oneself to get a desired course of action. Motivation is a forces within the individual that account for the level, direction and persistence of effort expended at work.

Motivation and rewards

A reward is a work outcome of positive value to the individual. A motivational work setting is rich in rewards for people whose performance accomplishments help meet organisational objectives. In management, it is useful to distinguish between two types of rewards, extrinsic and intrinsic.

Extrinsic rewards are externally administered. They are valued outcomes given to someone by another person, typically a supervisor or higher level manager. Common workplace examples are pay bonuses, promotions, time off, special assignments, office fixtures, awards and verbal praise. In all cases, the motivational stimulus of extrinsic rewards originates outside of the individual. Intrinsic rewards, on the other hand, are self-administered. They occur 'naturally' as a person performs a task and are, in this sense, built directly into the job itself. The major sources of intrinsic rewards are the feelings of competency, personal development and self-control people experience in their work. In contrast to extrinsic rewards, the motivational stimulus of intrinsic rewards is internal and does not depend on the actions of some other person.

Importance of Employee Motivation

Employee motivation is highly important for every company due to the benefits that it brings to the company. Benefits include:

- *Increased employee commitment*

When employees are motivated to work, they will generally put their best effort in the tasks that are assigned to them.

- *Improved employee satisfaction*

Employee satisfaction is important for every company because this can lead towards a positive growth for the company.

- *Ongoing employee development*

Motivation can facilitate a worker reaching his/her personal goals, and can facilitate the self-development of an individual. Once that worker meets some initial goals, they realise the clear link between effort and results, which will further motivate them to continue at a high level.

- *Improved employee efficiency*

An employee's efficiency level is not only based on their abilities or qualifications. For the company to get the very best results, an employee needs to have a good balance between the ability to perform the task given and willingness to want to perform the task. This balance can lead to an increase of productivity and an improvement in efficiency.

Theories of Motivation

• Hierarchy of Needs Theory
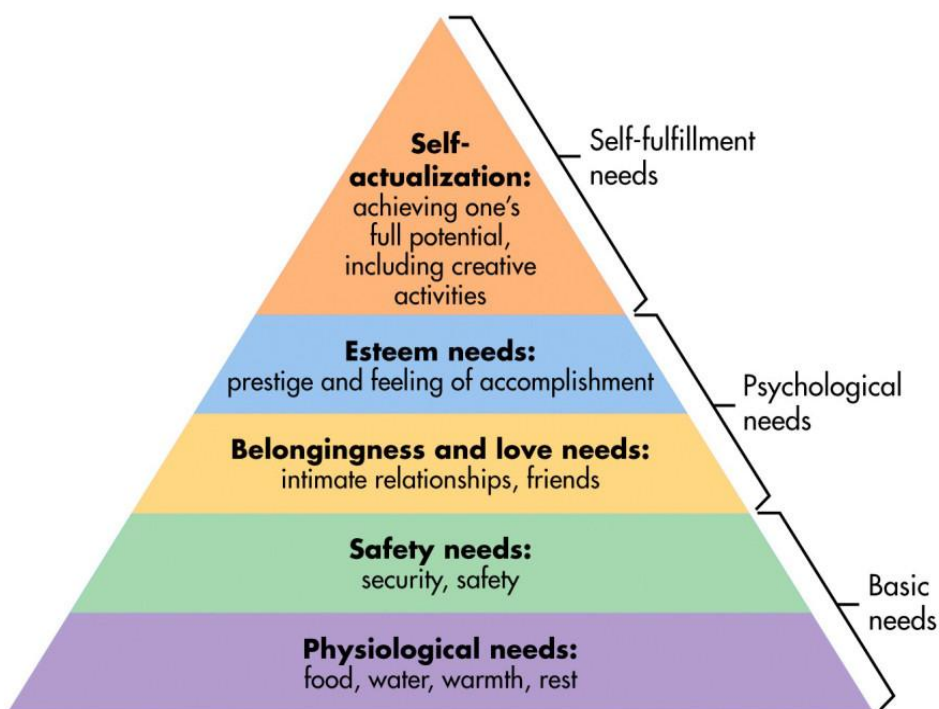
Physiological Needs

The basic physiological needs are probably fairly apparent—these include the things that are vital to our survival. Some examples of physiological needs include:

- Food
- Water
- Breathing
- Homeostasis

In addition to the basic requirements of nutrition, air and temperature regulation, the physiological needs also include such things as shelter and clothing. Maslow also included sexual reproduction in this level of the hierarchy of needs since it is essential to the survival and propagation of the species.

Security and Safety Needs

As we move up to the second level of Maslow's hierarchy of needs, the requirements start to become a bit more complex. At this level, the needs for security and safety become primary. People want control and order in their lives, so this need for safety and security contributes largely to behaviors at this level.

Some of the basic security and safety needs include:

- Financial security
- Heath and wellness
- Safety against accidents and injury

Finding a job, obtaining health insurance and health care, contributing money to a savings account, and moving into a safer neighborhood are all examples of actions motivated by the security and safety needs.

Together, the safety and physiological levels of the hierarchy make up what is often referred to as the basic needs.

Social Needs

The social needs in Maslow's hierarchy include such things as love, acceptance, and belonging. At this level, the need for emotional relationships drives human behavior. Some of the things that satisfy this need include:

- Friendships
- Romantic attachments
- Family
- Social groups
- Community groups
- Churches and religious organizations

In order to avoid problems such as loneliness, depression, and anxiety, it is important for people to feel loved and accepted by other people. Personal relationships with friends, family, and lovers play an important role, as does involvement in other groups that might include religious groups, sports teams, book clubs, and other group activities.

Esteem Needs

At the fourth level in Maslow's hierarchy is the need for appreciation and respect. When the needs at the bottom three levels have been satisfied, the esteem needs begin to play a more prominent role in motivating behavior.

At this point, it becomes increasingly important to gain the respect and appreciation of others. People have a need to accomplish things and then have their efforts recognized.

In addition to the need for feelings of accomplishment and prestige, the esteem needs include such things as self-esteem and personal worth. People need to sense that they are valued and by others and feel that they are making a contribution to the world. Participation in professional activities, academic accomplishments, athletic or team participation, and personal hobbies can all play a role in fulfilling the esteem needs.

People who are able to satisfy the esteem needs by achieving good self-esteem and the recognition of others tend to feel confident in their abilities. Those who lack self-esteem and the respect of others can develop feelings of inferiority.

Together, the esteem and social levels make up what is known as the psychological needs of the hierarchy.

Self-Actualization Needs

At the very peak of Maslow's hierarchy are the self-actualization needs. "What a man can be, he must be," Maslow explained, referring to the need people have to achieve their full potential as human beings.

According to Maslow's definition of self-actualization:

"It may be loosely described as the full use and exploitation of talents, capabilities, potentialities, etc. Such people seem to be fulfilling themselves and to be doing the best that they are capable of doing... They are people who have developed or are developing to the full stature of which they capable."

Self-actualizing people are self-aware, concerned with personal growth, less concerned with the opinions of others, and interested fulfilling their potential.

• ERG theory

The existence, relatedness and growth (ERG) theory proposed by Clayton Alderfer, collapses Maslow's five needs categories into three. *Existence needs* are desires for physiological and material wellbeing. *Relatedness needs* are desires for satisfying interpersonal relationships. *Growth needs* are desires for continued psychological growth and development. Alderfer's ERG theory also differs from Maslow's theory in other respects. This theory does not assume that lower level needs must be satisfied before higher level needs become activated. According to ERG theory, any or all of these three types of needs can influence individual behaviour at a given time. Alderfer also does not assume that satisfied needs lose their motivational impact. ERG theory thus contains a unique *frustration–regression principle*, according to which an already satisfied lower level need can become reactivated and influence behaviour when a higher level need cannot be satisfied. Alderfer's approach offers an additional means for understanding human needs and their influence on people at work.
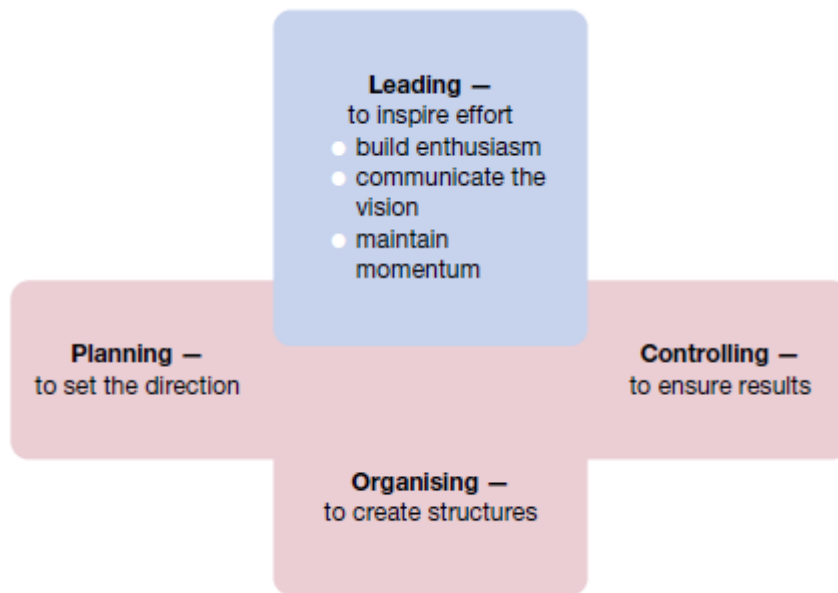
Leadership

Fig- Leading viewed in relationship to the other management functions

Traits of an ethical leader

The personality to defy groupthink

Good leaders display intelligence and imagination to create a compelling vision of the future, and bring those who can deliver it with them. A good leader must be trustworthy and display unshakeable integrity, be action-oriented, resilient in the face of setbacks while treating people with respect, not as mere units of production. They have rid themselves of delusion and are brutally honest with themselves, know when to take risks and when to play it safe. Leaders are courageous, defy groupthink and accept the backlash against their unorthodox practices.

The ability to set a good example

A defining feature of the ethical leader is that in addition to the foundational qualities mentioned above, setting a consistently good example for others to follow. They have created a moral matrix that people internalise and operate from day to day.

Selflessness

Ethical leaders are strong when it comes to selfless service in the interests of the greater good.

They're not afraid to be challenged

Having one's subordinates call you out, disagree with you, challenge your judgement; all of this calls for great understanding and tolerance. Ethical leaders understand that it's part of a culture of continuous improvement.

They take responsibility for everything

The ethical leader accepts that they are either directly or indirectly responsible for everything that happens in the organisation. They understand that blame shifting and finger pointing is a failure of leadership. The ethical leader does not resort to the 'plausible deniability' defence. Ultimately, good ethics is good business.

The nature of leadership

Leadership and vision

Today, leadership is often associated with **vision** — a future that you hope to create or achieve in order to improve on the present state of affairs. Truly great leaders are extraordinarily good at turning their visions into concrete results. Importantly, this involves the essential ability to communicate your vision in such a way that others commit their hard work to its fulfillment. .

Power and influence

The foundations of effective leadership lie in the way a manager uses power to influence the behavior of other people. Power is the ability to get someone else to do something you want done. It is the ability to make things happen the way you want them to. Need for power should not be a desire to control for the sake of personal satisfaction; it is a desire to influence and control others for the good of the group or organisation as a whole.

Position power
Based on things managers can offer to others

Reward — 'If you do what I ask, I'll give you a reward.'

Coercion — 'If you don't do what I ask, I'll punish you.'

Legitimacy — 'Because I am the boss; you *must* do as I ask.'

Personal power
Based on the ways managers are viewed by others

Expert — as a source of special knowledge and information

Referent — as a person with whom others like to identify

Fig - Sources of position power and personal power used by managers

Sources of position power

One important source of power is a manager's official status, or position, in the organisation's hierarchy of authority. Whereas anyone holding a managerial position theoretically has this power, how well it is used will vary from one person to the next. Consequently, leadership success will vary as well. The three bases of *position power* are reward power, coercive power and legitimate power.

Reward power is the ability to influence through rewards. It is the capacity to offer something of value — a positive outcome — as a way of influencing the behaviour of other people. This involves the control of rewards or resources such as pay rises, bonuses, promotions, special assignments and verbal or written compliments.

Coercive power is the ability to influence through punishment. It is the capacity to punish or withhold positive outcomes as a way of influencing the behaviour of other people. A manager may try to coerce someone by threatening him or her with verbal reprimands, pay penalties and even termination.

Legitimate power is the ability to influence through authority — the right by virtue of organizational position or status to exercise control over people in subordinate positions.

Sources of personal power

Expert power is the ability to influence through special expertise. It is the capacity to influence the behaviour of other people because they recognise your knowledge, understanding and skills. Expertise derives from the possession of technical know-how or information pertinent to the issue at hand. This is developed by acquiring relevant skills or competencies or by gaining a central position in relevant information networks.

Referent power is the ability to influence through identification. It is the capacity to influence the behaviour of other people because they admire you and want to identify positively with you. Reference is a power derived from charisma or interpersonal attractiveness. It is developed and maintained through good interpersonal relations that encourage the admiration and respect of others.

Turning power into influence

The best leaders and managers understand that different outcomes are associated with use of the various power bases. When a leader relies on rewards and legitimacy to influence others, the likely outcome is temporary compliance. When a leader relies on coercion to gain influence, compliance also depends on the continued threat of punishment. In this case, however, the compliance is very temporary and often accompanied by resistance. Use of expert and referent power creates the most enduring influence; they create commitment.

Followers respond positively because of internalised understanding or beliefs that create their own long-lasting effects on behaviour. Position power alone is often insufficient to achieve and sustain needed influence. Personal power and the bases of expert and referent power often make the difference between leadership success and mediocrity. Four points to keep in mind are: (1) there is no substitute for expertise; (2) likeable personal qualities are very important; (3) effort and hard work breed respect; and (4) personal behaviour must support expressed values.

Ethics and the limits to power

Four conditions that determine whether a leader's directives will be followed and true influence achieved.

- The other person must truly understand the directive.
- The other person must feel capable of carrying out the directive.
- The other person must believe that the directive is in the organisation's best interests.
- The other person must believe that the directive is consistent with personal values.

Leadership and empowerment

Empowerment is the process through which managers enable others to gain power and achieve influence within the organisation. Effective leaders empower others by providing them with the information, responsibility, authority and trust to make decisions and act independently within their areas of expertise. They know that when people feel empowered to act, they tend to follow through with commitment and high-quality work. They also realise that power in organisations is not a 'zero-sum' quantity. That is, in order for someone to gain power, it isn't necessary for someone else to give it up.

Leadership traits and behaviours

Shelley Kirkpatrick and Edwin Locke identify these personal traits as being common among successful leaders.

- *Drive*. Successful leaders have high energy, display initiative and are tenacious.
- *Self-confidence*. Successful leaders trust themselves and have confidence in their abilities.
- *Creativity*. Successful leaders are creative and original in their thinking.
- *Cognitive ability*. Successful leaders have the intelligence to integrate and interpret information.
- *Business knowledge*. Successful leaders know their industry and its technical foundations.
- *Motivation*. Successful leaders enjoy influencing others to achieve shared goals.

- *Flexibility*. Successful leaders adapt to fit the needs of followers and the demands of situations.
- *Honesty and integrity*. Successful leaders are trustworthy; they are honest, predictable and dependable.

Focus on leadership behaviours

Recognising that the possession of certain traits alone is not a guarantee of leadership success, *behavioural theories of leadership*, work to determine which **leadership style** — the recurring pattern of behaviours exhibited by a leader — worked best. If the preferred style could be identified, the implications were straightforward and practical — train leaders to become skilled at using the ideal style to best advantage. Most research in the leader behaviour tradition focused on two dimensions of leadership style: concern for the task to be accomplished and concern for the people doing the work. Concern for task is sometimes called *initiating structure, job-centredness* and *task orientation*; concern for people is sometimes called *consideration, employee-centredness* and *relationship orientation*. *A leader high in concern for task* plans and defines work to be done, assigns task responsibilities, sets clear work standards, urges task completion and monitors performance results. In contrast, *a leader high inconcern for people* acts in a manner that is warm and supportive towards followers, maintains good social relations with them, respects their feelings, is sensitive to their needs and shows trust in them. The results of leader behaviour research at first suggested that followers of people oriented leaders were more productive and satisfied than those working for more task oriented leaders. Later results, however, suggested that truly effective leaders were high in both concern for people and concern for task.
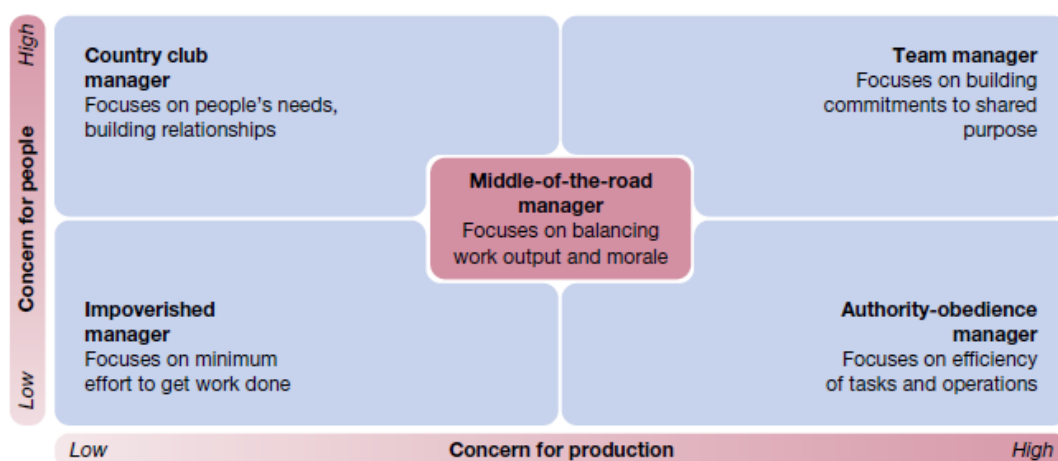

Fig - Managerial styles in Blake and Mouton's Leadership Grid

Issues in leadership development

Transformational leadership

The term **transformational leadership** describes someone who is truly inspirational as a leader and who arouses others to seek extraordinary performance accomplishments. The late Steve Jobs, mentioned in the technology box in this chapter, exemplifies such a leader. A transformational leader uses charisma and related qualities to raise aspirations and shift people and organisational systems into new high-performance patterns. Scholars differentiate this from **transactional leadership**, which describes someone who is more methodical in keeping others focused on progress towards goal accomplishment. A transactional leader adjusts tasks, rewards and structures to move followers towards accomplishing organisational objectives.

The special qualities that are often characteristic of such transformational leaders include the following:

- *vision* — having ideas and a clear sense of direction; communicating them to others; developing excitement about accomplishing shared 'dreams'
- *charisma* — arousing others' enthusiasm, faith, loyalty, pride and trust in themselves through the power of personal reference and appeals to emotion
- *symbolism* — identifying 'heroes', offering special rewards and holding spontaneous and planned ceremonies to celebrate excellence and high achievement
- *empowerment* — helping others develop, removing performance obstacles, sharing responsibilities and delegating truly challenging work
- *intellectual stimulation* — gaining the involvement of others by creating awareness of problems and stirring their imagination to create high-quality solutions
- *integrity* — being honest and credible, acting consistently out of personal conviction and following through commitments

Emotional intelligence

An area of leadership development currently very popular is **emotional intelligence**, emotional intelligence is defined as 'the ability to manage ourselves and our relationships effectively'. A leader's emotional intelligence is an important influence on his or her effectiveness, especially in more senior management positions.

The critical components of emotional intelligence are the following.

i. *Self-awareness* is an ability to understand our own moods and emotions, and understand their impact on our work and on others.

ii. *Self-regulation* is the ability to think before we act and to control otherwise disruptive impulses.

iii. *Motivation* is the ability to work hard with persistence and for reasons other than money and status.

iv. *Empathy* is the ability to understand the emotions of others and to use this understanding to better relate to them.

v. *Social skill* is the ability to establish rapport with others and to build good relationships and networks.

Gender and leadership

The evidences clearly supports that both women and men can be effective leaders. Women may tend towards a style sometimes referred to as interactive leadership. This style focuses on the building of consensus and good interpersonal relations through communication and involvement. Leaders of this style display behaviours typically considered democratic and participatory — such as showing respect for others, caring for others, and sharing power and information with others. This interactive style also has qualities in common with the transformational leadership just discussed. Men, on the other hand, may tend towards more of a transactional approach to leadership — relying more on directive and assertive behaviours, and using authority in a traditional 'command and control' sense.

Given the emphasis on shared power, communication, cooperation and participation in the new form organisations of today, these results are provocative. Gender issues aside, the interactive leadership style seems to be an excellent fit with the demands of a diverse workforce and the new workplace. Regardless of whether the relevant behaviours are displayed by women or men, it seems clear that future leadership success will rest more often on capacity to lead through positive relationships and empowerment than through aloofness and formal authority.

Drucker's 'oldfashioned' leadership

Peter Drucker offers another very pragmatic approach to leadership in the new workplace. It is based on what he refers to as a 'good old-fashioned' view of the plain hard work it takes to be a successful leader. He said, 'leadership . . . is work'. He identifies the following three essentials of leadership. First, *defining and establishing a sense of mission*. Second, *accepting leadership as a responsibility rather than a rank*. Third, *earning and keeping the trust of others*. 'Effective leadership . . . is not based on being clever; it is based primarily on being consistent'.

Moral leadership

Society expects organisations to be run with **moral leadership**. This is leadership by ethical standards that clearly meet the test of being 'good' and 'correct'. The expectation is that anyone in a leadership position will practise high ethical standards of behaviour, help to build and maintain an ethical organisational culture, and both help and require others to behave ethically in their work. Another is the notion of **authentic leadership.** An authentic leader has a high level of selfawareness and clearly understands his or her personal values. This leader also acts consistent with those values, being honest and avoiding self-deceptions. The result is positive self regulation that helps authentic leaders clearly frame moral dilemmas, transparently respond to them, and consistently serve as ethical role models.
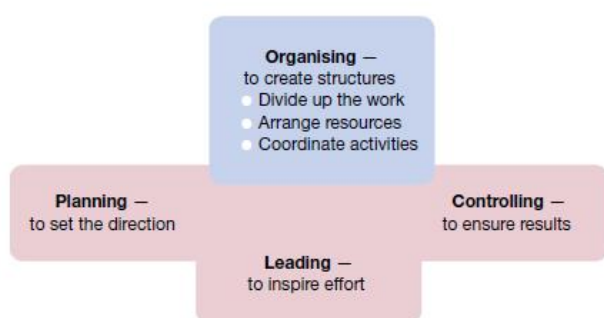
Organising

Fig - Organising viewed in relationship with the other management functions

Organisational structure

The organisational structure is the system of tasks, workflows, reporting relationships and communication channels that link the work of diverse individuals and groups. Any structure should both allocate task assignments, through a division of labour, and provide for the coordination of performance results. A good structure that does both of these things well can be an important asset to an organisation. However, there is no structure that meets the needs of all circumstances. Structure must be handled in a contingency fashion; as environments and situations change, structures must often be changed too. To make good choices, a manager must know the alternatives and be familiar with current trends and developments. They must also be prepared to create 'chaos' to help produce innovative solutions to complex problems, when necessary. Nothing new and innovative can emerge from organising systems that are highly ordered and stable. Chaotic systems, such as revolutions and resistance, create new configurations of decision making and power.

Formal structure

The concept of structure is known best in the form of an **organisation chart**, which is a diagram that shows reporting relationships and the formal arrangement of work positions within an organisation. A typical organisation chart identifies various positions and job titles, as well as the lines of authority and communication between them. This is the *formal structure*, or the structure of the organisation in its official state. It represents the way the organisation is intended to function.

Informal structure

Behind every formal structure typically lies an **informal structure**. This is a 'shadow' organization made up of the unofficial, but often critical, working relationships between organisational members. If the informal structure could be drawn, it would show who talks to and interacts regularly with whom, regardless of their formal titles and relationships. The lines of the informal structure would cut across levels and move from side to side. Importantly, no organisation can be fully understood without first gaining insight into the informal structure, as well as the formal one. Informal structures can be very helpful in getting needed work accomplished in any organisation.

Through the emergent and spontaneous relationships of informal structures, people gain access to interpersonal networks of emotional support and friendship that satisfy important social needs. They also benefit in task performance, by being in personal contact with others who can help them get things done when necessary. *Informal learning* is increasingly recognized as an important resource for organisational development. Of course, informal structures also have potential disadvantages. Because they exist outside the formal authority system, the activities of informal structures can sometimes work against the best interests of the organisation as a whole. They can also be susceptible to rumour, carry inaccurate information, breed resistance to change and even divert work efforts from important objectives.

Traditional organisation structures

A traditional principle of organising is that performance gains are possible when people are allowed to specialise and become experts in specific jobs or tasks. Given this division of labour, however, decisions must then be made on how to group work positions into formal teams or departments, and then link them together in a coordinated fashion within the larger organisation. These decisions involve a process called **departmentalisation**, which has traditionally resulted in three major types of organisation structures — the functional, divisional and matrix structures.

Functional structures

In **functional structures**, people with similar skills and performing similar tasks are formally grouped together into work units. Members of functional departments share technical expertise, interests and responsibilities. The first example in figure shows a common functional structure in a business. In this case, senior management includes the functions of marketing, finance, production and human resources. In this functional structure, manufacturing problems are the responsibility of the production director; marketing problems are the province of the marketing director, and so on.

The key point is that members of each function work within their areas of expertise. If each function works properly, the expectation is that the business will operate successfully. Functional structures are not limited to businesses. The figure also shows how this form of departmentalization can be used in other types of organisations, such as banks and hospitals. These types of structures typically work well for small organisations that produce only one or a few products or services. They also tend to work best in relatively stable environments, where problems are predictable and there are limited demands for innovation and change.

The major *advantages of functional structures* include the following:

- Economies of scale with efficient use of resources
- Task assignments consistent with expertise and training
- High quality technical problem-solving
- Indepth training and skill development within functions
- Clear career paths within functions.

There are also potential *disadvantages of functional structures*. Common problems with functional structures involve difficulties in pinpointing responsibilities for things like cost containment, product or service quality, timeliness and innovation in response to environmental changes. Such problems with functional structures are magnified as organisations grow in size and environments begin to change. Another significant concern is often called the *functional chimneys problem,* refers to the lack of communication, coordination and problem solving across functions.
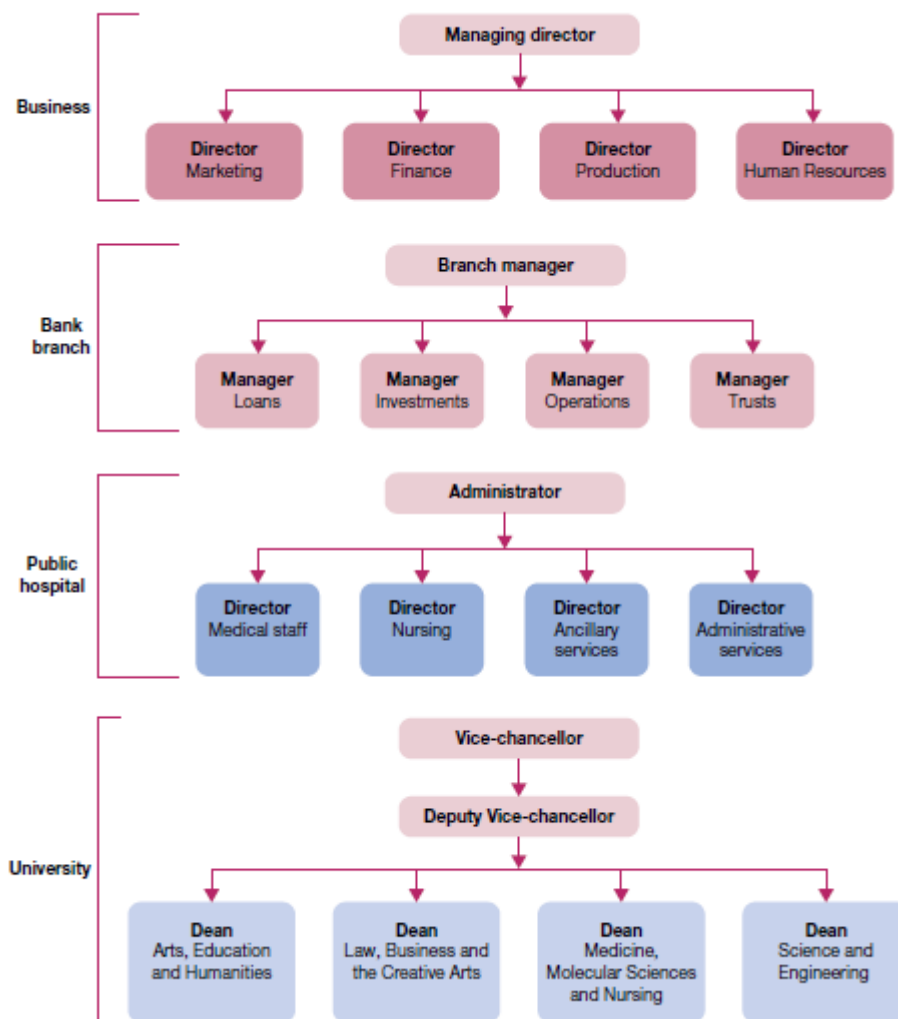
Fig - Functional structures in a business, a bank branch, a public hospital and a university

Divisional structures

Divisional structure groups together people who work on the same product or process, serve similar customers, and/or are located in the same area or geographical region. As illustrated in figure, divisional structures are common in complex organisations that have multiple and differentiated products and services, serve diverse customers, pursue diversified strategies, and/or operate in various and different competitive environments. The major types of divisional approaches are the product, geographical, customer and process structures.

Divisional structures attempt to avoid problems common to functional structures. They are especially popular among organisations with diverse operations that extend across many products, territories, customers and work processes.

The potential *advantages of divisional structures* include:

- More flexibility in responding to environmental changes
- Improved coordination across functional departments
- Clear points of responsibility for product or service delivery

- Expertise focused on specific customers, products and regions
- Greater ease in changing size by adding or deleting divisions.

There are also potential *disadvantages of divisional structures*. They can reduce economies of scale and increase costs, through the duplication of resources and efforts across divisions. They can also create unhealthy rivalries — as divisions compete for resources and attention, and they emphasise division needs and goals to the detriment of the goals of the organisation as a whole.
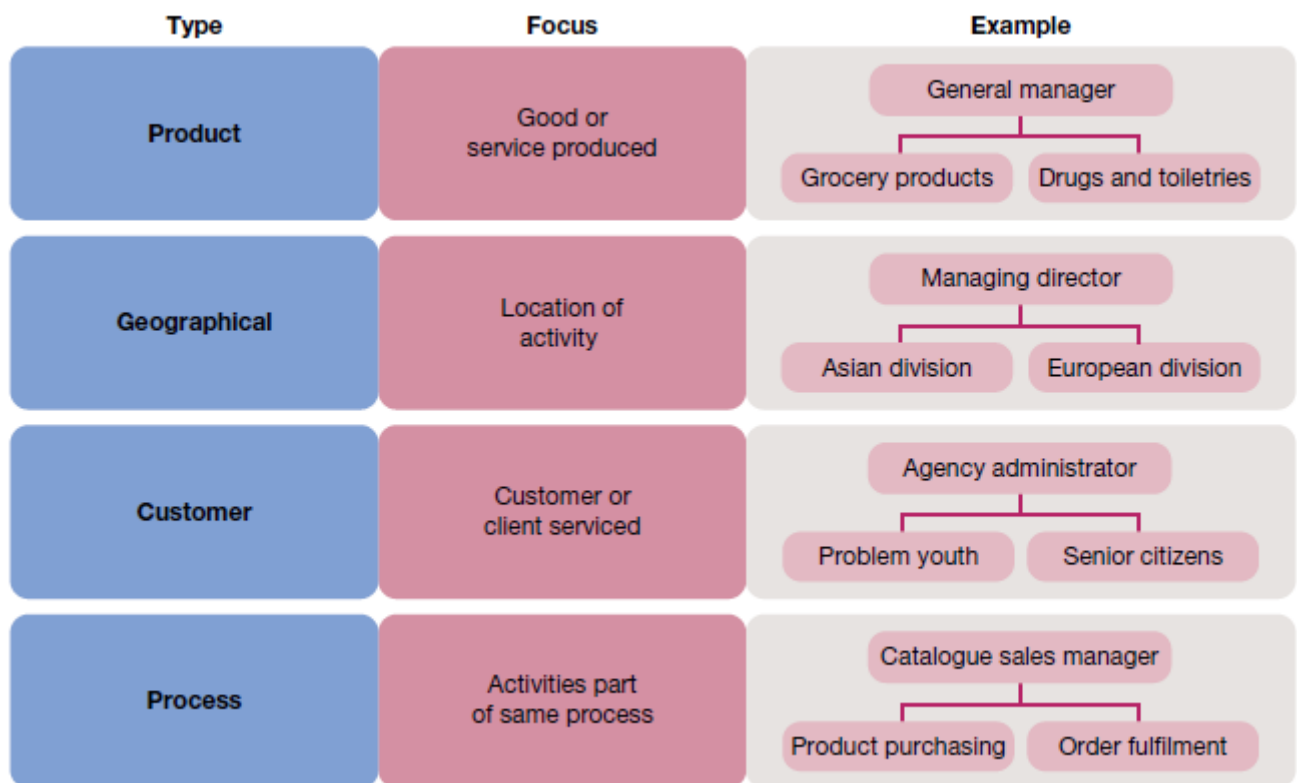
Type	Focus	Example
Product	Good or service produced	General manager — Grocery products, Drugs and toiletries
Geographical	Location of activity	Managing director — Asian division, European division
Customer	Customer or client serviced	Agency administrator — Problem youth, Senior citizens
Process	Activities part of same process	Catalogue sales manager — Product purchasing, Order fulfilment

Fig - Divisional structures based on product, geography, customer and process

Product structures

Product structures group together jobs and people working on a single product or service. They clearly identify costs, profits, problems and successes in a market area with a central point of accountability. Consequently, managers are encouraged to be responsive to changing market demands and customer tastes. Common in large organisations, product structures may even extend into global operations. Product structures are becoming less common in major companies, as many companies are constantly trying to innovate and create new products. Heinz, Intel and Apple have all moved away from product structures in recent years.

Geographical structures

Geographical structures group together jobs and activities being performed in the same location or geographical region. They are typically used when there is a need to differentiate products or services in various locations, such as in different regions of a country. They are also quite common in international operations, where they help to focus attention on the unique cultures and requirements of particular regions

Customer structures

Customer structures group together people and jobs that are serving the same customers or clients. The major appeal is the ability to serve the special needs of the different customer groups. With increasing differentiation of global markets, this structure is often well suited to complex businesses.

Process structures

A *work process* is a group of tasks related to one another that collectively create something of value to a customer. An example is order fulfilment — when you email a catalogue retailer and request a particular item. The process of order fulfilment takes the order from point of initiation by the customer to point of fulfilment by a delivered order. **Process structures** group together jobs and activities that are part of the same processes. In the example in figure , this might take the form of product purchasing teams, order fulfilment teams and systems-support teams for the mail-order catalogue business.

Matrix structures

The **matrix structure**, often called the *matrix organisation*, combines the functional and divisional structures, it is an attempt to gain the advantages and minimise the disadvantages of each. This is accomplished in the matrix by using permanent cross-functional teams to integrate functional expertise, in support of a clear divisional focus on a product, project or program. As shown figure, workers in a matrix structure belong to at least two formal groups at the same time — a functional group and a product, program or project team. They also report to two bosses — one within the function and the other within the team.

The matrix organisation has gained a strong foothold in the workplace, with applications in diverse settings, such as manufacturing (e.g. aerospace, electronics, pharmaceuticals), service industries (e.g. banking, brokerage, retailing), professional fields (e.g. accounting, advertising, law) and the not for profit sector (e.g. city, state and federal agencies; hospitals; universities). Matrix structures are also in multinational organisations, in which they offer the flexibility to deal with both regional differences and multiple product, program or project needs. Matrix structures are common in organisations pursuing growth strategies in dynamic and complex environments.

The main contribution of matrix structures to organisational performance lies in the use of permanent cross functional teams. Team members work closely together, and in a timely manner, to share expertise and information to solve problems. The potential *advantages of matrix structures* include:

- Better inter functional cooperation in operations and problem solving
- Increased flexibility in adding, removing and/or changing operations to meet changing demands
- Better customer service, since there is always a program, product or project manager informed and available to answer questions
- Better performance accountability through the program, product or project managers
- Improved decision-making, as problem-solving takes place at the team level — where the best information is available
- Improved strategic management, since top managers are freed from unnecessary problem solving and can focus on strategic issues.
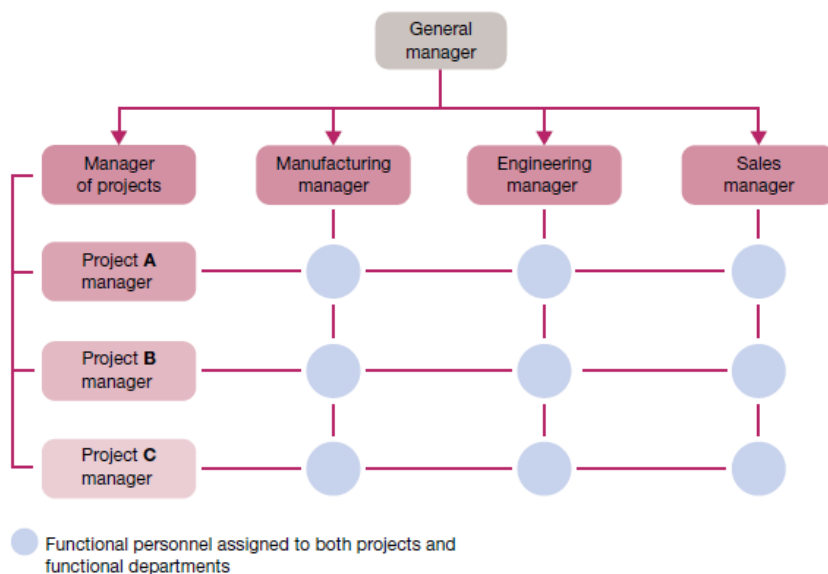

Fig - Matrix structure in a small multi project business

There are also potential *disadvantages of matrix structures*. The two-boss system is susceptible to power struggles, as functional supervisors and team leaders vie with one another to exercise authority. The two-boss system can also be frustrating for matrix members, if it creates task confusion and conflicts in work priorities. Team meetings in the matrix are also time consuming. Teams may develop 'groupitis', or strong team loyalties that cause a loss of focus on larger organizational goals, and the requirements of adding the team leaders to a matrix structure can result in increased costs.

Essentials of organisational design

Organisational design is the process of choosing and implementing structures that best arrange resources to serve the organisation's mission and objectives. The ultimate purpose of organizational design is to create an alignment between supporting structures and situational challenges. As shown in figure, this includes taking into consideration the implications of environment, strategies, people, technology and size. Importantly, the process of organisational design is a problem solving activity that should be approached in a contingency fashion that takes all of these factors into account. There is no universal design that applies in all circumstances. The goal is to achieve a best fit between the structure and the unique situation faced by each organisation. In the contemporary global economy, one of the key developments in organisational design is the emergence of the virtual organisation.

The idea of a deliberately formless and fluid organisation might seem at odds with notions of organisational design. However, virtual organisations are the antithesis of the rigid hierarchies and bureaucracies that often characterise conventional organisations. Key directions for changes in organisations today involve a basic shift in attention — from a traditional emphasis on more vertical or authority-driven structures to an emphasis on structures that are more horizontal and task driven. In management theory, these developments are framed by the distinction between bureaucratic designs that are mechanistic and vertical in nature, and adaptive designs that are more organic and horizontal in nature. This distinction itself is viewed from the contingency position that there is no one best way to organise, and that the choice of organisational design should always achieve the best fit with situational needs.

Bureaucratic designs

A *bureaucracy* can be described as a form of organisation based on logic, order and the legitimate use of formal authority. Its distinguishing features include a clear-cut division of labour, a strict hierarchy of authority, formal rules and procedures, and promotion based on competency. Bureaucracies are supposed to be orderly, fair and highly efficient. Yet, the term 'bureaucracy' today, has a negative connotation. Instead of operating efficiency, the bureaucracies that we know are often associated with 'red tape'. Instead of being orderly and fair, they are often cumbersome and impersonal, to the point of insensitivity to customer or client needs.
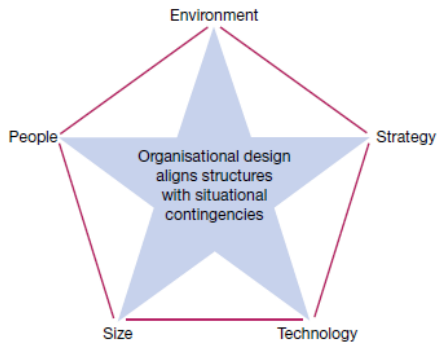
Fig 3.5.1 A framework for organisational design — aligning structures with situational contingencies

Instead of viewing all bureaucratic structures as inevitably flawed, management theory takes a contingency perspective. When is a bureaucratic form a good choice for an organisation? What alternatives exist when it is not a good choice?

Two quite different organisational forms could be successful, with the choice between them depending on the nature of an organisation's external environment. A more bureaucratic form, called a *mechanistic approach*, thrived when the environment was stable, but experienced difficulty when the environment was rapidly changing and uncertain. In these dynamic situations, a much less bureaucratic form, called an *organic approach*, performed best.

Organisations that operate with highly **mechanistic designs** are very bureaucratic in nature. As shown in the figure, they typically operate with more centralised authority, many rules and procedures, a precise division of labour, narrow spans of control and formal means of coordination. Mechanistic designs are described as 'tight' structures of the traditional vertical or pyramid form. An example is your local KFC or McDonald's. A relatively small operation, each store operates quite like others in the franchise chain and according to rules established by the corporate management. Service personnel work in orderly and disciplined ways, guided by training, rules and procedures, and with close supervision by crew leaders who work alongside them. Even the appearance of service personnel is carefully regulated, with everyone working in a standard uniform. These restaurants perform well, as they repetitively deliver items that are part of their standard menus. You quickly encounter the limits, however, if you try to order something not on the menu. The servers do not prepare anything out of the ordinary. The chains also encounter difficulty when consumer tastes change or take on regional preferences that are different from what the corporate menu provides. Adjustments to the system are typically a long time coming.
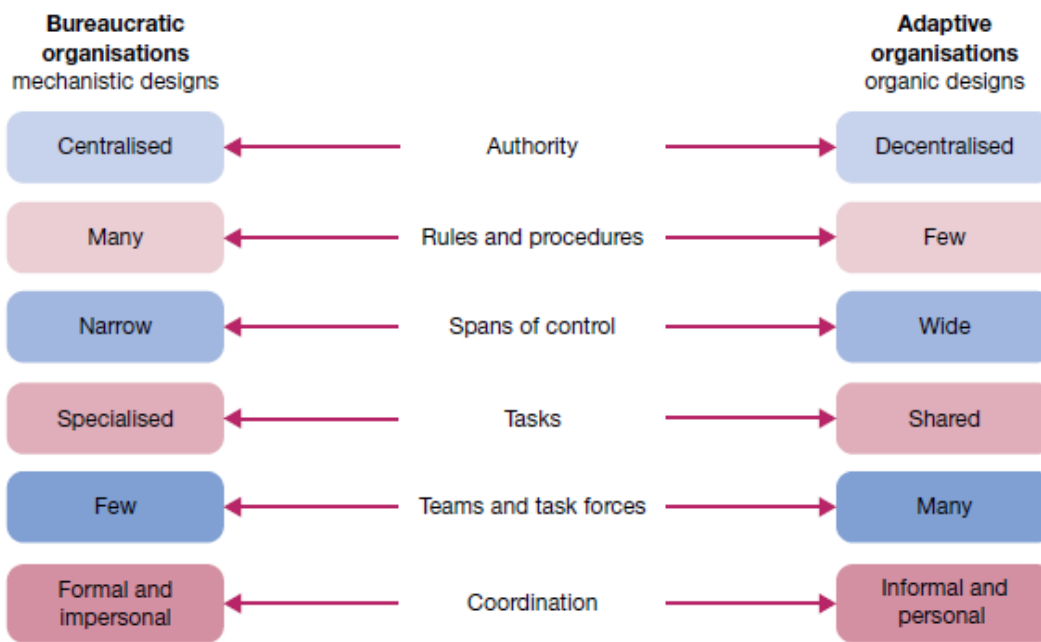
Fig 3.5.2 A continuum of organisational design alternatives — from bureaucratic to adaptive organizations

Adaptive designs

A technology company, consumer products firm, financial services business or dot com retailer make continual adjustments to its operations and organisational design. Enlightened managers are helping organizations reconfigure into new forms that emphasise flexibility and speed, while retaining sight of important performance objectives. The organisational design trend now is towards more **adaptive organisations** that operate with a minimum of bureaucratic features and with cultures that encourage worker empowerment and participation. Such organisations display features of the **organic designs** portrayed in figure , including more decentralised authority, fewer rules and procedures, less precise division of labour, wider spans of control and more personal means of coordination. They are described as relatively loose systems in which a lot of work is done through informal structures and networks of interpersonal contacts. Organic designs recognise and legitimise these links, and give them the resources they need to operate best. Adaptive organisations are built on trusting that people will do the right things on their own initiative. They move organisational design in the direction of what some might call *self organisation*, where the focus is on freeing otherwise capable people from unnecessarily centralised control and restrictions.

Virtual designs

A number of common features define virtual organisations. First, the lack of physical structure compared with conventional organisations means there are fewer tangible assets, such as office buildings, warehouses and fleet vehicles. Organisations are emerging that are

structured entirely in virtual reality, with computer links replacing physical infrastructure, so that companies exist only in cyberspace. Second, electronic communications technologies — the internet, social media platforms, instant and text messaging, and other forms of electronic communication — form the basis of the virtual organisation, linking people, assets, knowledge and ideas. A third feature of the virtual organisation is mobility of work. Communication networks, rather than buildings and physical assets, become the 'workspace' for organizational members. A fourth feature of virtual organisations is their hybrid nature. They can consist of a loose framework of human resources, assets and knowledge involving organisational units, a consortia of companies, and autonomous members brought together for a given time period to achieve a mutual objective.

Once the objective is achieved, the virtual organisation either ceases to exist or reconfigures itself to tackle the next goal. These hybrids can be short term but also long-term if they are tackling difficult research or infrastructure projects, or are part of an ongoing supply chain. A fifth and related feature is their lack of boundaries and inclusiveness. Virtual organisations are not constrained by what is traditionally thought of as an individual company or corporation and how they are legally defined. Virtual organisations often encompass suppliers and distributors to such an extent that it is difficult to unravel where one company ends and the other begins. Finally, virtual organisations embody flexibility, through their ability to restructure and to redeploy assets to meet changing requirements.

Contingencies in organisational design

The contingency factors in the organisational design are the environment, strategy, technology, size and life cycle, human resources and restructuring.

Environment

The organisation's external environment and the degree of uncertainty it offers are of undeniable importance in organisational design. A *certain environment* is composed of relatively stable and predictable elements. Bureaucratic organisations and mechanistic designs are quite adequate under such conditions. An *uncertain environment* will have more dynamic and less predictable elements. This requires more adaptive organizations and organic designs.

Strategy

The nature of organisational strategies and objectives influence the choice of structure, structure follows strategy. When strategy is stability oriented, the choice of organisational

design should be based on the premise that little significant change will be occurring in the external environment. This means that plans can be set and operations programmed to be routinely implemented. To best support this strategic approach, the organisation should be structured to operate in well defined and predictable ways. This is most characteristic of bureaucratic organisations that use more mechanistic design alternatives. When strategy is growth oriented and likely to change frequently, the situation as a whole becomes more complex, fluid and uncertain. Operating objectives are likely to include the need for innovation and flexible responses to changing competition in the environment. Operations and plans are likely to have short life spans, and require frequent and even continuous modification over time. The most appropriate structure is one that allows for internal flexibility and freedom to create new ways of doing things.
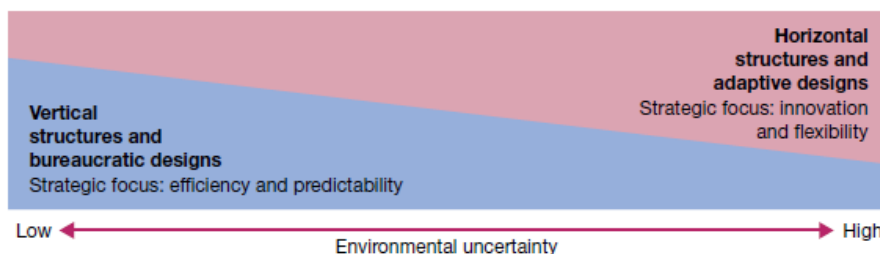

Fig 5.5.3 Environmental uncertainty and the performance of vertical and horizontal designs

Size and life cycle

Organisational size, typically measured by number of employees, is another contingency factor in organizational design. Larger organisations tend to have more mechanistic structures than smaller ones, it is clear that this is not always best for them. Organisations tend to become more bureaucratic as they grow in size and consequently have more difficulty adapting to changing environments. It is especially important to understand the design implications of the **organisational life cycle**, or the evolution of an organisation over time through different stages of growth.

The stages in the organizational life cycle can be described as:

i. *birth stage* — when the organisation is founded by an entrepreneur

ii. *youth stage* — when the organisation starts to grow rapidly

iii. *midlife stage* —when the organisation has grown large with success

iv. *maturity stage* — when the organisation stabilises at a large size.

In its *birth stage*, the founder usually runs the organisation. It stays relatively small, and the tructure is quite simple. The organisation starts to grow rapidly during the *youth stage* and management responsibilities extend among more people. An organisation in the *midlife stage* is even larger, with a more complex and increasingly formal structure. More levels appear in the chain of command, and the founder may have difficulty remaining in control. In the *maturity stage*, the organization stabilises in size, typically with a mechanistic structure. It runs the risk of becoming complacent and slow in competitive markets. One way of coping with the disadvantages of large size is downsizing; that is, taking action to reduce the scope of operations and number of employees. This response is often used when top management is challenged to reduce costs quickly and to increase productivity. Downsizing is often associated with decreases in subsequent firm profitability, and that research and development industries in particular may suffer many negative effects from downsizing.

Human resources

A good organisational design provides people with the supporting structures they need to achieve both high performance and satisfaction in their work. Modern management theory views people–structure relationships in a contingency fashion. There should be a good 'fit' between organisation structures and the human resources. An important human resource issue in organisational design is skill. Any design should allow the expertise and talents of organisational members to be realised to the full.