**Baffer’s Organisation and Management Notes**

**Theme One – Historical Theme**

**1 - The Enduring Logic of Industrial Success A. D. Chandler**

The Logic

Basis: Economics.

- Economies of scale and scope.

- Lower A.C by increasing scale.

- Similar products/inputs/half-finished goods to sell.

*\*Cost advantages can only be maximised when flows of inputs and outputs are maximised.*

Three-Pronged Investment

**1. Production** → Scale/Scope.

**2. Lower/Middle Management** → Manage flows: Sales/Distribution Network.

**3. Top Management** → Monitor operations.

Plan for future.

Allocate resources.

*\*First movers/Competition*

\* Firms that make the three-pronged investment first gain significant market dominance which is very difficult for competitors to regain despite comparative advantages.

*Examples:*

Chemicals: Perkin (UK) vs. Bayer (GER)

- Bayer won because: Invested first: Leverkusen plant. 20,000 customers.

*\* Despite Perkin having comparative advantages of coal and nearby textile industries to supply.*

Computers: I.B.M: - Invested heavily and gained market control.

Other Electronics firms: - Diversified too much to focus on computer production.

Japanese firms: - Made semiconductors and sold them, cost advantages plus extra revenue.

Problems with Size

- Diversification into unrelated industries without appropriate experience or existing structures.

E.g. In 1960’s poor diversification occurred.

Causes: - Build-up of pressure: Wars, Depression, Wall Street Crash.

- American complacency before the European/Japanese challenge.

**Diversification**

- 1960’s style diversification occurred increasingly.

- Corporate offices separated from divisions.

- Mergers/Acquisitions boom led to buying/selling of corporations on the stock exchange.

**Restructuring**

- Facilitated by Acquisition phase.

- Chemical Industries: - Focused on high added-value products.

- Economies of scope.

**1- The Enduring Logic of Industrial Success, Alfred D. Chandler**

Example 1: *John Rockefeller combines Standard Oil with 39 allied companies and makes the Standard Oil Trust making* ***cost advantages*** *of having all oil-refining facilities under a* ***single management****. Also creates* ***economies of scale*** *(as volume of output goes up, costs per unit go down).*

Example 2: *Bayer (a German chemical company) makes* ***costs advantages*** *through* ***economies of scope*** *(using the same raw materials to make a bunch of different products).*

What do they mean? The logic of managerial enterprise is the dynamic logic of growth and competition. These drive modern industrial capitalism.

Managerial Enterprise is the large industrial concerns where operations and investments are controlled by a hierarchy of salaried managers, governed by a board of directors.

Economies of Scale and Scope aren’t enough for success. They should also:

1. Create national then international marketing and distribution organisations.

2. Recruit lower and middle managers to co-ordinate the flow of products from production to distribution.

3. Recruit top managers to co-ordinate the others and plan for the future.

The firms that make a success of themselves from this investment are **first-movers**. They quickly **dominate** the industry.

What are the difficulties for those who want to challenge a first mover?

1. They’ve to build a plant of comparable size to compete.

2. They’ve to create marketing, sales and distribution where first-movers are already established.

3. They’ve to try recruit good enough managers to run the firm.

Innovation and Strategy are more important than price. Many of the firms Chandler writes about were competing by creating new markets and raising quality as well as lowering costs. And:

1. They looked for ways to produce and distribute more efficiently.

2. They did more Research and Development to improve products.

3. They differentiated products.

4. They moved into growing markets and out of declining ones.

The test of competition was how much **market share** a company had.

Companies grew:

1. **Horizontally** - combining with competitors.

2. **Vertically** - moving backwards to control their suppliers or forwards to control the place of sale.

Long term strategy of managers for growth was to move into related product markets (concerned economies of scope) or move abroad (concerned economies of scale).

**CASE: Where Britain Went Wrong - they disregarded the logic of managerial enterprise.**

**Example 1:** *Chemical Industry just before WW2, Britain invented man made dye and had all comparative advantages; the largest supply of coal (needed to make dye), a huge domestic textile industry (the world’s biggest market for the dye), and even hired trained German scientists. Britain* ***should*** *have dominated. German competitors beat them because Britain* ***didn’t*** *make essential investments in* ***production, distribution, and management.***

*Bayer Chemical firm, Germany.*

*Was a success because of:*

*- economies of scale: they developed dyes then moved into pharmaceuticals.*

*- investment: expanded purchasing a new dye maker on the Rhine river which helped receiving and shipping.*

*- investment: were going to extend the plant but instead demolished the whole thing and made a new one ensuring a steady flow of material from arrival to production to shipment and good communication between employees.*

**Example 2:** *Electricity, first power station in NYC. Changed city living and transport, the workplace, created new industrial methods. Britain and Germany got the patents for it. Germany invested in a 10 year plan to assure its global position by running everything under a single management. Britain didn’t do anything like this. As a result, the German and American companies owned two-thirds of equipment machinery in Britain itself.*

The “American system of manufacturing” - standardized parts, high volume production process i.e. mass production.

**CASE: What IBM Did Right.**

*The Computer Industry. Most leaders were long established managerial enterprises in similar industries not entrepreneurs. They saw the potential of the computer. They invested in production and distribution. IBM’s strategy - pursue as wide a commercial market as possible. Spent many years investing in research and production. Created the System 360. Invested in marketing, and re-organized management. Success.*

*Competitors all had the same potential for success but they chose to diversify their products therefore not bothering to focus time and money on the computer. IBM moved abroad, became a leader in Europe.*

**CASE: A different story; semiconductors.**

*Semiconductors created in the US. Had 60% of the market in 1970s but only 40% in 1980s. What happened? Diversified electronics companies most able to produce and research pulled out. The pioneer companies failed to invest and grow and either stayed small or sold out.*

*In Japan, similar producers made computers* ***and*** *semiconductors for themselves (vertical growth) and larger markets at home and abroad. They diversified but stayed within what they knew. They were a success unlike the Americans.*

When Large isn’t Logical -The diversification movement of the 1960s - managers chose to grow through diversification - acquiring businesses they had little capabilities in.

They ignored the logic of managerial success but did it to try stay competitive.

They obtained the firms through mergers/acquisitions.

The Tangled Logic of Diversification -

Acquisitions/mergers almost a mania.

Top management at head office got separated from middle management responsible for running divisions because they don’t know about the technology and markets of the subsidiaries they’ve acquired and because there’s a decision making overload. Very few have training/experience to know what to do.

Divestiture: Selling of the subsidiaries they’d invested in. This became a money making business that many banks benefitted from.

Restructuring for Competitiveness -

All the above allowed for a lot of corporate restructuring. Firms were bought, sold, split up, recombined which can be destructive. US companies lost power to foreign control. Other hand, if part of a careful strategy it can enhance competitiveness. Allows reshaping of product lines and strategies and moving back to developing markets that best fit their distinctive core production technology.

Conglomerates (big corporations with lots of firms) can be ok if management focus on a few divisions so having discipline over managerial inertia (not doing anything). Banks and big stockholders can revive big companies by bringing someone in to turn them around.

**Key things (I think):**

**First mover**

**Pioneer**

**Economies of scale/scope**

**Investment (importance of. . .)**

**Horizontal/Vertical growth**

**The Case studies (p.2)**

**2- Varieties of Capitalism in the Twentieth Century – Dore, Lazonick and O’Sullivan**

**1. Convergence to a dominant mode?**

*From 1920’s to present.*

- Britain and U.S.A. pioneers/conform to.

- Germany/Japan diverge form.

*Reasons:*

-State interference? No.

- Stubborn cultures? No.

\* Ebb and flow? Probably. - 1960s: Convergence.

- 1980s: Divergence; market forces, institutional investors.

- 1990s: Convergence; globalisation effects.

**2. From Managerial Revolution to Great Depression**

***Britain***

1900 - World leader in GDP/Exports.

- Proprietary Capitalism:

- Family promotion.

- Little University recruitment.

- No admin. To build organisations.

- Power gap/self-interest.

- Finance: little investment.

***U.S.A.***

1920 - Merger/Acquisition movement (1900) → Stock ownership separated from mgmt.

- Market for Industrial securities/Wall Street floated stocks (led by J.P. Morgan).

- Owner/Managers bought out. Replaced with salaried managers.

- *Public* ownership of shares/less interest and supervision by owners.

- 1st Rev: Machine → 2nd Rev: Science → need for educated specialists.

- Anonymity → employee vertical mobility → strong links with universities.

- Welfare Capitalism: Efficiency and Employee welfare worked without Unions.

- Finance: Retained Earnings.

***Germany***

- Educational preparation: Technical/Scientific. → Competitive edge.

- Proprietary Capitalism: more than U.S.A. less than Britain.

- Share ownership: Hired salaried managers.

- Family members recruited had technical training.

- Strong relationship with banks.

- Artisanal communities → Widespread apprenticeships. \*Unique\*

- Welfare: Social insurance pioneers, Works council: give a limited voice.

- WWII build-up, reparations crippled the economy.

→ Consolidation/Rationalization.

→Labour movement.

***Japan***

- Late developer. Industrialisation started around 1875.

- Analysed Western technology and improved them.

- Rapid creation of higher education system/foreign education-experience.

- Developed metal-works by WWI, able to supply Asia due to the War.

- Textiles/Textile machinery.

- 19th/20th State investment in armouries, steel, mining, shipbuilding and railways.

- *Zaibatsu*: Privatised state companies.

- Welfare Capitalism: Harmonize-Suppress. *Harmonization Society*: mediators.

**3. Depression, War and Divergent Development**

***U.S.A.***

Depression: →Industrial conflict.

WWII: - Industrial growth/R&D.

Aftermath: - American dominance.

- Rebuilding of Europe: ↑ in Demand, U.S.A. exploited.

Cold War: - R&D.

- Arms build-up: *‘military-industrial complex’*

- Anti-Socialist American politics → Union suppression.

***Britain***

Depression: →Labour Party Victory (1945)

/WWII. - Nationalisations for modernisation.

→Little change to: - Adverse industrial relations tactics.

- Rationalise management structures.

Proprietary Capitalism →Managerial Capitalism.

Salaried managers: - Distanced from technical staff.

- Little power over stakeholders.

***Germany***

WWII: - Pre-war/mid-war efficiency drive.

- Industrial consolidation/Cartelisation of corporations.

- Rationalisation of smaller businesses.

-Post-war intervention by U.S.A.

- Division of cartels.

- Weakening Corporate power.

Cold War: - Unionisation/Employee Welfare

- Corporate supervisory boards/employee representation.

- Formalised wage bargaining systems.

***Japan***

WWII: - Pre-war/mid-war: Socialist approach

- Rationalisation of smaller businesses.

- Military control.

- Zaibatsu managers assassinated.

- Focus on industrial efficiency not personal/shareholder gain.

- Central control: - Resources.

- Appointments to the board.

- Bank loans allocated/stock-market closed.

- Post-war: - Zaibatsu dissolved.

- Executive purge: new/young technical minded executives.

- Stock-market re-opened.

- Industrial disputes → Compromise.

- Income equality/Taxation: ↑ in consumption.

- Managerial developments: Quality Control.

Just-in-time.

Continuous improvement.

**4. The 1960s: The Heyday of Managerial Capitalism**

- Little Interference: - Shareholders/Banks.

- Government.

- Public favour: - Post-war growth: GDP↑

- Unemployment stabilised.

- Distribution of wealth maintained

- Welfare: - Stable industrial relations.

**5. The 1970s: Surging Inflation and Corporatist Responses**

Oil shock created double figure inflation rates.

Japan: - Union/Employer/Government cooperation.

- Wage bargaining with National interest in mind.

- GDP↑ Costs were lower than competitors.

- Government deficit spending.

Germany: - Formal strike procedure developed.

- Wage increases achieved.

- Union restraint in return.

Britain: - Collective bargaining breakdown.

- Union restraint not achieved.

- 3m days lost in 60s to 29m days lost in 70s.

U.S.A: - Inflation: Print money to fund Vietnam war.

- Nixon: Wage/Price freezes failed.

- Oil shock worsened.

- Union power. Absenteeism/low productivity.

Solutions:

- Monetary policy

- Financial deregulation:

- E.R.I.S. Act 1974 amended in 1978.

- Allow pension funds take higher risks.

**6. The 1980s and 1990s**

- Reformation: Reduce worker power: - Recession.

- Legislation.

- British shareholder value movement.

- Labour market liquidised.

Followed in U.S.A.

- Institutional investors: cost-cutting efficiency.

- Top-management income ↑.

Followed in Germany

**3- The Principles of Scientific Management Part 1 – F. Taylor**

Taylor’s Scientific Management sought after improved productivity in industries, such as the steel industry. Taylor believed that labour productivity was largely inefficient due to a workforce that functioned by “rules of thumb” and a mentality that equated that increasing productivity lead to a cutting down of the labour force.

Taylor studied all the components of a required job and recorded the time it should take to complete the task leading to less wasted time or “soldiering” which would replace the traditional “rules of thumb” leading to increased productivity. Taylor fragmented each job and using time and motion studies obtained the best pace, tools and order to be applied so that all workers would adhere to this procedure, work would be standardized and efficiency would increase and lead to a “fair days work“.

Taylor’s application of scientific methods and facts did not stop there; he had also studied the equipment workmen used for the job at hand, so that workers did the exact amount of work needed for a “fair day’s work”. As well as obtaining a science for each element Taylor also planned to scientifically select the workers that were best suited for the job and to train and develop these workers for their specific tasks; “development of each man to his greatest efficiency and prosperity”. The fourth principle of Taylorism was to achieve a healthy cooperative relationship between management and workers in which managers did the planning and organising of each worker’s jobs. In order to work effectively all four principles of Taylorism had to be applied (fragmentation and standardisation of work, selection of workers, training of workers and cooperation between management and workforce).

1. Fragmentation and standardisation

In the first principle of Taylorism each task is broken down into its various components each of which is measured, timed, tabulated and analysed with any slow movements eliminated so that the most productive and efficient method was found. In business today this approach can be implemented into lean production, such as the assembly lines in automobile industry. However, the industries that Taylor first imposed scientific management had simple structures with the operating core and one or two levels of managers or supervisors known as “teachers”.

Taylor sought to standardise all work under the same methods for every worker. This meant that workers were operating repetitive tasks. The allocation of work "specifying not only what is to be done but how it is to done and the exact time allowed for doing it". “Standardisation is the death of creativity” (Adler). This standardisation of each worker shown in the **science of shovelling** in which each shovel was designed to ensure that only 21 pounds could be lifted. This stopped the situation where

“Each shoveller owned his own shovel that he would frequently go from shovelling ore, with a load of about 30 pounds per shovel, to handling rice coal, with a load on the same shovel of less than 4 pounds. In the one case, he was so overloaded that it was impossible for him to do a full day's work, and in the other case he was so ridiculously under-loaded that it was manifestly impossible to even approximate a day's work."

This form of standardisation rarely exists in modern industries as each searches for new and improved manufacturing tools to gain an advantage in competitive markets.

1. Selection and training of workers

After scientifically evaluating the most efficient working methods, Taylor applied the next principle. Workers were selected scientifically based on their ability to perform the required task. Workers were selected based more so on their physical condition in industries and jobs such as **handling pig iron** rather than on intellect, credentials, experience or even individual talent.

“One of the very first requirements for a man who is fit to handle pig iron as a regular occupation is that he shall be so stupid and so phlegmatic that he more nearly resembles […] the ox… Therefore the workman…is unable to understand the real science of doing this class of work”

This is based on the type of job under which Taylorism flourished; manual labour. Under Taylorism each worker was given an instruction card outlining his work. This practise was enforced under the idea that “you are not supposed to think. There are other people paid for thinking around here”. Taylorism minimised the skill requirements.

As well as selection, Taylorism also allowed for workers to be trained, industries such as the Bethlehem Steel Company were seen as “educational institutions” in which a worker learned how to perfect his craft over time while gaining experience. Workers were limited in their training allowing no flexibility in their skills. They were taught how to do a specific repetitive task for the job and how exactly to do it.

1. Heartily cooperation with workers

Taylor believed that a healthy cooperation would help in his overall search more greater efficiency. In the old system efficiency could be achieved through initiative and incentive. In this way the workers give their best initiative to the required job or task before them and in return they receive some special incentive from management. This incentive usually took the form of higher wages. However under Taylorism a worker’s initiative; hard work, good will and ingenuity is achieved through absolute uniformity. On the part of the management cooperation is achieved by assuming new duties, responsibilities and burdens. This cooperation is to insure all of the work being done is in accordance with the principles of the science which has been developed in the first principle.

1. Division of responsibility between management and workers

The fourth principle of Taylorism focused on the sharing of responsibility between managers and workers to improve the poor relations between the two which had often lead to “soldiering”. Under Taylorism managers planned and organised the work and the workers carried out these tasks. As a result workers gained experience and habit but sacrificed knowledge and understanding.

This theory of separation of responsibility is linked with the absence of teamwork under Taylorism. Taylor also believed that group work lead to soldiering, as the entire group would inevitably work to the same pace as the slowest worker instead of the opposite. This would lead to inefficiencies. Hence workers normally worked alone.

For a different time and place yet several examples of Taylorism and principles being applied today:

McDonalds, Formula 1 pitstops, mass production, automobile industry

# 4 - The Manager’s Job: Folklore and Fact? – Henry Minzberg

Most managers say they plan, organize, coordinate and control. This tells us little about what they actually do – indicate vague objectives.

Ignorance of nature of managerial work shows up e.g. boasts by successful managers who never spent a day in a managerial trainining programme, turnover of corporate planners who never quite understood what it was the manager wanted. Most importantly, our ignorance shows up in the inability of our large public organizations to come to grips with some of their most serious policy problems.

**Folklore and facts about managerial work:**

*Folklore: The manager is a reflective, systematic planner*

*Fact: Study after study has shown that managers work at an unrelenting pace, that their activities are characterized by brevity, variety and discontinuity, and that they are strongly oriented to action and dislike reflective activities.*

* Half the activities engaged in by the 5 Chief Exec’s of his study lasted less than 9 mins, and only 10% exceeded 1 hr
* Diary study of 160 Brittish middle and top managers found that they worked without interruption for a half hour or more only about once every 2 days
* Of verbal contacts chief exec’s in the study engaged in, 93% were arranged on an ad hoc basis
* Managers simply responding to pressures of the job. Always plagued by the possibilities of what might be done and what must be done
* Plans seemed to exist in managers’ heads – as flexible, but often specific, intentions

*Folklore: Effective manager has no regular duties to perform.* Good manager carefully orchestrates everything in advance, then sits back, responding occasionally to some unforseeable exception.

*Fact: Managerial work involves performing a number of regular duties, including ritual and ceremony, negotations, and processing of soft information that links the organization with its environment.*

* Presidents of small companies engaged in routine activities as their companies couldn’t afford staff specialists
* Study suggests field sale managers and chief execs have a key part of their jobs as seeing regular customers, assuming they wish to keep them
* Certain ceremonial duties – meeting visiting dignitaries, giving out gold watches, presiding at Xmas dinners – were an intrinsic part of chief exec’s job.
* Play a key role in securing “soft” external info. (much of it available to only them due to their status) and passing it along to subordinates

*Folklore: The senior manager needs aggregated information, which a formal management information system best provides.* Recently, giant MIS systems not working – managers simply not using them. Enthusiasm has waned after initial great demand for them.

*Fact: Managers strongly favour verbal media, telephone calls and meetings, over documents.*

* In 2 British studies, managers spent 66% and 80% of their time in verbal (oral) communication
* Favour “soft” mail, containing things like hearsay and speculation. This is because today’s gossip may be tomorrow’s fact. The manager who misses the telephone call revealing that the company’s biggest customer was seen golfing with a main competitor may read about a dramatic drop in sales in the next quarterly report, but by then it’s too late
* Manager’s prime uses for info. – to identify problems and opportunities and tobuild mental models. Evidence suggests managers do this not with the aggregated abstractions an MIS provides but with specific tidbits of data

*Folklore: Management is, or at least is quickly becoming, a science and a profession.*

*Fact: The manager’s programs – to schediule time, process information, make decisions, and so on – remain locked deep inside their brains.*

* To describe these programs, we rely on words like *judgement* and *intuition*, seldom stopping to realize they are merely labels for our ignorance
* Executives being observed were fundamentally indistinguishable from counterparts 100/1000 years ago. Info. they need differs, but they seek it in the same way – word of mouth
* Management scientists have concentrated on the specialized functions of the organization, where iit is easier to analyse the procedures and quantify the relevant information, rather than concentrating on managers’ behaviour

**ROLES OF THE MANAGER:**

**INTERPERSONAL ROLES:**

*Figurehead Role:* Comprises of ceremonial duties as head of the organizational unit e.g. taking important customer to lunch, etc. Important to the smooth functioning of an organization and cannot be ignored.

*Leader Role:* Actions regarding managers being responsible for work of people in their unit. Some involve leader directly e.g. hiring & training own staff. Indirect exercise of leader role too e.g. motivation & encouragement of employees. Influence of managers most clearly seen in this role. Formal authority vests them with great potential power; leadership determines in large part how much of it they will realize.

*Liason Role:* Manager makes contacts outside the vertical chain of command. Studies show that managers spend as much time with peers and people outside their unit as they do with their own subordinates – and, surprisingly, very little time with their own superiors.

**INFORMATIONAL ROLES:**

*Monitor Role:* Manager perpetually scanning environment for info., interrogating liason contacts and subordinates, and receiving unsolicited info., much of it as a result of the network of personal contacts.

*Disseminator Role:* Manager passes some privileged info. directly to subordinates, who would otherwise lack access to it. When subordinates lack easy contact with one another, the manager may pass info. from one to another.

*Spokesperson Role:* Manager sends some info. to people outside the unit – e.g. president makes speech to lobby for an organization cause. In addition, as a spokesperson, every manager must inform and satisfy the influential people who control the organizational unit e.g. president advising shareholders about finances.

**DECISIONAL ROLES:**

*Entrepreneur:* Manager seeks to improve the unit, to adapt it to changing conditions in the environment. They have many different projects on the go trying to improve the business. Many stem from observations from the *monitor* role.

*Disturbance Handler:* Manager involuntarily responding to pressures. Here change is beyond the manager’s control. The pressures of a situation are too severe to be ignored – a strike looms, a major customer goes bankrupt – so the manager must act. There is no way an organization can have planned for every contingency in advance.

*Resource Allocator:* Manager responsible for deciding who gets what. Most importantly, the manager has to allocate who gets his/her time. Also, the manager authorizes the the important decisions of the unit before they are implemented. Managers must choose whose projects to approve.

*Negotiator:* Managers spend considerable time in negotiations. These are an integral part of their job, as only they have the authority to commit organizational resources in “real time” and the nerve-centre information that important negotitations require.

The manager needs to fulfil all these ten roles to be any way successful. This said, not all of these roles need equal attention. It will depend on the manager and what he/she is managing, aswell as their personal style of management.

The manager’s effectiveness is significantly influenced by their insight into their own work. Performance depends on how well a manager understands and responds to the pressures and dilemmas of a job. Being introspective about their work is an essential part of manager’s quest for improvement.

The manager is challenged to find systematic ways to share privileged information. They are also challenged to deal consciously with the pressures of superficiality by giving serious attention to the issues that require it, by stepping back in order to see a broad picture, and by making use of analytical input. They are also challenged to gain control of his/her own time by turning obligations into advantages and by turning those things he/she wishes to do into obligations.

Managers need to be educated by on-the-job training, and experience. No job is more vital to society than that of the manager, and more needs to be done to improve the standard of them.

**Theme Two – The Competitive Environment of Organisations**

**5- Competition and Business Strategy in Historical Perspective** - **P. Ghemawat**

Strategy 🡪 This paper is basically a summary on the emergence/development of strategic planning in a competitive market. Strategic planning goes way back to 1850 when the second industrial revolution brought in large-scale investment to exploit economies. Gradually, the paper talks about how the business policy was given a new meaning following the World Wars—explaining the emergence of Ansoff’s Product matrix, SWOT, Kenneth Andrew’s strategy framework, BCG’s Growth Share Matrix, GE/McKinsey Business Share Matrix and Porter’s Five Forces

* This paper traces the evolution of ideas of business strategy and how it was influenced by competitive thinking in the second half of the 20th century.
* Aims to focus on some key topical issues in applying competitive thinking to business strategy.
* Particular attention is paid to the roles of the Harvard Business School and its consulting firms Boston consulting group and McKinsey & company

**Historical background**

* Until the 19th century there was limited opportunities for business to apply completive thinking 🡪 firms had incentive to stay small and to use as little fixed capital as possible!
* Scope for change started in the second half of the 19th century
* In 1850’s USA’s railways built , this led to development of mass markets and more access to capital/credit
* Mass Markets encouraged large scale investments to exploit economies of scale in production and economics of scope in distribution
* In the late 19th century a new type of business formed 🡪 the vertically integrated, multidivisional **(m-form**) corporation that made large investments in manufacturing and marketing and in management hierarchies to coordinate things. Over time the largest of these corporations altered the competitive environment in industry

**Formal approach for corporate strategy**

* Alfred Sloan (general motors’ top executive 1923-46) based strategy on that was based on strengths/weaknesses of competitor ford
* Problem of allocating scarce resources across a entire economy **in wartime** also led to many innovations in management science
* New operations🡪research techniques, i.e. **linear programming**, were devised which paved the way for the use of quantitative analysis in formal strategic planning
* **Learning curves**🡪 discovered in military aircraft industry in 1920/30’s where it noticed that direct labour costs tended to decrease by a constant percentage as the culmative quantity of aircraft produced doubled.

**World War two changed the mindset of using formal strategic thinking**

* Peter Drucker’s managing🡪 implies responsibility for attempting to shape the economic environment, for planning, initiating and carrying through changes in that economic environment’
* In the 1950/60’s 🡪 Multi-National Corporations were forced to consider global competition as a factor in planning
* American military sought the integration of strategic and tactical planning – argued that army, navy, marines, and air force would be effective if they were unified into one organisation

**Academic underpinnings**

* Kenneth Andrews – Harvard professor said– ‘every organization, every sub unit of organization and even every individual ought to have a clearly defined set of purposes or goals which keeps it moving deliberately chosen direction and prevents its drifting in undesired directions.`
* **SWOT** – **S**trengths , **W**eaknesses, **O**pportunities , **T**hreats 🡪 step forward in bringing explicitly competitive thinking to bear on questions of strategy.
* In the 1960’s 🡪 diversification and technological changes increased the complexity of strategic situations
* Harvard Business School said business strategies could only be analysed on a case by case basis in order to account for the unique characteristics of every business 🡪 this led to business’s looking for other standardised approaches to strategy making
* Majority of us companies had set up formal planning departments by 1963
* **PROM** - **Pr**ofitability **O**ptimization **M**odel – (used by General Electric(GE)) explained a significant fraction of the variation in the return on investment afforded
* Companies also got help from private consulting firms 🡪 they made contributions in areas such as planning, forecasting, logistics and long range research and development(r&d) 🡪 this section traces their impact on mainstream strategic thinking.

**The rise of strategy consultants**

* Boston Consulting Group(BCG)
* **BCG & The Experience Curve**: Experience Curve 🡪 1965-66 🡪 Bruce Henderson said ‘ it was developed to try and explain price and competitive behaviour in the extremely fast growing segments of industries.ie Black and Decker
* BCG 🡪 standard claim for the experience curve was that for each cumulative doubling of experience, total costs would decline by 20 to 30% due to economies of scale, organisational learning and technological innovation

**From the Experience Curve to Portfolio Analysis**

**Growth Share Matrix** 🡪 later known as **Portfolio Analysis**

* The BCG matrix (aka B.C.G. analysis, BCG-matrix, Boston Box, Boston Matrix, Boston Consulting Group analysis, portfolio diagram) is a chart that had been created by Bruce Henderson for the Boston Consulting Group in 1968 to help corporations with analyzing their business units or product lines. This helps the company allocate resources and is used as an analytical tool in brand marketing, product management, strategic management, and portfolio analysis. [1]
* Like Ansoff's matrix, the Boston Matrix is a well known tool for the marketing manager. It was developed by the large US consulting group and is an approach to product portfolio planning. It has two controlling aspect namely relative market share (meaning relative to your competition) and market growth.
* You would look at each individual product in your range (or portfolio) and place it onto the matrix. You would do this for every product in the range. You can then plot the products of your rivals to give relative market share.
* This is simplistic in many ways and the matrix has some understandable limitations that will be considered later. Each cell has its own name as follows.
* **Dogs**. These are products with a low share of a low growth market. These are the canine version of 'real turkeys!'. They do not generate cash for the company, they tend to absorb it. Get rid of these products.
* **Cash Cows**. These are products with a high share of a slow growth market. Cash Cows generate more than is invested in them. So keep them in your portfolio of products for the time being.
* **Problem Children**. These are products with a low share of a high growth market. They consume resources and generate little in return. They absorb most money as you attempt to increase market share.
* **Stars**. These are products that are in high growth markets with a relatively high share of that market. Stars tend to generate high amounts of income. Keep and build your stars.
* Look for some kind of balance within your portfolio. Try not to have any Dogs. Cash Cows, Problem Children and Stars need to be kept in a kind of equilibrium. The funds generated by your Cash Cows are used to turn problem children into Stars, which may eventually become Cash Cows. Some of the Problem Children will become Dogs, and this means that you will need a larger contribution from the successful products to compensate for the failures.
* **Mc Kinsey then produced nine block matrix:**
* The Nine-Block Matrix can be found here. Press CTRL+ click
* [**http://www.redpointcoaching.com/resources/documents/GE.McKinsey9-BlockBusinessStrengthMatrix\_000.pdf**](http://www.redpointcoaching.com/resources/documents/GE.McKinsey9-BlockBusinessStrengthMatrix_000.pdf)
* [Problems with The Boston Matrix](http://en.wikipedia.org/w/index.php?title=Problems_with_The_Boston_Matrix&action=edit&redlink=1). There is an assumption that higher rates of profit are directly related to high rates of market share. This may not always be the case. When Boeing launches a new jet, it may gain a high market share quickly but it still has to cover very high development costs. It is normally applied to Strategic Business Units (SBUs). These are areas of the business rather than products. For example, Ford own Land Rover in the UK. This is an SBU not a single product. There is another assumption that SBUs will cooperate. This is not always the case. The main problem is that it oversimplifies a complex set of decision. Be careful. Use the Matrix as a planning tool and always rely on your gut feeling.
* In the 1970’s every major consulting firm used some type of **portfolio analysis** to generate strategy recommendations. Portfolio Analysis gave executives a ready excuse to get rid of poorly performing business units while directing most funds to the ‘stars’ .
* Biggest criticisms on analytical techniques popularized by strategy consultants(Harvard Professors 🡪 They argued that ‘these new principles of management, despite their sophistication and usefulness, encourage a preference for

1. Analytic detachment rather than the insight that comes from hands on experience
2. Short term cost reduction rather than long term development of technological competitiveness

* They said it was a tool that led managers to focus on minimizing financial risks rather than investing in new opportunities that require a long term commitment of resources
* **Unbundling Industry Attractiveness**
* Joe Bain, Harvard Professor, did two studies on uncovering the general relation between industry structure and performance through empirical work focused on a limited number of structural variables.

1. Found that the profitability of manufacturing industries in which the eight largest competitors accounted for more than 70%
2. In certain industries ‘established sellers can persistently raise their prices above a competitive level without attracting new firms to the industry. Three basic barriers to entry 🡪 **1)** an absolute cost advantage by an established firm(an enforceable patent for example), **2)** a significant degree of product differentiation, **3)** economies of scale

* His thoughts led to growth of a new subfield of economics – **Industrial Organisation(IO)** 🡪 which explored the structural reasons why some industries were more profitable than others
* Problems of IO🡪 too much focus on public policy rather than business policy (they were concerned too much with the minimization of profits rather than the maximisation of profits,
* Michael Porter, Harvard graduate wrote ***’note on the structural analysis of industries 1974***’ --> focused on the business policy objective of profit maximization rather than on the public policy objective of profit maximization
* 1980 🡪 competitive strategy - success due to Porter framework for the structural analysis of industry attractiveness

Porter five forces🡪 used a framework not model 🡪 a framework encompasses many variables and seeks to capture much of the complexity of actual competition

Porter's five forces is a framework for the industry analysis and business strategy development developed by Michael E. Porter of Harvard Business School in 1979. It uses concepts developing, Industrial Organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market. Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one where the combination of forces acts to drive down overall profitability. A very unattractive industry would be one approaching "pure competition".

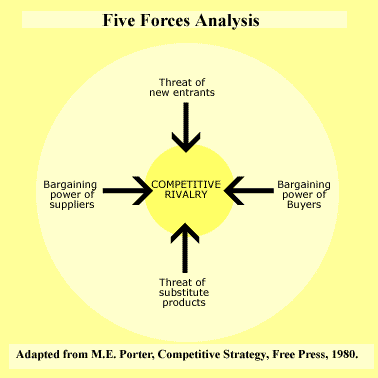
Three of Porter's five forces refer to competition from external sources. The remainders are internal threats. It is useful to use Porter's five forces in conjunction with SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats).

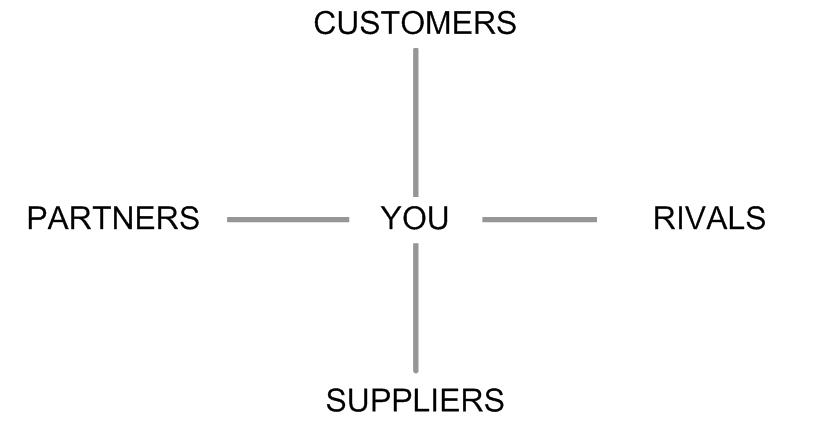
Porter referred to these forces as the micro environment, to contrast it with the more general term macro environment. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally, requires a business unit to re-assess the marketplace given the overall change in industry information. The overall industry attractiveness does not imply that every firm in the industry will return the same profitability. Firms are able to apply their core competencies, business model or network to achieve a profit above the industry average. A clear example of this is the airline industry. As an industry, profitability is low and yet individual companies, by applying unique business models, have been able to make a return in excess of the industry average.

Porter's five forces include - three forces from 'horizontal' competition: threat of substitute products, the threat of established rivals, and the threat of new entrants; and two forces from 'vertical' competition: the bargaining power of suppliers and the bargaining power of customers.

This five forces analysis is just one part of the complete Porter strategic models. The other elements are the value chain and the generic strategies.

Diagram (p.90)





* Adam Brandenburger and Barry Nalebuff 🡪 argued that the process of creating value in the marketplace involved four types of players – customers/suppliers/ competitors and complementors(other firms from which customers buy complementary products and services)

**Competitive dynamics and history:**

* The unsuitability of most competitive advantages was generally thought to reflect **The Red Queen Effect**: the idea that as organizations struggled to adapt to competitive pressures, they would become stronger competitors, sending the overall level of competition spiralling upward and eliminating most, if not all competitive advantages:
* **Game theory:** Game theory is the mathematical study of interactions between players whose payoffs depend on each other’s choices. Game theory models share an emphasis ‘on the dynamics of strategic actions and in particular on the role of complementors.

**Resource based view of the firm:**

* Idea of looking at companies in terms of how much resources they have at their disposal
* Birger Wernerfelt said : Resource based theorists seek to distinguish their perspective on sustained superior performance from that of IO economics
* They have also tended to see firms stuck with a few key resources, which they must deploy across product markets in ways that maximise total profits rather than profits in individual markets!

**6- Are You Sure You have a Strategy? - By Donald C. Hambrick and James W. Frederickson**

“When executives call everything strategy, and end up with a collection of strategies, they create confusion and undermine their own credibility.”

Too many firms today use strategy as a general “catch all” phrase, i.e. sounds good but means very little

A strategy is a central, integrated, externally oriented concept of how the business will achieve its objectives. Without a strategy time and resources are easily wasted. A strategy consists of an integrated set of choices but it isn’t a catchall for every important choice an executive makes.

THE ELEMENTS OF STRATEGY:

* Arenas: where will we be active
* Vehicles: how will we get there?
* Differentiations: how will we win in the market place?
* Staging: what will be our speed and sequence of moves?
* Economics logic: how will we obtain our returns?

**ARENAS**

* It is important to be as specific as possible about the product categories, market segments, geographic areas, and core technologies, as well as the value-adding stages (e.g. product design, manufacturing, selling, servicing, distribution) the business intends to take on.
* In choosing arenas, the strategist needs to indicate not only where the business will be active, but also how much emphasis will be placed on each.
* Example of a Biotechnology Company. Knew its exact product = T cell receptors for diagnostic products for cancer. Knew its exact markets = The US and major EU markets. Knew its core activities = Research and product design, outsource everything else.#

**VEHICLES**

* Needs to know the means for attaining the needed presence in a particular product category, market segment, geographic area, or value-creation stage should be the result of deliberate strategic choices.
* Internal development? Joint ventures? Licensing/franchising? Acquisitions?
* The means by which arenas are entered matters greatly, thus the selection of vehicles should not be an afterthought.
* Failure to explicitly consider and articulate the intended expansion vehicles can result in the hoped for entry’s being seriously delayed, unnecessarily costly, or totally stalled.

**DIFFERENTIATORS**

* Specify how the firm will win in the marketplace – how it will get customers to come its way.
* Winning is the result of differentiators, they require executives to make up-front, conscious choices about which weapons will be assembled, honed, and deployed to bear competitors in the fight for customers, revenues and profits.
* Regardless of the intended differentiators – image, customisation, price, product styling, after-sale services, or others – the critical issue for strategists is to make up-front, deliberate choices.
* Differentiators don’t just materialize they are hard to achieve.

**STAGING**

* The speed and sequence of major moves.
* 1) make selected acquisitions in adjacent regions
* 2)invest moderately heavily in advertising and brand-building
* 3) make acquisitions in additional regions on more favourable terms
  1. Staging driven by resources. Funding and staffing every envisioned initiative at the needed levels is generally not possible at the outset of a new strategic campaign. Can’t use all your resources at once.
  2. Urgency – some elements of a strategy may face brief windows of opportunity, requiring that they be pursued first and aggressively
  3. The achievement of credibility
  4. Pursuit of early wins

**ECONOMIC LOGIC**

* At the heart of a business strategy must be a clear idea of how profits will be generated – profits above the firm’s cost of capital.
* It is not enough to vaguely count on having revenues that are above costs. Unless there’s a compelling basis for it, customers and competitors won’t let that happen.
* In some cases the economic key may be to obtain premium prices by offering customers a difficult to match product e.g. the New York Times – high prices along with high quality journalism.
* Lower costs through scale advantages? Lowest costs through scope and replication advantages? Premium prices due to unmatchable service?

**THE IMPERATIVE OF STRATEGIC COMPREHENSIVENESS**

* Most strategic plans only give consideration to one or two of the five elements of strategy without giving consideration to the others.
* 5 elements call for choice, preparation and investment.
* They must align with and support one another.
* It is only after the specification of all 5 strategic elements that the strategist is in the best position to turn to designing all the other supporting activities – functional policies, organisational arrangements, operating programs and processes- that are needed to reinforce the strategy.

**COMPREHENSIVE STRATEGIES AT IKEA AND BRAKE PRODUCTS INTERNATIONAL (BPI)**

**IKEA: Revolutionizing an industry**

* Its strategy has been very coherent with all 5 elements.
* IKEA is not only a retailer, but also maintains control of product design to ensure the integrity of its unique image and to accumulate unrivalled expertise in designing for efficient manufacturing.
* Reliable quality – low price. Fun non-threatening experience, allowed wander through the store with only the help they request. Strives to make customer fulfilment immediate. That day delivery or immediate take home products.
* The economic logic of IKEA rests primarily on scale economies and efficiencies of replication.
* **Arenas** – inexpensive contemporary furniture. Young, white-collar customers. Worldwide.
* **Vehicles** – Organic expansion. Wholly owned stores.
* **Differentiators** – Very reliable quality. Low price. Fun, nonthreatening shopping experience. Instant fulfilment.
* **Staging** – Rapid international expansion, by region. Early footholds in each country; fill in later.
* **Economic Logic** – Economies of scale (global, regional, and individual-store scale). Efficiencies from replication.

**BPI’S (Brake Products International) STRATEGY**

* **Arenas** – Expand beyond Europe and North America to Asia where automobile market is booming. Brakes and suspension system components. Suspension system integration. Braking systems for off road vehicles.
* **Vehicles** – Internal development of new, leading edge braking products. Strategic alliances with suspension component manufacturers. Joint ventures with brake companies in Asia.
* **Differentiators** – unique design technology. Electronic traction control technology. Systems integration capability. E-business capability with suppliers and customers. Global reach.
* **Staging** – Stage1: Asian JV’s and alliances with suspension component companies. Stage2: Aggressively design and market systems integration offering: commerce off-road vehicle market.
* **Economic Logic**- Preferred supplier status and premium pricing, due to leading edge technology. Preferred supplier status and premium pricing, by providing customers global solutions. Preferred pricing by providing customers integrated kits, saving money spent on assembly and inventory.

# 7- How competitive forces shape strategy - Porter

* 5 forces model used to understand industry attractiveness to average competitiveness.
* 5 force model emphasized ‘extended competition’ rather than just between rivals.
* Essential to cope with competition.
* Weaker the forces are collectively, the greater the opportunity for successful and superior performance.
* Even a company with a strong position in an industry unthreatened by potential entrants will earn low returns if it faces a superior or low cost substitute product.

1. **Threat of entry:** Desire to gain market share and often substantial resources. Seriousness of the threat of entry depends on the barriers present;
   * Economies of scale: forces entrants to come in on a large scale or have cost disadvantage (key barrier in computer industry ex; Xerox)
   * Product differentiation: Entrants must spend heavily to overcome customer loyalty (i.e. coca cola). To create high fences around their business, brewers couple brand identification with economies of scale in marketing, distribution and production.
   * Capital requirements: Need to invest large financial resources, ie computer manufacturing.
   * Cost disadvantages independent of size: proprietary technology, access to best raw materials, assets purchased at pre-inflation price, government subsidies; sometimes patents.
   * Access to distribution channels: A new food product must displace others from the supermarket shelf via price break, promotions etc. If barriers are very high the new contestant must create own distribution channel- Timex (watches in 1950s).
   * Government policy: licence requirements and access to raw materials (gov can limit new entrants due to this) eg, off-licences.

When Polaroid’s patent expired Kodak came into the market.

1. **Power of supplier:** Can exert bargaining power on participants in an industry by raising prices or reducing quality of purchased goods/services. In soft drink industry; concentrators

can raise their prices but the bottlers (that buy the concentrate from the concentrators) cannot raise their prices because of competition from fruit drinks and other beverages. Suppliers are powerful when:

* Fewer suppliers than buyers
* Product is differentiated or built up switching cost (cost of changing supplier)
* The industry isn’t important to the supplier
* If it isn’t obliged to contend with others for sale in an industry

**3.Buyers in power when:**

* Purchases in large volumes (particularly in heavy fixed cost industries ie metal containers- which raise steaks to keep capacity filled).
* Undifferentiated products (can find alternative suppliers)
* High profit buyers are less price sensitive
* Low profits create incentive to lower purchasing costs or if the product doesn’t save the customer money.

Consumers are price sensitive when:

* 1. products are differentiated
  2. quality isn’t important
  3. product is expensive relative to their income

Retailers can gain significant bargaining power over manufacturers when they can influence consumers’ purchasing power.

**4. Substitute products:** By placing a ceiling on price in an industry; substitute products can limit the potential of an industry

* Substitutes not only limit profits in normal times, but also in times of great profits ex; In 1978 producers of fibreglass insulation enjoyed unprecedented demand as result of high energy costs and severe winter weather; but the industry’s ability to raise price was stopped as insulation substitutes came into the market (rock wool etc).
* Substitutes cause price reductions or performance improvements

**5. Current competitors:** Jockeying for position = rivalry among competitors; tactics like price competition; product introduction and advertising.

* Competitors numerous or roughly same size and power
* Industry growth is slow and fights for market share
* Products undifferentiated or lacks switching costs
* High fixed costs (temptation to cut prices)
* Exit barrier high (specialized assets)- causes excess capital.

Dr Pepper’s success;

* Knowledge of corporate strengths
* Narrow flavour line
* Forgoing the development of a bottling network and heavy marketing
* Least vulnerable to competitive forces
* Distinguished them from Coke and Pepsi
* Product differentiation
* Advertising- brand identification and customer loyalty
* Low raw material cost- cost advantage

Corporate strategist can identify the company’s strengths and weaknesses and can devise a plan that includes positioning the company so that its capabilities defend it against competition, influencing the balance of the forces through strategic moves and exploiting changes in the market by striking a competitive balance before opponents recognise it.

**8- Profit Pools: A Fresh Look at Strategy – Gadeish and Gilbert**

* Profit Pool (P.P.): the total profits earned in an industry at all points along the industry’s value chain.
* Profit share is perhaps more important than market share
* The companies that see what others don’t, like potential profits pools it may create and exploit, will be best prepared to capture a disproportionate share of the industry’s profits. Example; U-Haul --- truck leasing (low profits), moved to accessories business ( sale of insurance storage etc)----- new area/no competition/first mover advantage-----high margins .
* if you can grow faster than your competitors, thinking , profit follows (wrong) ---

Gucci –launched lower priced goods/name appear on lots of licensed goods---sale of high end goods fell ( erosion of profitability) ---- extended brand to gain sales --- lost most profitable customer segments.(pool deeper in some segments of the value chain than others)

* A profit pool map answers the most basic question about an industry; where and how is money being made?
* Mapping the profit pool also prompts the questions ;

Why have P.P formed where they have?

Are the forces that created those pools likely to change?

Will new more profitable business models emerge?

* P.P often have “choke points “(C.P) ----- particular business activities that control the flow of profits through an industry. (Intels dominance of microprocessors – C.P)
* C.P--- not always a MAJOR profit source though.
* Pharmaceutical industry-----profits from developing new drugs /doctors prescribing them -----Patent protection (eliminated price competition) -----physical distribution (low margins) ---- Pharmacy benefit manager (PMBs) –generic drugs ----new entrant ---- had to protect themselves from new entrants ---acquisition (pg135)
* Personal Computer industry (Dell) –least attractive segment of the industry (hardware manufacture) ---direct sales ---- 90’s moved to district distributors (entered larger retail channel)----company grew BUT lost money ..losses in ’93 ....retail channel---not profitable.
* The beer industry ---P.P opportunity taken by Anhueser-Busch ---premium beer.

Two steps---- advertising and price difference –cost advantage over its rivals.

* Conclusion :

1. Identify new sources of profit in low profit industries .
2. Chart acquisitions and expansion strategy.
3. Decide what consumers to target, and the best channels to get them.

**9- Getting Real About Virtual Commerce – Evans and Wurster**

* E-commerce – first generation: retail space claimed by whoever got there first with enough resources to create a credible business.
* Required – speed, willingness to experiment and a lot of cyber savvy.
* Businesses that had performed in traditional setting now lost.
* Achieving profits wasn’t deemed necessary by investors. They were much more focused on growth. E.g. Amazon.com has a higher valuation than entire traditional book retailing and publishing industries combined even though it still hasn’t turned a profit.
* As we enter second generation key players must shift attention to defending territory rather than claiming. Must focus on competitive advantage and strategies to achieve it.

Navigation as a Separate Business

* In traditional world consumers rely on product suppliers and retailers to navigate among choices.
* They exploit consumers to build competitive advantage.
* They create navigational tools - branding, advertising, relationship building and merchandising.
* Sellers therefore exercise some control over navigation function.
* In fact most profitability comes from influencing navigation.
* On the internet consumers can search more comprehensively and at negligible cost.
* Physical shopkeepers no longer enjoy special advantages.
* Product suppliers can sell directly to consumers.
* E-retailers can focus on navigation and outsource fulfilment.
* “Pure” navigators can organize information.
* Navigation as a separate business is a very important shift.
* Competitive advantage can be won or lost here – enormous potential scope.
* It has 3 dimensions – Reach, Affiliation and Richness.
* This is where struggle for competitive advantage will take place.

Competing on Reach.

* Reach is about access and communication. Simply, how many customers can a business connect with and how many products can it offer those customers. Most visible difference between physical and virtual commerce.
* Before e-commerce category killers competed brilliantly on reach – offering broad selection and convenient locations.
* It’s a format constrained by economics of things.
* E.g. largest Barnes & Noble- 200,000 titles. Amazon.com 4.5 million volumes and is “located” on 25 million screens!
* Orders-of-magnitude jump is possible because the navigation function is separate from physical function.
* If unconstrained by physical limits, reach explodes.
* Smart navigator – span across search domain that consumers prefer. First to do so will get an advantage. E.g Amazon sells more than books, Dell sells more than computers.
* For e-retailers in particular this raises the terrifying prospect of unstable business boundaries.
* The erosion of category boundaries will continue, as e-retailers encroach on one another’s territories and probe the true boundaries of consumer search domains.
* Raises dilemma for product suppliers.
* At first looks good – escape from stranglehold of the retailer and build direct relationships with final consumer.
* But any attempt to do so is by definition a navigational vehicle offering the consumer limited product reach.
* This can put suppliers at a disadvantage – only offering their goods.
* If confusing marketing and navigation – may forgo competing in the navigation business.
* For some that is fine. They don’t want to be in the navigation business. Welcome the explosion of channels by which consumers can find their products and services. E.g. small wine makers welcome success of Virtual Vineyards. Small publishers consider Amazon a blessing.
* For large suppliers though, navigation function is exactly where their differentiation and competitive advantage lay. Therefore they are losing ownership of a primary source of comp. adv.
* How do they react?? ----- Suppliers try to keep new navigators from achieving critical mass. They are ultimate source of info. on product prices, features and availability.
* Two problems with this. 1. It is difficult to stop a navigator from parsing info that’s available electronically. Can only stop this by refusing to operate a website. 2. Not in the interest of a single seller to do so as the navigator is still a source of business to a seller.
* Denying data to the navigator may be in the interest of all sellers collectively, not in the interest of seller individually! E.g. the banking industry tried to fight threat of Microsoft Money and Quicken. But then individual banks found they had more to gain by from participating in common info standard. Therefore the collective defence collapsed.
* Old players must match the reach of new players.
* Product suppliers must do whatever to achieve the reach that buyers value. May mean – joint ventures with competitors, navigating to other companies’ products and services. E.g. Universal and BMG, 2 of largest music companies, have done both. Created elec. joint venture, GetMusic.com. Full selection of albums from their own as well as other rosters.
* Solo efforts would have been outmatched by CD Now and Amazon.
* When domain of search extends beyond supplier’s own, supplier will be disadvantaged, perhaps fatally.
* Most treat website as a way of driving customers to physical locations.
* Treating e-retailing as a serious business forces them to act differently. Must define their product mix. May necessitate acquisitions and joint ventures. Need to fulfil orders in whatever way is most efficient for the electronic business.
* They have to – 1. Exploit synergies with the physical retail business, 2. Think of e-commerce as a business in its own right and not compromise success in an effort to protect the traditional physical model and 3. Expect the new business to cannibalize the old!
* Catalogue companies are best positioned to make the shift.

Competing on Affiliation.

* Affiliation is about establishing whose interests the business represents. It hasn’t been a serious competitive factor in physical commerce.
* E-commerce businesses already tilting affiliation towards consumers and away from suppliers – net-savvy consumers are forcing them to.
* Even e-retailers can’t control way it is shifting.
* The change is partially a manifestation of internet culture and the greater transparency under which everyone operates. Also a consequence of the blow up of the trade-off between richness and reach.
* E.g. Microsoft CarPoint provides car buyers with the data and software to compare alternative models along 80 objective specifications. Can be assembles through rich info from wide sources at a negligible cost. It establishes an advantage against its competitors.
* They don’t need to be paid for this because income still comes from – advertising, hyperlinks and the sale of associated products or services.
* Paid navigators serving the most sophisticated consumers in their largest and most complex purchases are likely to emerge. If so, the tilt in affiliation will be intensified.
* Consumer-affiliated navigators are most useful when the selection criteria are simple and well defined. E.g. not going to leave choice of car to a human or electronic agent because it’s too complex but after choice is made the choice of dealer may be left to navigator. Matter of price and availability. Simple criteria.
* Product supplier is in worst position to exploit affiliation. Has an interest in transaction different to the consumer’s.
* Some businesses this does not matter e.g. sports cars, high fashion. Others however consumer affiliation is important and so the supplier has a problem.
* They may then exploit the way that navigational businesses evolve beyond product categories. 1. Offer a navigation service that evolves consumer problems rather than pushing products. 2. Provide objective info about products and services in the consumer’s search domain that you don’t sell. 3. Provide comprehensive but not necessarily comparable data on your own products and those of direct competitors but bias the presentation towards your own products. E.g. Dell and American Airlines.
* Acting to preserve their own business form commoditization, sellers happily commoditize one another’s.
* Suppliers have the greatest difficulty keeping control of navigation. If they lose control of reach they can also lose control of affiliation.

Competing on Richness.

* Richness is the depth and detail of info that the business can give the customer and as well as the depth of info they collect about the customer. Traditional business always meant a trade-off between richness and reach.
* Traditional players have a natural advantage in richness.
* They can exploit their detailed information about customers.
* They can use extensive product info to their advantage.

Rich Consumer Information.

* Retailers have always been well positioned to collect and use info about customers. Internet enhances ability.
* Web offers unparalleled opportunity for cheap and infinitely discriminating customization of offers, product and advertisements. E.g. 1-800-Flowers and CDNow.
* Data-mining techniques can be applied to browsing behaviour as well as to purchasing history and demographics.
* Customers often love such services and become loyal.
* Physical retailers have advantage of gaining info from other sources. Web-based info very thin compared to grocery stores and credit-card companies.
* By using both, companies can build very powerful relationships and strong competitive advantages.
* 2 factors limit strategies based on rich consumer info:

1. Privacy constraints
2. Consumer’s option to search and organize info for themselves.

* Within these limits electronic and physical retailers had an effective weapon – no single player is likely to have an ideal database. Also digital info can be bought and sold. Markets and alliances for such things will prob. develop soon.

Rich product information.

* Difficult for manufacturers to use rich consumer info because they don’t have close links to customers.
* They do have advantages when it comes to rich product info though.
* When product info is presented on a stand-alone web site it suffers limitations of 1. Reach - Consumers cannot find it easily and the product range is narrow. 2. Affiliation – corporate web sites are often not favoured by some people. However it is a low-cost strategy.
* Rich product info works well for some manufacturers but doesn’t work as well for others.
* If the product is continually evolving e.g. cell phones, it works particularly well because the product supplier has the state of the art info required. Also works well if innovation is more cosmetic than real but consumers like to think it is real. E.g. stereos, cars etc.
* Rich product info is a powerful but uncertain tool for the product supplier.
* Useful when consumers welcome evangelism, enthusiasm, and a strong connotative context.
* Not so useful when detachment, objectivity and comprehensiveness matter more.
* May trump reach and affiliation sometimes, but in other cases does not!

Brands.

* Manufacturers use branding all the time to communicate rich, product specific info to their consumers.
* Two different brand types:

1. Branding to convey facts or beliefs. E.g. Sony
2. Branding to communicate an experience. E.g. Coke.

* Rich info channels have diff. effects on brand-as-belief and brand-as-experience.
* The brand message is fundamentally a navigatormessage.
* The brand-as-belief competes with the navigator.
* If people come to respect a brand because of the navigator’s endorsement the brand would become redundant.
* Brand-as-experience is enhanced by richer channels of communication

The Incumbent’s Dilemma.

* These dimensions pose an organizational dilemma for incumbent product suppliers and retailers. Their value chain is being deconstructed.
* Navigation is no longer a function, it’s now a business.
* To compete in the emerging businesses incumbents must do by building reach, affiliation and richness and redefining strategy and scope as the business evolves beyond its physically defined origins.
* Will require huge transformation for old organizations.

**Theme Three – Modes of Organising**

**12- How a Firm’s Capabilities Affect Boundary Decisions – J.B. Barney**

- Determining a firm’s “boundary” is an important decision made by a company’s senior managers.

- Transactions cost economics = This is the approach that works very well for determining a firm’s boundary. But, surprisingly, transactions cost economics does not focus on the capabilities of a firm or on the capabilities of its potential partners when it decides which economic exchanges to include within a firm’s boundary and which to outsource.

- Three concepts help to understand transactions cost economics when applied to firm boundary decisions.

1. Governance

2. Opportunism

3. Investment-(kind of comes into opportunism, didn’t have a section in the book)

1. **Governance.**

Governance is the mechanism through which a firm manages an economic exchange. There are thre broad categories for these mechanisms.

1. Market Governance = Firms use market governance to manage an exchange when they interact with other firms at “arm’s length” i.e. a nameless, faceless market relationship. E.g. Oil refineries use market governance to gain access to crude oil purchased on the spot market.
2. Intermediate Governance = Firms use intermediate governance when they use complex contracts and other forms of strategic alliances to manage an exchange. E.g. retail firms use intermediate governance to obtain products by negotiating long-term supply contracts with suppliers.
3. Hierarchical governance = Firms use hierarchical governance when they bring an exchange within their boundary. E.g. a manufacturing firm uses hierarchical governance when it owns and operates a factory supplying the products that it sells.

- In choosing how to govern an exchange, a firm determines its boundary. All exchanges managed through market and intermediate forms of governance are outside the boundary of the firm, and all exchanges managed through hierarchical forms of governance are within the boundary of the firm.

1. **Opportunism.**

Opportunism exists when a party to an exchange takes unfair advantage of other parties to that exchange. E.g. if a firm promising high-quality supplies instead delivers low-quality goods, it is behaving opportunistically.

But when will firms be tempted to behave opportunistically??

When one party to an exchange has made a large **transaction-specific investment** in that exchange, other parties to that exchange have a strong incentive to behave opportunistically.

- Transaction-specific investment = any investment that is significantly more valuable in a particular exchange than in any alternative exchange.

- The threat of opportunism exists when one party to an exchange has made a transaction-specific investment, while others have not made such an investment.

- Firms can use governance to reduce the threat of opportunism. In general, the more elaborate the governance mechanism, the more effective it will be in reducing the threat of opportunism created by transaction-specific investment.

If a firm does not possess all the capabilities it needs to be successful... it has 3 ways to gain access to these capabilities.

1. It can cooperate with firms that already possess the capabilities it needs. (i.e. using market or intermediate governance to gain access to things it needs.)
2. It can try to develop these capabilities on its own. (i.e. using hierarchical governance to get the capabilities.)
3. It can try to acquire another firm that already has these capabilities. (i.e. using hierarchical governance again to get them.)

But it is costly for a firm to create capabilities.

- The ability to create a capability in a cost-effective way may depend on unique **historical conditions** that no longer exist. (Sometimes a firm’s ability to create capabilities in a cost-effective way depends on being in the right place at the right time. Years later out under different circumstances, recreating certain opportunities may be impossible.)

- The creation of a capability may be “**path-dependent**”. (Sometimes to create a particular capability, a firm must go through a long, difficult learning process. When no way to skip this learning process exists, it is said to be path dependent.)

- A capability may be **socially complex**. (A capability may be costly because it is socially complex in nature. E.g. a firms culture, its reputation amoung customers and suppliers, its trustworthiness etc.. Socially complex capabilities are generally beyond the ability of managers to change in the short term.

- The actions that a firm would need to take to create a capability may not be fully known. (Sometimes it is not clear with actions a firm should take to create a particular capability. When the relationship between actions a firm takes and the capabilities it creates is **casually ambiguous**, it can be difficult to create a particular set of capabilities.

Acquiring Capabilities- If firms cannot create them, they can still use hierarchical governance to gain access to those capabilities by acquiring other firms that possess them but sometimes this can be costly.

- There may be legal constraints on an acquisition. (i.e. You may not be able to acquire a firm for its capabilities because of ownership restrictions etc..)

- **An acquisition may reduce the value of the capabilities that are held in the acquired firm.** (i.e. Acquiring a firm can sometimes reduce the value of its capabilities. For example if an Irish company has lots of customers being taken over by an American company might make the irishness lose its value. Not as many people will shop there.)

- **An acquisition can be costly to reverse if it turns out not to be valuable**. (It is difficult to know what capabilities you will need for long-term success, so sometimes the wrong ones are chosen.)

- **There may be substantial “unwanted baggage” inextricably bound with the desired capabilities in the acquired firm.** (i.e. firms are bundles of capabilities that are sometimes hard to detangle from each other. So it can be difficult to gain access to a particular capability by itself, you may have to take the entire firm.)

- **Leveraging acquired capabilities throughout an acquiring firm can be costly.** (i.e. Acquiring another firm is just simply going to cost a lot of money and it is always going to be difficult to take the relevant capabilities.)

\*\*\* So basically a firm that needs capabilities in order for it to succeed must weigh the cost of any opportunism that might arise through gaining access to the capabilities via non-hierarchal means against the cost of gaining access to these capabilities through hierarchal forms of governance.

\*\*\* Examples of industries that frequently have these problems acquiring capabilities are:

Biotechnology, microelectronics and sectors of computer software.

**To Conclude:**

All this waffle suggests that in firms like these rapidly evolving technology industries, they will prefer to gain access to capabilities through non-hierarchical forms of governance, but it can be so costly to develop their own capabilities and it can be so costly to acquire capabilities, so using market or intermediate forms of governance become very attractive.

**13- Evolution and Revolution as Organisations Grow – L. Greiner**

Each organization goes through a series of developmental phases, which begin with a period of evolution (steady growth and stability), and end with a revolutionary period (substantial organizational change and turmoil). The five key dimensions of organisations are age, size, stages of evolution, stages of revolution, and the growth rate of its industry.

Age: the same organisational practices are not maintained throughout a long life span. Management problems and principles are rooted in time.

Size: A company’s problems and solutions tend to change as the number of employees and its sales volume increase. Problems of co-ordination and communication appear, new function and levels in the management hierarchy appear, and jobs become more interrelated. Therefore, time is not the only determinant of structure; organisations that don’t grow can retain many of the same management practices over prolonged periods.

Stages of evolution: as organisations get bigger and older, prolonged growth occurs. This prolonged growth is termed an evolutionary period. There are five stages of evolution; creativity, direction, delegation, co-ordination, and collaboration.

Stages of revolution: smooth evolution is not sustainable; every company has its ups and downs. We can term the turbulent times periods of revolution because they generally exhibit a change in management practices. The new organisational practices that management employ to get them through a period of evolutionary growth eventually lead to another period of revolution. The five stages of revolution are leadership, autonomy, control, red tape, and “?”.

Evolutionary phase 1: Creativity – when an organisation is started, the emphasis is placed on creating a product and finding a market for that product. The founders of the company usually have an entrepreneurial flair, and do not like management activities. Communication is frequent and informal, and long hours of work from owners are essential for a company to get off the ground.

Revolutionary phase 1: Leadership – at this stage, a strong manager is needed who will implement proper business techniques. The founders often resist stepping aside, but are usually unsuited to the job of managing.

Evolutionary phase 2: Direction – companies that survive the first phase by installing a capable business manager should then enjoy a period of sustained growth under capable leadership. A functional organisational structure is introduced to separate different jobs, as functions become more specialised. Accounting methods are introduced, as are works standards and budgets. Communication becomes more formal and impersonal as workers become separated into top management and lower level workers.

Revolutionary phase 2: Autonomy – lower level employees will begin to feel restricted and frustrated by the hierarchy that has emerged. They have come to possess more direct knowledge about machinery, what customers want, etc., than leaders at the top. More delegation is required. However, it is difficult for top level managers used to giving orders to delegate their power, and it is difficult for lower level employees to make decisions where, previously, they never had to make them. If companies manage to decentralise decision-making, they move onto the next period of growth.

Evolutionary phase 3: Delegation – there is a much greater responsibility given to the managers of plants and market territories. Communication from the top is infrequent. The delegation phase allows companies to expand by means of the heightened motivation of managers at lower levels. The problem will eventually emerge, however, that top-level executives sense they are losing control over a highly diversified field operation.

Revolutionary phase 3: Control – top managers try to regain control over the company as a whole. Some attempt to return to centralised management, which usually fails because of the vast scope of operations. Companies that move ahead find a new solution in the use of special co-ordination techniques.

Evolutionary phase 4: Co-ordination – formal systems are use for achieving greater co-ordination, and top-level executives take responsibility for the initiation and administration of these new systems. Decentralised units are merged into product groups and formal planning procedures are established and intensely reviewed. These allow the organisation to achieve growth through the more efficient allocation of a company’s limited resources. A

Revolutionary phase 4: Red-Tape Crisis – a lack of trust gradually builds between upper and lower levels, and between headquarters and the field. Line managers increasingly resent direction from those who are not familiar with local conditions, and staff people complain about unco-operative and uninformed line managers. Together, both groups criticize the bureaucratic system that has evolved. Procedures take precedence over problem – solving and motivation dims. The organisation has become too large and complex to be managed through formal programs and rigid systems.

Evolutionary phase 5: Collaboration – strong interpersonal collaboration is emphasised in an attempt to overcome the red-tape crisis. Instead of management through formal systems and procedures, spontaneity in management action through teams is emphasised. Social control and self-discipline replace formal control. A matrix-type structure is used frequently, conferences of key managers are held frequently, and experimenting with new practices is encouraged throughout the organisation.

What will be the revolution in response to this stage of evolution?

Revolutionary phase 5: ?

There is little clear evidence, but it has been suggested that it will centre around the psychological saturation of employees who grow emotionally and physically exhausted from the intensity of teamwork and the heavy pressure for innovative solutions. Sabbaticals are one solution to this problem. The Chinese practice of requiring executives to spend time periodically on lower-level jobs may be worth a try to make jobs more interchangeable.

Evolution is not an automatic affair; it is a contest for survival. To move ahead, companies must consciously introduce planned structures that not only solve a current crisis, but also fit the next phase of growth. Organisational solutions create problems for the future, such as when a decision to delegate eventually cause a problem of control. Actions in the past determine much of what will happen to a company in future.

**14- Organisations Design: Fashion or Fit**

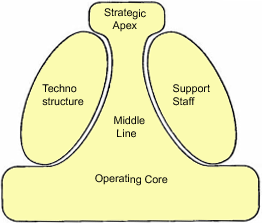
Organisation Design: Fashion or Fit?

Henry Mintzberg.

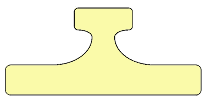
* A conglomerate takes over a small manufacturer and tries to impose budgets, plans, organizational charts and untold systems on it. The result: declining sales and product innovation until division managers buy back the company and promptly turn it around.
* Consultants make constant offers to introduce the latest management techniques.
* A government sends in its analysts to rationalise, standardize and formalize citywide school systems, hospitals and welfare agencies. Results are devastating.
* The examples above suggest that many organizational problems arise because of the assumption that all organizations are alike.
* The opposite assumption is that effective organizations achieve a coherence among their component parts, that they don’t change one element without considering the consequences to all the others.
* Spans of control, degrees of job enlargement, forms of decentralization, matrix systems should not be picked and chosen and random.
* Should be selected according to internally consistent groupings which should also be consistent with the situation of the organization.
* Organizations fall into configurations. When they’re mismatched the organizations does not function effectively.
* Managers need to pay attention to the fit.
* Five clear configurations emerge that are distinct in their structure, in the situations found, and when they were established. They are:
  + Simple structure
  + Machine bureaucracy
  + Professional bureaucracy
  + Divisionalized form
  + Adhocracy

Deriving the Configurations

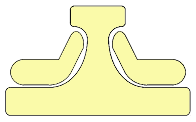
* Organization begins: someone has an idea – strategic apex/top mgmt.
* They hire people to do the basic work – operating core.
* As it grows they add intermediate mgmt. – middle line.
* May need 2 kinds of staff structure – technostructure (design systems for formal planning and control of work) and the support staff ( indirect services to the rest of the org.



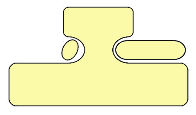
* Not all orgs. need all of these parts.
* Purpose: coordinate the work divided in a variety of ways. How that is achieved dictates what the organization looks like.
* Simple Structure:



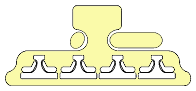
* Coordination is achieved at the strategic apex by direct supervision. It has minimum staff and middle line. Most common simple structure is the classic entrepreneurial company.
* What characterizes it is what is missing. Little of its behaviour is standardized or formalized and minimal use is made of planning, training or the liaison devices.
* This absence means little need for staff analysts.
* Few middle-line managers are hired because so much of coordination is done at strategic apex through direct supervision. This is where the real power of this configuration lies.
* Even support staff is minimized – keep structure lean and flexible.
* Simple structures would rather buy than make.
* Must be flexible because of dynamic environment often by choice – can outmanoeuvre bureaucracies.
* So too must their system of production so the chief exec can retain higly centralized control.
* Centralized control makes simple structure ideal for rapid, flexible innovation at least of the simple kind.
* This is why so much innovation comes from small entrepreneurial companies.
* Where complex innovation is needed – simple structure falls behind – due to centralization.
* Simple structures are often young and small. Aging = bureaucracy and their vulnerability causes many to fail.
* Many fail because they cannot make transformation into bureaucratic form.
* Some can remain as simple structures through tight control of autocratic leaders e.g. Ford in later years of its founder.
* Almost all org begin as simple structure and most revert to simple structure when facing extreme pressure or hostility in their environment.
* Systems and procedures are suspended in order to give power to chief exec to make things right again.
* Heyday = period of great American trusts in late 19th century.
* Somewhat out of fashion but still widespread and necessary configuration
* Machine Bureaucracy:



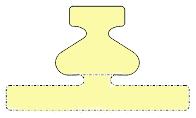
* Coordination depends on the standardization of work, an organization’s entire admin structure especially its technostructure needs to be elaborated.
* Offspring of industrialization.
* Emphasis = standardization of work for coordination.
* Result = low-skilled, highly specialized jobs.
* Elaborates administration
* Requires many analysts to design and maintain systems of standardization.
* Analysts gain a certain degree of power = certain amount of horizaontal decentralization.
* Large hierarchy emerges in middle line to oversee specialized work of the operating core and keep a lid on resulting conflicts from departmentalization and alienation that goes with routine, circumscribed jobs.
* It’s usually structured on a middle line basis all the way up to the top where real power of coordination lies.
* Why large support staff? The M.B. relies on stability to function. They seek out stable environments and also attempt to stabilize them.
* They tend to integrate vertically = they grow very large.
* Two sided effect of size – 1. Size drives the org to bureaucratize 2. Bureaucracy drives the org to grow larger.
* Aging also encourages this configuration.
* For top managers to remain in control – environment and production system must be fairly simple.
* In fact M.B. fit most naturally with mass production. Products, processes and dist systems are usually rationalized and thus easy to understand.
* It’s most common among large, mature mass-production companies such as automobile manufacturers.
* External controls encourage bureaucratization and centralization.
* Also often used by orgs that are tightly controlled from the outside.
* Problems: Dull and repetitive work, alienated employees, obsession with control, massive size and inadaptability.
* They are reasons why it is no longer fashionable however it gets products out cheaply and efficiently.
* Remains indispensable and is prob most prevalent today.
* Professional Bureaucracy:



* Coordination is through the standardization of skills – it needs highly trained professional in its operating core and considerable support staff to back them up. Neither its technostructure of its middle line is very elaborate.
* Relies on standardization of skills and rather than work processes or outputs for its coordination and so is very different to M.B.
* Hospitals and universities tend to favour it.
* Relies on trained professional for its operating tasks.
* Surrenders power to professionals and associations that train them.
* Very decentralized. Power flows all the way down hierarchy to the prof at the operating core.
* For them – most democratic structure.
* Although complex procedures they’re standardized – profs can work independently of colleagues with assurance that coordination will be effected automatically through standardization of skills.
* Technostructure hardly needed – training outside the P.B.
* First line managers needed – operating units very large – independently working.
* They do little direct supervision. Time spent linking units to broader environment notably ensuring financing.
* Support staff = very large – to back up high priced profs.
* They do many simple and routine jobs.
* Two different power structures – profs = democratic ( bottom up control) but support staff = autocratic ( top down control)
* Most effective in stable yet complex enviro.
* Complexity – decentralization
* Stability – application of standardized skills
* To ensure autonomy – system must be neither highly regulating, complex nor automated.
* Standardization = strength and weakness of P.B.
* Achieves efficiency and effectiveness but raises problem of adaptability ( no innovation)
* Pigeonholing = forte.
* It’s highly fashionable – democratic & offers autonomy.
* Divisionalized Form:



* Org is divided into parallel operating units allowing autonomy to the middle line managers of each with coordination achieved through the standardization of outputs.
* Like a set of independent entities joined together by loose admin overlay.
* They are units in the middle line called divisions.
* Not a complete but partial structure, superimposed on others.
* Divisionalizes because they’ve diverse range of products.
* Usually largest and most mature org – run out of opportunities or stalled.
* Encourages the org to create a market-based unit for each distinct product line and to grant autonomy to each division.
* Divisionalization doesn’t amount to decentralization.
* Divisions = semiautonomous
* Alfred Sloan at General Motors.
* Some direct supervision is used.
* It relies on performance control systems – standardization of outputs.
* Creates a small technostructure to do so.
* Also small support staff – certain services common to divisions.
* Divisions – goals become more specific subgoals down the line and eventually become work standards.
* Centralization within division = M.B. (which works best.)
* It was created to solve the problem of adaptability in M.B.
* Some say – control systems discourage risk taking and innovation. ( spreading risk spreads consequences which could bring down division)
* Doesn’t solve problem or adaptability just deflects it.
* By enabling orgs to grow very large it means that a lot of economic power can fall in the hands of few people. Some evidence suggests that it may be used irresponsibly.
* When screws of performance control system are turned tight, the division managers in order to achieve results may ignore social consequences of their decisions. Now unresponsive behaviour becomes irresponsible.
* Has become very fashionable in last few decades.
* Often used by large hospital systems, unions and government.
* However it is actually suited to these sectors for two reasons :
  + Success of D.F. depends on goals that can be measured. Outside business sector goals are often unquantifiable because they’re social.
  + Divisions require structures other than M.B.
* Adhocracy:



* Most complex org engage sophisticated specialists, especially in their support staffs, and require them to contribute their efforts in project teams coordinated by mutual adjustment.
* None of the structures discussed so far are suitable for our age of industries – petrochemicals, think-tank consulting and film-making.
* These require “project structures” that mix experts form diff specialities smoothly into creative teams.
* Adhocracy is both complex and nonstandardized.
* It contradicts much of what we expect of orgs – consistency in output, control by administration , strategy from the top.
* It’s a fluid structure – power is constantly shifting and coordination and control are by mutual adjustment through the informal communication and interaction of competent experts.
* It’s the newest configuration.
* It relies on trained and specialized experts to get the bulk of the work done.
* They must work together to create new things.
* Coordination relies on mutual adjustment encouraged through liaison devices – integrating managers, task forces and matrix structure.
* Experts are dispersed throughout the structure according to the decisions they make.
* Power flows unevenly – not related to status but simply where it is needed.
* There are many managers in adhocracy --- narrow “spans of control”.
* Typically they are experts that work alongside others in the teams esp concerned with linking the teams.
* Power is based on expertise rather than authority – line/staff distinction disappears.
* Adhocracy is continually developing its strategy as it accepts and works out new projects.
* Two basic types of adhocracy – operating and administrative.
* Operating – innovative projects directly on behalf of clients usually under contract e.g. creative advertising agency.
* Administrative – undertakes projects on its own behalf e.g. space agency/ producer of electronic components.
* Many of the factors associated with adhocracy are in fashion today – expertise, task forces etc.
* It combines some sense of democracy with an absence of bureaucracy.
* Has its limitations.
* Achieves effectiveness through inefficiency.
* It’s inundated with managers and costly liaison devices for communication.
* Ambiguity – conflicts and political pressures.
* It’s extraordinary at innovation.
* Can do no ordinary thing well though.
* See page 206 for a summary of the dimensions of the five configurations.
* In diagnosing the problems of organizational design, ask these four questions:
  + Are the internal elements consistent?
  + Are the external controls functional?
  + Is there a part that does not fit?
  + Is the right structure in the wrong situation?

**15- The Effective Organization: Forces and Forms - By Henry Mintzberg**

*(See pg. 221 for the pentagon figure of the forms and forces)*

*Main idea*: How effective orgs. manage the contradictory internal forces that can so easily tear them apart but there is no best way and organisations must build their own structures. The best structure is one that balances forces most gracefully.

Much of what happens in orgs. can be captured by the interplay of 7 basic forces:

(ARRANGED IN A PENTAGON SHAPE)

1. Direction (where the firm must go as an integrated entity)
2. Efficiency (ensure a viable ratio of benefits gained to costs incurred)
3. Proficiency (carrying out tasks with high levels of knowledge and skill)
4. Concentration ( particular units to concentrate their efforts on serving particular markets)
5. Innovation (discovering new things, adapting and learning)

* The 2 forces inside the pentagon are cooperation(describes the pulling together of ideology) and competition (the pulling apart of politics)
* When one force dominates an org. it is drawn towards a coherent, established form known as CONFIGURATION.

There are a few commonly occurring forms of configuration.

1. **Entrepreneurial** form: Occurs when the force for direction dominates, the chief executive takes personal control over affairs, occurs in start-up and turnaround situations and in small owner managed co’s.
2. **Machine** form: Occurs when the force for efficiency becomes most important. Occurs in mass production and mass service organisations eg retail banks, they focus on regulating the work of the operating employees by imposing rules and standards etc.
3. **Professional** form: Occurs when proficiency is the dominant force eg a hospital, the drive to perfect existing skill and knowledge.
4. **Adhocracy** form: Develops in response to the need for innovation, must form multidisciplinary project teams, intrapreneurial, eg high tech. and chemical firms.
5. **Diversified** form: Arises when the force for concentration espc. on distinct products and markets overrides the others. They first diversify and then divisionalise, controls are imposed by a small, central headquarters.eg large conglomerate corporations.

* No configuration ever matches a real org. perfectly and no configuration is perfect eg the machine form often alienates its workers.

CONTAMINATION

* In the harmony, fit and consistency lies configurations strength but also its weakness. For example the quest for efficiency in the machine form can totally suppress the capacity for innovation. May be advisable to locate R and D facilities far from the head office so that their capacity for innovation will not be contaminated by the technocratic staff.
* However, contamination may seem like a small price to pay for being coherently organised.
* Basically the org. can be driven out of control by contamination.

CONTAINMENT

* What keeps a configuration effective is not only the dominance of a single force but the constraining effects of the other forces.
* Eg. Administration may not be powerful in the professional form but if it is entirely ignored anarchy will result.
* So to manage configuration effectively is to exploit 1 form but also to reconcile different forces.

COMBINATION

* Firms must be able to balance the competing forces as complete configuration is not always possible.
* Combinations may balance 2 forces or several.
* Some combinations can achieve balance with in a dynamic equilibrium over time.
* Like with contamination, **cleavage** can drive the org. out of control. Instead of 1 force dominating, 2 or more forces confront each other and eventually paralyze the org.
* The nodes of the pentagon where the pure configurations lie are only imaginary ideals and any org. that reaches one is probably on its way out of control.

CONVERSION

* Few orgs. stay in the same place their entire lives and undergo conversion from configuration or combination to another. Any no. of external changes can cause conversion.
* Eg. An adhocracy org. may chance upon a great invention and might settle down in machine form to exploit it.
* Cycles of conversion. With greater growth🡪settle into machine form to exploit established markets. With greater growth mrkts. become saturated and drives the org. to diversify and divisionalise.

CONTRADICTION

* Orgs. that have to reconcile contradictory forces need to turn to the cooperative force of ideology or the competitive force of politics. They are placed in the middle of the pentagon as they can dominate an org. and draw it toward a distinct form.

1. **Ideology** represents the force for cooperation and consensus in an org. People pull together and work together for the common good of the org. Eg. If Hewlett-Packard stick to the adhocracy model they claim to, how do they have such tight control systems? Answer: Strong cultures in the org.

‘When the spirit of ideology infuses the structure, an organisation takes on an integrated life of its own, and contradictions get reconciled.’

See differences between GM and Toyota.

* However, ideology can do the opposite of reconciling contradictory forces as it can discourage change by forcing everyone to work within the same set of beliefs.

1. **Politics** represents conflict and confrontation; it encourages people to pursue their own ends. The org. dominated by politics goes out of control by exploding.

* But competition through politics has benefits so if pulling together discourages people from addressing fundamental change then pulling apart may be the only way to ensure that they do.

Can conclude that both politics and ideology can promote organisational effectiveness as well as undermine it.

Only by encouraging a healthy balance of the contradictory catalytic forces between politics and ideology can an org. remain truly effective in the long run.

**Conclusion:** Attain configuration if you can ie getting everything together into a known form. Don’t allow one force to dominate too much or you risk contamination, build a combination if you must and there may be the occasional need for conversion and make sure to balance politics and ideology in their own dynamic equilibrium.

**15- The Effective Organization: Forces and Forms - By Henry Mintzberg**

There is no blueprint for the effective organization; we can only know the dangers involved. The best structure is one that balances. The effectiveness of an organisation has changed over the years, i.e. Taylor, participative mgmt of the human relations people and now strategic planning... it all depends. “Do your own thing” is Mintzbergs new motto.

**NB:** A system of forces: seven basic forces in a pentagon shape (see p219)

* Direction: strategic division – sense of where the org must go.
* Efficiency: ensure a viable ratio of advantages gained to costs incurred, standardization and formalization.
* Proficiency: carrying out tasks with high levels of knowledge and skill.
* Concentration: concentrate efforts on serving certain markets.
* Innovation: discover new things for customers and themselves to adapt and learn.
* Cooperation and Competition: Two forces in the centre, catalytic forces. Cooperation=pulling together of ideology (norms, beliefs and values). Competition=pulling apart of politics (behaviour that is technically not sanctioned or legit.

The interplay of these forces is fundamental to understanding what goes on in orgs. One force dominates an org. (configuration, this facilitates its mgmt), this also raises the problem of contamination. When no force dominates, org must function as a combination of the different forces, including periods of conversions. Combination however raises the problem of cleavage. Contamination and cleavage require mgmt of contradiction.

Configuration: any form of org that is consistent and highly integrated. In jigsaw puzzle image, a configuration is an image whose pieces all fit neatly together.

Portfolio of forms: configuration occurs when one force dominates, driving into a corresponding form.

* Entrepreneurial from – force for direction dominates an org so that the chief exec takes personal control of much of what goes on. Strong vision from the top and few middle-managers.
* Machine form - force for efficiency dominates an org in mass production, mass service orgs and overriding need for control. Middle-mgmt and staff functions are fully developed. They focus on imposing rules, regulations and standards of various kinds.
* Professional form – force for proficiency dominates. Considerable autonomy, each professional works remarkably free of his or her colleagues let alone the managers.
* Adhocracy form – force for innovation dominates. Org of skilled experts who combine efforts in multidisciplinary project teams. Innovate directly on behalf of their clients.
* Diversified form – force for concentration dominates. Orgs diversify then divisionalize.
* The forces for cooperation and competition can sometimes dominate too giving rise to the ideological and the political.

No configuration ever matches a real org firm. Mintzbergs main point is: “When the form fits, the org may well be advised to wear it, at least for a time.”

**Configuration is effective for:**

1. Classification
2. Comprehension
3. Diagnosis
4. Design
5. Creates a sense of order and integration
6. More manageable

Without configuration and org tends to suffer the identity crises.

**Contamination by configuration:**

* The quest for efficiency in a machine org can almost totally suppress the capacity for innovation. “Power tends to corrupt and absolute power corrupts absolutely” Contamination – says that configuration is not a structure, not a power system but each is a culture of its own.

**Configuration out of control:**

* When change arises other forces must come into play. Because of contamination the other forces maybe too weak and so the org goes out of control. Each configuration is capable of losing its own control. With too much proficiency in an org, professionals become overindulged – an obsession with control arises. Org becomes dramatic. Leader=personal ego trip.

**Containment of configuration:**

* Contrasting effects of other forces=containment. To manage configuration effectively is to exploit one form but also to reconcile different forces.

**Combination:**

* Orgs must balance competing forces=combination. Finds itself inside the pentagon as opposed to one of the outside nodes. Sorts of combinations – may balance two forces of several, they may meet directly or indirectly. Two forces=hybrid. In some cases they confront each other directly, in others they can be separated over time or place. Contrasting with the combinations maintained continuously are those that achieve balance in a dynamic equilibrium over time. Power oscillates between the competing forces.

**Cleavage in combinations:**

* Configuration encourages contamination=drive org out of control. Combination encourages cleavage=also drive org out of control. Instead of one force dominating, two or more forces paralyze the org. Occurs in most combinations – e.g classic battles between the R&D people, who promote new product innovation and the production people, who want to stabilize manufacturing for operating efficiency.

**Conversions:**

* Most orgs need to change and must undergo conversion from one configuration or combination to another. Some conversions are just temporary.

**Cycles of conversions:**

* Orgs often go through stages as they develop. The pentagon (p219) represents these stages. The earlier ones near the top and the more complex ones lower down. The life cycles often begin in the left side of the figure – entrepreneurial form – it requires clear direction and attracts strong leaders. As they grow they often change into the machine form to exploit more established markets. Orgs that are highly dependent on expertise go down the right side of the pentagon however.

**Contradiction:**

* To solve contradiction, orgs often turn to the two forces in the middle of the pentagon, the cooperative force of ideology or the competitive force of politics. They represent a contradiction that must be managed in order for an org not to run out of control. Each force in the centre can also dominate an org, while other forces tend to infiltrate the org too. The two central forces in the pentagon infuse an org and are therefore catalytic. Both promote change and also prevent it.

**Cooperation through ideology:**

* Ideology represents the force for cooperation in an org. It is a rich culture in an org, uniqueness and attractiveness. Ideology encourages the members of an org to look inward – to take their lead from the orgs own vision, instead of looking at competing orgs. It draws all people to work together to get the org where they all believe it should go. It helps an org manage contradiction and deal with change. If an org favours one force then others must suffer. Everyone internalizes the different forces in carrying out his or her own job.

**Limits to cooperation:**

* Ideologies are difficult to build. Established ideologies can often get in the way of organizational effectiveness. Effective ideologies are made slowly and patiently by leaders who establish missions for their companies. Two views of strategy, 1. Position, 2. Perspective. 1. Looks down to product-market positions, 2. Looks up to the philosophy of functioning. Change of position is easy, change of perspective is difficult. When a change of fundamental nature must be made the ideology may become the problem. The arrows in the pentagon for ideology close in on an organization and cause it to implode. The org is dominated by the force of ideology.

**Cooperation through politics:**

* Politics represents the force of comp within an org – for conflict and confrontation. It can infuse any of the combinations or configurations. It is a parochial force that encourages people to pursue their own ends. The org dominated by politics goes out of control by exploding. Nothing remains at the core – no central direction, no integration ideology and therefore no directed effort at efficiency or proficiency or innovation.

**Benefits of cooperation:**

* To achieve fundamental change in an org, the established forces must be challenged and that means politics. It may be the only force able to stimulate the change. The org must pull apart before it can pull together (change). Politics and ideology can promote organizational effectiveness and also hinder in. Politics often impedes necessary change and wastes valuable resources.

**Combining cooperation and competition:**

* Ideology and politics are contradictory forces and must be reconciled for an org to perform well in the long run. Only by encouraging both can an org sustain its viability. The central force of ideology must contain and be contained by the centrifugal force of politics. This can keep an org from exploding or imploding. A balance must be maintained – prevent things from going out of control. It’s the only way of maintaining orgs effectiveness.

**Conclusion:**

* The question is; “What makes an organisation effective?” The consistency of form as well as the contradiction of forces must be managed. Configuration must be obtained. Allow a force to dominate but also attend to the others to avoid contamination. Conversion can cause cleavage – managing contradiction. Encouraging healthy competition also helps an org from going out of control.

**16- Managing 21st Century Network Organisations - Charles C. Snow, Raymond E. Miles and Henry J. Coleman**

A new form of organisation - delayered, downsized, and operating through a network of market-sensitive business units – is changing the global business terrain. What does the growth of these new “network organisations” mean for the training and selection of tomorrow’s managers?

Began a decade ago and has become a revolution.

In industry after industry, multilevel hierarchies have given way to clusters of business units coordinated by market mechanisms rather than by layers of middle-management planners and schedulers.

These market-guided entities are now called “network organisations”.

Painful for the millions of managers whose positions have been abolished.

**Clear:** the basic characteristics of the network organisation, the forces that have shaped it, and some of the arenas for which the network organisation appears to be ideally suited, and in which it has

**Unclear:** how networks are designed and operated and where their future applications lie.

**Most troublesome question:** how should the managers of tomorrow’s network organisations be selected and trained?

**In this article:**

* Progress of the network form
* The factors affecting its deployment across the developed and newly industrialising countries of the world
* The major varieties of network organisation: 3 types-stable, dynamic, and internal
* The three managerial roles (architect, lead operator, and caretaker) critical to the success of every network
* Speculation on how managers may be educated to carry out these roles

**Network Structures: Causes and Effects**

*First ¾ of 20th Century*: vertically integrated companies dominated U.S. economy and expanded overseas.

*The 1980s*: markets around the world changed dramatically and so did technology.

*Today*: competitive pressures demand both efficiency and effectiveness, Firms must adapt with increasing speed to market pressures and competitor’s innovations, simultaneously controlling and even lowering product or service costs.

Firms of 1950/60s sought scale economies through central planning and control mechanisms🡪 this failed. The declining effectiveness of traditionally organised firms produced a new business equation.

The equation linked competitive success to doing fewer things better, with less.

***Managers who want their companies to be strong competitors in the 21st Century are urged to:***

* Search globally for opportunities and resources.
* Maximise returns on all the assets dedicated to the business-whether owned by the managers’ firm or by other firms.
* Perform only those functions for which the company has, or can develop, expert skill.
* Outsource those activities that can be performed quicker, more effectively, or at lower costs, by others.

By using a network structure, a firm can operate an ongoing business both efficiently and innovatively, focusing on those things it does well and contracting with other firms for the remaining resources. Alternatively, it can enter new businesses with minimal exposure and at an optimal size, given its unique competencies.

**Network Organisation Structure**

**Designers Producers**

**Brokers**

**Suppliers**

**Marketers and distributors**

***Benefits and costs of the network structure***

***Globalisation and Technological Change***

Today, 70-85% of U.S. economy is feeling the impact of foreign competition.

In growing strengths and numbers, foreign competitors reduce profit margins on low-end goods to the barest minimum, and they innovate across high-end products and services at ever-increasing rates.

Foreign companies are technologically sophisticated.

Many firms are finding it difficult to build barriers of either technology or location around their businesses.

Because of this U.S. firms are focusing on only those things they do especially well, outsourcing a growing roster of goods and services and ridding themselves of minimally productive assets.

Such delayered companies are not only less costly to operate but also more agile.

Companies scramble for presence in Europe, North America and the Pacific Rim, but they cannot do this single-handedly. Need to network.

However, there are concerns about quality assurance in far-flung networks and worries that extensive outsourcing will increase the likelihood of innovative products being copied.

***Deregulation***

Financial deregulation has caused an explosion of international profit seeking activity. For example, the development of overseas capital markets means that many U.S. firms now sweep excess cash

from their accounts every afternoon and deposit the funds in overnight money market accounts somewhere in the world.

Deregulation unleashes entrepreneurial behaviour, which in turn raises the level of competition.

Deregulation creates new outsourcing opportunities e.g. the increased privatisation of public corporations in many countries.

Deregulation reduces margins- this requires firms to maximise returns on all assets.

***Work Force Demographics***

Changes in the composition of the U.S. work force are also driving companies to abandon the old business equation.

U.S. work force is becoming older, and its growth is slowing.

As work force matures HR costs will rise (older employees draw more heavily on health-care and pension benefits).

Old workers-less inclined to move or be retrained---flexibility and mobility for this segment of the work force will be in decline.

Rising costs and decreasing flexibility are stimulating U.S. companies to search globally for new HRs and to develop empowerment schemes that generate greater returns from their current stock of human capital.

Minorities will become a larger majority: women in work force.

Immigration from non English speaking countries is likely to continue- extra training requirements to already troubled U.S. public education system.

Given these demographic trends, the network structure offers some distinct *advantages*:

1. As older workers and some women with small children seek shorter working hrs, firms already skilled in outsourcing will invent new means of accommodating these employees’ requests.
2. Firms retain a small as possible permanent work force, turning to consulting firms for temporary employees.
3. More and more firms will allow their employees to make their services available to other firms on a contractual basis.

Although smaller work force, requires it to be highly trained.

Firms must be prepared to make large investments in training and development for their permanent employees.

***Communications and Computer Technologies***

Effective communication over great distances is needed by all firms.

Advances in fiber-optics, satellite communications, and facsimile machines have made it easier for managers to communicate within international network organisations.

Micro-computers🡪all computational capacity workers need a day.

Cost of data transmission declining since 1970s

Info-processing capacity and geographic distance are no longer constraints in designing an org.

Long-run🡪PCs changing concept of product design and production.

CAD/CAM and other manufacturing advances.

|  |
| --- |
| ***Organisational Responses To The New Business Environment: Summary Of Info Above***  **The New Competitive Reality**  **(1)Driving Forces**  Globalisation🡪strong new players at every stage of the value chain🡪competition has reduced all margins, no slack left in most economic systems.  Technological Changes and Technology Transfer🡪shorter product life cycles, lower barriers to entry, economies of scope as well as scale.  **(2)Interactive Forces**  Deregulation🡪legal and policy changes produce uncertainty and increase competition. Public services are being privatised.  Changing Workforce Demographics🡪domestic wf is becoming more mature, diverse, and less well trained and educated. Global wf is becoming more mobile.  **(3)Facilitating Forces**  CAD/CAM and other manufacturing advances. Faster, lower cost communications and computer technologies. More social and political freedom.  **Organisational Imperatives**  **(1)Product and Service Demands**  Focus on distinctive competence, reduce costs and accelerate innovation, hold only productive assets, reduce overall cycle time.  **(2)Managerial Requirements**  Build smaller, better trained permanent wf. Develop and use links to part-time and temp HRs. Develop and use links to global technological resources. |

**Types of Network Organisations**

Firms🡪network orgs🡪competitive challenges🡪3 types of structures became prominent:

(1)Internal (2)Stable (3)Dynamic

Each is distinctly suited to a particular competitive environment.

**(1)Internal Network**

***Arises to capture entrepreneurial and market benefits without the company engage in much outsourcing.***

***This firm owns most or all assets associated with a particular business.***

*Basic logic of the internal network*: if internal units have to operate with prices set by the market (instead of artificial transfer prices), then they’ll constantly seek innovations that improve their performance.

Example: *The General Motor’s component business*🡪

Through a series of reorganisations and consolidations, GM *reduced the number of its components* *divisions to 8*🡪

*Each* of 8 divs pursues its *own speciality*🡪

Together they create a *“specialisation consortium”*

Turning GM’s former rigid and inefficient divisions into a group of coordinated and flexible subcontractors *required 2 major actions* 🡪

*(1)*The parent corporation established clear performance measures for each division so that their behaviour could be compared to that of the external suppliers (meant converting each components facility into a business unit that was encouraged to sell its products on the open market).

*(2)*Each div assigned an area of expertise related to a particular automotive system.

If this org arrangement were to be extended throughout GM, the parent corp would evolve towards the brokering function.

Therefore, the corp headquarters would become a holding company that maintained an interest in a broad array of specialisation consortia. It would seek, through subsidies, taxes, loans, and investments, to keep the “internal economy” healthy, focused and renewing.

Other example page 241🡪AC-Rochester Division.

*Multinational resourced-based companies* also gravitate toward internal networks e.g. *international oil company*🡪would find it too costly to hold resources for exploration, extraction and dist in every country in which it operates🡪so an internal network is constructed.

*Benefits*: A well constructed internal network can reduce resource redundancy and decrease response time to market opps🡪total resource utilisation.

*Pitfalls*: Internal networks may fall victim to corporate politics. Instead of exchanging goods/services at verifiable market prices, divisions transfer goods at administered prices that do not reflect external realities-and bad decisions result.

**(2)Stable Network**

***The stable network structure typically employs partial outsourcing and is a way of injecting flexibility into the overall value chain.***

***Assets are owned by several firms, but dedicated to a particular business.***

Often, a *set of vendors is nestled around a large “core” firm*, either *providing inputs* to the firm or *distributing* its *outputs*.

Example: *BMW*🡪*any part of BMW is a candidate for outsourcing*. BMW keeps pace with developments in a variety of relevant product and process technologies through its own subsidiaries, and by partnering with other firms.

*3 subsidiaries* concentrate on technologically advanced forms of automobile development and production: BMW Motor Sports Group, Advanced Engineering Group, and the Motorcycle Group.

Each focuses on *extending the boundaries of knowledge* related to automobile engineering and design.

*Basic obj of these groups*: to understand enough about a particular technology to know who among potential outside vendors would be the best provider.

Also BMW engages in *joint ventures*.

GM is an almost entirely and internal network whereas BMW relies to a greater extent on outsourcing and partnering.

*Benefits*: spreads asset ownership and risk across independent firms. The benefits are the dependability of supply or distribution, as well as close cooperation on scheduling and quality requirements.

*Pitfalls*: In bad time the “parent” firm may have to protect the health of smaller “family members”. Also costs are mutual dependence and some loss of flexibility.

**(3)Dynamic Network**

In *fast-paced competitive environments*🡪

Firms have pushed the network form to the apparent limits of its capabilities🡪

*Businesses*: fashion, toys, publishing, motion pictures, biotechnology🡪

May require or allow firms to *outsource extensively.*

***The lead firm identifies and assembles assets owned largely (or entirely) by other companies.***

***Lead firms typically rely on a core skill such as manufacturing (e.g. Motorola), R&D/design (e.g. Reebok), design/assembly (e.g. Dell), or, in some cases, pure brokering.***

Example of a broker-led dynamic network: *Lewis Galoob Toys*🡪

*100* or so *employees* run entire operation🡪

*Independent inventors and entertainment companies* conceive most of Galoob’s products🡪

*Outside specialists* do most of design/engineering🡪

Galoob *contracts for manufacturing and production* with a dozen or so vendors in Hong Kong, and they pass the most labour intensive work to factories in China🡪

When toys arrive in U.S., Galoob distributes through *commissioned manufacturer’s representatives.*

Galoob does not collect its *accounts*. It sells its receivables to *Commercial Credit Corporation* ( a factoring company).

In short, *Galoob is the chief broker* among all these independent specialists.

*Benefits*: provide specialisation and flexibility. If done well🡪 company achieves max responsiveness.

*Pitfalls*: risk of quality variation across firms, of needed expertise being temporarily unavailable, and of possible exploitation of proprietary knowledge or tech.

*Where Appropriate*: in competitive situations where there are myriad players, each guided by market pressures to be reliable and to stay at the leading edge of its specialty. Also in settings where design and production cycles are short enough to prevent knockoffs or where proprietary rights can be protected by law or by outsourcing only standard parts or assemblies.

**The Broker’s Role**

In hierarchical organised firms🡪

Role of normal management: plan, organise and control within hierarchies.

In many *network firms*🡪

Role of certain key managers “*BROKERS*”: *creating and assembling resources controlled by outside* *parties, across hierarchies*.

*Three Broker Roles*: **ARCHITECT, LEAD OPERATOR, CARETAKER**

**(1)Architect**

They *facilitate the emergence of specific operating networks*. ***\*\*\*DESIGN\*\*\****

Seldom have a clear vision of all the specific operating networks that may ultimately emerge from his efforts🡪

Frequently have only a vague concept of the product and the value chain required to offer it🡪

This business concept is then brought into clearer focus as the broker seeks out firms with desirable expertise, takes an equity position in a firm to coax it into the value chain, helps create new groups that are needed in specialised support roles etc.

Example: Early yrs of *General Motors*🡪Alfred Sloan envisioned an internal network of automotive suppliers, assemblers, producers, and distributors that could be assembled from among the various firms William Durant had acquired🡪internal network used today is the modern-day result of a similar process.

*In stable and dynamic networks*🡪architect’s *role more complicated*🡪

*Reason*: the resources that must be organised are not contained entirely within the firm

The *overall result of the architect’s efforts* can be portrayed as a grid of firms and value chain elements, as shown *below*:

|  |
| --- |
| **A Value Chain Grid of Firms and Three Operating Networks (page 243)**  **Manufacturers and Designers Distributors Marketers and Retailers**  **Component Suppliers and Assemblers** |

The critical factor is that all firms recognise that they are part of the grid and are at least minimally committed to supporting it. From this, a number of specific operating networks may emerge.

Example: the personal compute business🡪organised in large part around 3 types of operating networks:

(1)Offers a product-mostly designed, manuf and sold in-house (represented by Tandy Corp)

(2)Manufacturing at upstream of value chain, distribution and retailing downstream (represented by Apple Computer)

(3)Distribution and retailing portion of value chain

**(2) Lead Operator**

***\*\*\*DECISIONS ABOUT OPERATIONS\*\*\****

Take advantage of ground-work laid down by manager-architects.

*A lead operator formally connects specific firms together into an operating network.*

Example: *Galoob Toys*🡪a handful of key executives perform this role🡪they select from a known set of potential partners those individuals and firms needed to design, manuf, and sell children’s toys🡪the firm outsources virtually every operating activity, choosing to perform only the brokering role in-house.

The lead operator role is *often* played by a firm positioned *downstream* in the value chain.

Use their *negotiating and contracting skills to form alliances* e.g. Nike, a R&D marketing company, operates this way.

However *NOT LIMITED to downstream* firms e.g. Intel

**(3)Caretaker**

Caretakers are *managers who focus on enhancement activity*.

A caretaker may have to monitor a large number of relationships with respect to the specific operating network as well as to the larger grid of firms from which it came🡪

*In the operating network this means*: sharing info about how the network runs, info on recent technological and marketing developments, and schedules.

*Downstream firms must know about*: manuf capabilities

*Upstream firms must know about*: changes coming about in the market place.

Caretakers help network to **\*\*\*PLAN\*\*\*** and to **\*\*\*LEARN\*\*\***.

*Grid of potential network firms*: nurtured and disciplined by caretakers e.g. a caretaker may notice that a firm is falling behind technologically, or in some other way devaluing its usefulness in the grid🡪appr. actions taken to rectify sit.

**Implications For Broker Selection and Development**

**EXAMPLES:** NETWORK DESIGN, NETWORK OPERATION, NETWORK CARETAKING

**(1)Network Design**

Many business experiences have characteristics related to network design.

*Example*: in consumer packaged-goods firms🡪product and brand managers learn to build informal networks among the various designers, producers, marketers and distributors involved in the offering of their product.

*Example*: in matrix organisations🡪project managers develop network-building skills as they work across the functional boundaries of their firms and with outside contractors.

Network designers are essentially *entrepreneurs*.

They pull together the *skills and equipment* needed to produce a new product/service.

They, on occasion, *arrange finance*.

Many of the network orgs found today in businesses are the joint product of numerous entrepreneurs who originally created a piece of the overall value-chain grid.

In most firms only a limited number of managers have direct entrepreneurial experience🡪THEREFORE🡪some firms like 3M and Texas Instruments practice **“INTRAPRENEURING”-***rewarding their employees for turning ideas into prototypes, frequently with* *limited resources*.

*Characteristics of intrapreneuring*: individual initiative, cross-functional team building, resource acquisition etc🡪all very consistent with the development of successful networks.

Many business schools now offer *courses/workshops in entrepreneurship.....*covering cover product and project management, intrapreneuring, and the writing of business plans.

**(2)Network Operation**

*Putting a network into operation:* linking all the value-chain components needed for a given product/service 🡪

*Needed*: conceptual and organisational skills

*Needed*: the skill to negotiate mutually beneficial returns for the contributions of all the participants

Very relevant in engineering and construction arenas

**“PARTNERING”** is now very common in the construction industry

*“PARTNERING”:* a process whereby various parties involved in a project meet in a team-building session to uncover mutual interests and to create the mechanisms and build the trust necessary for resolving the inevitable disputes and inequities.

Many business schools now offer *courses in negotiation strategies and skills*, with emphasis on collaboration and ethical behaviour.

*Essential characteristic to be a lead operator*: comprehension of the processes of collaborative negotiation.

As networks extend across international borders both architect and lead operator need extensive international knowledge and experience.

*Architects*: must keep up to date on available skills and resources around the world.

*Lead operators*: must understand how cross-cultural relationships are forged and maintained.

*Helpful courses*: exploration of general international similarities and differences or courses focusing on specific skills, such as those involved in countertrade.

*Japanese firms* are famous for building long lasting relationships and for their extensive programs for assuring that managers gain hands-on experience across their orgs and various operating regions.

U.S. firms are the opposite.

**(3)Network Caretaking**

*Maintaining and enhancing an existing network.*

*Aspect 1*: taking care of one’s self e.g. being an active member of a trade ass.

*Aspect 2*: developing a sense of community among the members of a network.

The network must create and organisation “culture” that transcends ownership and national borders.

*Needed*: team building skills

Example: *General Electric’s Workout Program* is designed in part to bring GE’s managers, customers, and vendors together to form effective working relationships.

Organisational development and change courses in business schools may be helpful but these contain concepts mainly oriented toward developing the single firm, not the set of firms that constitutes a network.

\*\*\***IN SUM**, the job of a broker is unlikely to be filled by managers from any particular part of today’s corporation. Individuals from product management, sales, and purchasing may possess some of the knowledge and skills required by the effective broker. However none of these functions appears to be the sole source of future brokers. The broker’s job is far too complex to lend itself to the use of any available selection instruments. \*\*\***THEREFORE,** *a manager’s track record may be the* *best selection and placement device.*

**The Future**

The forces currently pushing many American firms toward network forms of organisation are likely to continue.

Recent *emergence of Eastern Europe* as a significant factor in the global economy adds to turbulence in industries.

*New foreign producers* will add to *competitive pressures*.

*Emerging foreign markets*🡪new opportunities for flexible first movers.

Difficult to imagine any industry ever returning to a form of competition in which traditional pyramidical organisations can survive.

Network organisations will emerge in a variety of circumstances.

**Dynamic Network in Future:**

🡪will appear on fringes of those mature industries that are in danger of stagnation.

🡪will continue to operate in emerging industries.

**Stable Network in Future:**

🡪will become the dominant organisational form in mature, healthy industries.

**Internal Network in Future:**

🡪will develop in situations where firms find it is difficult to create a new set of suppliers, but are unwilling to risk the potential inflexibility associated with wholly self-contained units.

***Global Competition in 21st Century:***

🡪will force every firm to become a network designer, operator, and caretaker.

🡪will intensify and therefore companies will find themselves constantly subjecting virtually every internal asset to market tests in order to justify ownership.

🡪will allow the most successful firms to max the utilisation of their assets and to learn how to market and deploy those assets to other firms (e.g. firms will share or lease assets, their skilled staff groups, and even their line work teams).

***Ultimately every firm may have to decide whether it should create a cost-based or investment-based network. Eventually, cost-based networks, which rely on inexpensive labour will approach a equilibrium from which it will be difficult to extract further competitive advantages. Investment-driven networks on the other hand can be self-renewing. These networks will be constructed around those firms that are prepared to make continual capital expenditures-either for the most advanced technology or for additional training and development of top-quality people.***

**Theme Four -**

**17- Knowledge-Worker Productivity: The Biggest Challenge - P. Drucker**

**Intro**

- 20th Century - companies most valuable asset was production equipment

- 21st Century - most valuable asset is knowledge workers and their productivity

- Has been steady advances in what we call ‘productivity’ as a result of new tools, methods, technology. These are advances in what economists call ‘capital’. From this point of view there were few advances in ‘labour’ (productivity). (Confusing, I know.)

- Today, an underdeveloped or emerging economy is one that hasn’t made the manual worker more productive yet.

**Principles of Manual-Work Productivity**

1. Look at the task and analyse the motions that make it up
2. Record each motion (the time and effort it takes)
3. Unnecessary motions are eliminated
4. Motions are put back together more efficiently
5. Tools if used are redesigned

**Different names that mean the same thing:**

1. Scientific Management
2. Industrial Engineering
3. Rationalisation

There is no such thing as skill in manual labour just simple, repetitive motions made more productive by *knowledge*. Taylor pissed off the workers unions back then with this because they were all based on ‘skill’.

**Taylor’s methods of Scientific Management can be seen in:**

1. Work enlargement
2. Work enrichment
3. Job Rotation
4. Henry Ford’s assembly line
5. Continuous Improvement
6. Just-In-Time Delivery
7. Total Quality Management

the job was analysed and organised and quality control was added at each level of the job

- Scientific Management swept through US during WW1 and Western Europe/Japan in the 1920s.

- WW2: Germany adopted it for training their armies.

US used it for industrial production when many men were away fighting giving the workforce much more productivity. They outnumbered the Germs and the Japs on the battlefield AND out-produced them in industry.

- Since 1950: Economic development outside the Western World has been based on Scientific Management. In places like Japan and then Taiwan the workers were paid very low wages so the countries were able to produce as much as developed countries at a fraction of the cost.

**Future or Manual-Worker Productivity**

- Third-World Countries: used for manual manufacturing work for large, growing numbers of

low-skill/educated young people.

- Developed Counties: now being applied to non-manufacturing i.e. services and knowledge workers as this makes up a lot of most developed Western economies.

**Knowledge Worker Productivity**

Determined by:

1. Asking ‘What’s the task?’
2. Workers must be responsible for their own productivity (autonomous).
3. Continued innovation must be part of the work, task, responsibility of workers.
4. Continuous learning and continuous teaching.
5. Quality more than quantity.
6. Worker must be an *asset* not a cost. They should *want* to work.

These are pretty much the **opposite** of what’s needed for the **manual worker**.

**What is the task?**

- It’s not obvious in knowledge work.

- In manual work you always know what the task is, just not always how to do it.

e.g. working on an assembly line.

- The knowledge workers have to ask themselves this question.

e.g. does the nurse spend time at a patient’s bed or spend time filling out papers?

Finding out the task lets you concentrate on it and then:

1. You’re responsible for your own contribution to the job

2. Continuous A **innovation**, B **teaching** and C **learning** has to be built into your job.

3. The quality can only be realised after asking ‘what is the task?’.

**Knowledge workers as a capital asset**

1. Economics shows us the difference between knowledge and manual workers.
2. Manual ones are seen as a cost. Knowledge ones must be seen as a capital asset.
3. Knowledge ‘own’ the means of production. The knowledge between their ears is portable and highly valuable and so an enormous capital asset.

**Technologists**

- Are people who do knowledge work AND manual work, like a **surgeon** who spends hours in diagnosis before an operation (knowledge) and then cuts someone open (manual).

- Also applies to people with subordinate jobs (low level in the hierarchy like an office clerk) whose knowledge is a small part of a manual task but is hugely important in day-to-day running.

- Give developed country a competitive advantage.

- Cheap for a country to train a lot of high-knowledge people (India-Doctors).

- Training based on Scientific Management makes a country capable of attaining **quickly** the manual worker productivity of the most advanced country.

US: Community Colleges designed specifically to educate technologists with knowledge and manual skill.

Japan: Schools prepare people for either one OR the other

Germany: Apprenticeship system favors manual skills.

- Technologists have to be treated as knowledge workers.

**Knowledge work as a system**

Productivity of the knowledge worker requires almost always that the work be restructured and be made part of a system.

E.g. 25 surgeons have organized themselves as a system. They will:

-produce highest quality work

-make best use of limited and expensive resources

-make best use of support knowledge (nurses)

-continuously learn and innovate

-minimize costs

-assess each other’s work every few months (quality control)

The costs are minimized, the quality improved, etc.

**How to begin?**

- Requires a change in attitude of the worker AND the organization.

- Find an area in the organization with a group of **receptive and willing** knowledge workers

- Work consistently and patiently over time and address problems as they arise

- Bypassing the pilot stage will make the mistakes public and keep successes hidden.

- Knowledge worker productivity is a huge 21st Century management challenge.

- It’s a means of **survival** for developed countries.

**The Governance of the Corporation**

The purpose of the employer will soon have to be redefined as to satisfy the legal owners AND the owners of the human capital that are responsible for producing the firm’s wealth - the knowledge workers.

Attracting and holding the knowledge worker is fundamental to success.

# The Discipline of Teams – J. R. Katzenbach and D. K. Smith

* Team is a small no. of people with complementary skills who are committed to a common purpose, set of performance goals, and approach for which they hold themselves mutually accountable
* 4 elements: common commitment and purpose, performance goals, complementary skills, and mutual accountability
* 3 varieties: teams that recommend things, teams that make/do things, teams that run things
* Cannot have good performace without a “team”, but people use the word too loosely

|  |  |
| --- | --- |
| **Working Group** | **Team** |
| * Strong, clearly focused leader * Individual accountability * The group’s purpose is the same as the broader organizational mission * Individual work products * Runs efficient meetings * Measures its effectiveness indirectly by its influence on others (such as financial performance of the business) * Discusses, decides, and delagates | * Shared leadership roles * Individual and mutual accountability * Specific team purpose that the team itself delivers * Collective work products * Encourages open-ended discussion and active problem-solving meetings * Measures performance directly by assessing collective work products * Discusses, decides, and does real work together |

* Credible team purposes have an element related to winning, being first, revolutionizing, or being on the cutting edge
* Best teams invest huge amount of time and effort exploring, shaping, and agreeing on a purpose that belongs to them both individually and collectively
* Common purpose translated by best teams into specific performance goals e.g. 0% defect rate

|  |
| --- |
| **Building Team Performance** |
| * Establish urgency, demanding performance standards, and direction * Select members for skill and skill potential, not personality * Pay particular attention to first meetings and actions. Initial impressions always mean a great deal * Set some clear rules of behaviour * Set and seize upon a few immediate performance-oriented tasks and goals * Challenge the group regularly with fresh facts and information |

* Large no. of people can theoretically become a team, but groups of such size are more likely to break into subteams rather than function as a single unit

Teams require 3 core skills to function: **Technical/Functional Expertise**, **Problem-Solving** **and Decision-Making Skills** and **Interpersonal Skills**

**Teams That Recommend Things:** These include task forces; project groups; and audit, quality, or safety groups asked to study and solve particular problems. Most have predetermined completion dates. Two critical issues unique to such teams: getting off to a fast & constructive start and dealing with the ultimate handoff that’s required to get recommendations implemented.

**Teams That Make/Do Things:** Generally no specific completion date, although there are exceptions. In deciding where team performance might have the greatest impact, top managers should concentrate on what we call the company’s “**critical delivery points**” –places in the organization where the cost & value of the company’s products and services are mostdirectly determined e.g. where accounts get managed, productivity determined, etc.

**Teams That Run Things:** Groups that oversee some business, ongoing program, or significant functional activity, it is a team that runs things. At this level, working groups present fewer risks, but teams can achieve that extra level of performance, which is becoming critical for a growing no. of companies. Too often, these teams confuse the organization’s broad mission with that of their team’s. Mostly 2’s/3’s, occasionally with a 4th.

**19- What Makes a Leader – D. Goldman**

**Brief Summary**

***Core idea:***This paper is very simple. Goleman claims that his and other research showed that analytical and technical skills are the minimum entry requirements for management but emotional intelligence is what separates the successful from the adequate.  
The paper simply explains the five elements and gives examples. Examples are very easy to come upon the spot.  
   
**Five Components:***1. Self-Awareness* -The ability to recognise one’s weaknesses and to talk about them. A leader will work to counteract these weaknesses and will explain to colleagues why s/he is doing this.  
e.g. Mr. X has weak time management skills, thus he prepares well in advance and plans his time carefully and explains to co-workers why he does this to avoid misunderstanding/conflict.  
   
*2. Self-Regulation* -This stems from self-awareness. It is the ability to curb ones impulses and/or channel them for good purposes.  
e.g. Ms. Y is angry when her team fail at a project. She is aware that she can get irrational when angry, so she tells her team that they will debrief the following day rather than right away. After reflecting on the reasons for failure and her/the individual team members contribution to that failure, she develops a reasonable solution. The next day she offers her feelings on the result i.e. she's angry/disappointed. Then explains why she thinks it failed and her solution and then asks the team for their input.  
   
*3. Motivation* -Having a passion for achieving for the achievements sake and not just the rewards.  
e.g. Mr. X is dedicated to his job and achieving the targets set for him ans his own targets. Regardless of the financial bonuses that result he strives to achieve. Motivated individuals most often are the people who really enjoy their work.  
   
*4. Empathy* -The ability to consider the feelings of others when making decisions. Being considerate and respectful, not a tough executive but not a doormat either.  
e.g. Ms. Y must tell some of her staff that there will be several redundancies in their department. When talking to them, she chooses her words carefully, she lets them know that there will be several redundancies and that she will keep everyone informed as soon as she hears more. She tries to reassure them rather than scare them. People respect someone more if they are considerate of their feelings.  
   
*5. Social Skill* -Culmination of the first four components. It is the ability to build relationships with others, create cooperation and a friendly work environment.  
e.g. Mr. X has always been friendly to people i in his office, knowing that he might need their help at some stage in the future (1), he is careful not to offend those who can help him (2, 4), he is motivated to build relationships and position himself where he can more productive(3).

**19- What Makes a Leader – D. Goldman**

Traditionally many would have seen the necessary traits of a leader to be intelligence, toughness, determination and vision. However these are insufficient. Intelligence and technical skills are more “threshold capabilities”. It has been found that other softer personal qualities are also required to be a successful leader. Emotional intelligence (EI) distinguishes outstanding performances from those that are merely adequate.

There are 5 main components to emotional intelligence: Self awareness, Self regulation, Motivation, Empathy, Social skill.

Self Management Skills

1. Self awareness:

* EI begins with this trait
* The ability to know one’s weaknesses as well as strengths and not afraid to talk about them
* Understand one’s moods, emotions and drives and their effects on others
* Ability to turn anger into constructive action
* Neither over critical nor unrealistically hopeful
* Eg. A person who knows that they do not work well under tight deadlines will plan work out carefully to assure the deadline is met and work done in advance
* This attribute is sometimes mistaken for “wimpiness”
* Self confident, self deprecating sense of humour, realistic self assessment, honesty
* Without SA people see a message to improve as a threat or sign of failure

1. Self regulation:

* Continues on from self awareness but in different direction
* The ability to control one’s impulses and channel them towards good purposes
* To think before acting
* Trustworthy, integrity, openness to change
* Eg. A manager watches as his team delivers a sub- par report to directors. Temptation to just shout and give out afterwards declaring all their shortcomings but if he had SR could step back choose words carefully and try to assess how it might have gone wrong and offer his feeling or opinions to the team
* In a business world that is constantly changing with mergers, acquisitions, foreign investment leaders need to be open to change
* Eg. When a new program is announced instead of panicking a good EI leader/ manager will suspend judgement, seek to information from above and listen as the new program is explained

1. Motivation

* Virtually all effective leaders have
* A passion for achieving beyond expectations essential to becoming a leader
* Not just motivation in response to incentives and external factors but a desire to achieve for the sake of achievement
* A genuine passion for work shows true motivation
* Will seek out new challenges, love to learn, take great pride in their work
* Propensity to pursue goals and objectives with energy and persistence
* Combined with self awareness to know limits yet with EI a leader will not settle for objectives that are too easy either
* Optimism even in face of failure, organisational commitment
* Raising the bar for themselves and the organisation in which the will to succeed becomes infectious to those around

The Ability to relate to others

1. Social skill

* All other traits are culminated in social skill, no leader is an island, get work done through others
* Social skills allows a leader to put EI to work
* Ability and proficiency in managing relationships
* The ability to build rapport and cooperation and find common ground with others a move them in the direction you want
* Eg. Agreement on a new strategy or enthusiasm about a new product or design
* Must be used with other aspects of EI otherwise will fail
* Friendliness with a purpose
* Expertise in leading teams as well as being able to build them
* Effectiveness in persuasiveness and leading change
* Managing teams combination with empathy
* Expert persuaders, combination with self regulation, self awareness and empathy

Can Emotional Intelligence be learned

* Both born with and acquire empathy
* EI increases with age
* Limbic system( feelings, impulses and drives) of the brain not the neocortex (concepts and logic) is linked to EI
* Practice and feedback can help and train empathy and other EI concepts
* With practise and a wiliness to improve one’s EI can be learned and improved
* Requires desire and concentrated effort
* “nothing great ever achieved without enthusiasm”: Ralph Emerson

# Level 5 Leadership: The Triumph of Humility and Fierce Resolve – J. Collins

* Collins argues the key ingredient that allows a company to become great is having a level 5 leader: an executive in whom genuine personal humility blends with intense professional will
* An e.g. of this is Darwin E. Smith, a seemingly ordinary man who in 1971 was named chief exec. of Kimberly-Clark, a stodgy old paper company whose stock had fallen 36% behind general market during previous 20 years
* In 20 years as CEO, he turned it into the leading consumer paper products company in the world
* Generated cumulative stock returns 4.1 times greater than those of the general market
* According to 5 year research study, executives possessing this paradoxical combination of traits are catalysts for the statistically rare event of transforming a good company into a great one
* Level 5 leadership in the study easily made it into the framework as one of the strongest, most consistent contrasts between the good-to-great and the comparison companies
* Other factors contribute, but they are put into place/enforced by the level 5 leaders:

1. **First Who:** Leaders start with personnel, rather than vision and strategy
2. **Stockdale Paradox:** Leaders confronted the most brutal facts of their current reality, yet simultaneously maintained absolute faith that they would prevail in the end. And they held both disciplines – faith and facts – at the same time, all the time
3. **Buildup-Breakthrough Flywheel:** Relentlessly pushing a flywheel in one direction, while turns increase and eventually there is a breakthrough experience, that the copmparison companies did not experience
4. **The Hedgehog Concept:** Hedgehog knows one big thing very well, whereas fox knows a little about many things, and the hedgehog wins. Knows three intersecting circles: what a company can be the best in the world at, how its economics work best, and what best ignites the passions of its people. Virtually all that does not fit in these circles gets eliminated
5. **Technology Accelerators:** Pioneers in application of carefully selected technologies, while avoiding jumping on new technology bandwagons
6. **A Culture of Discipline:** Disciplined people, disciplined thought and disciplined action. This eliminates the need for hierarchy, bureaucracy and excessive controls

* Take responsibility for failings and direct responsibility away for success (window and the mirror, if they can’t find anything to direct success upon, they mention luck)
* Level 5 leaders, because they have ambition not for themselves but for their companies, routinely select superb successors
* Irony in the fact that the animus and personal ambition that often drives people to become a Level 4 Leader stands at odds with the humility required to rise to Level 5

**Theme Five – Managing Today**

**22-The Social Responsibility of Business is to Increase its Profits – M. Friedman**

* Written by Milton Friedman in 1970.
* Believes that businessmen talking about the “social responsibilities of business in a free-enterprise system” are preaching pure and unadulterated socialism!
* Says the arguments are notable for analytical looseness and lack of rigor.
* He believes only people can have responsibilities (not businesses).
* Responsibility of a corporate executive as an employee of a company, is to their employers.
* That responsibility is to conduct the business in accordance with their desires, being generally to make as much money as possible while obeying basic rules of society: those of law and ethical custom.
* A Manager is an agent of individuals who own corporations and his/her responsibility is to them!
* Of course a corporate executive is a person in own right, therefore may feel impelled by his responsibilities to donate part of his income to causes he thinks are worthy, or only work for particular organisations i.e. social responsibilities.
* In this way, he is acting as principal, not an agent. He is not spending the money or time of employers. These are his individual social responsibilities.
* What does it mean for the corp. executive to have social responsibility in his capacity as a businessman? It must mean he is to act in some way that is not in the interest of his employers. E.g. refraining from price increase in order to pursue social interest of preventing inflation. Even though price increase is in best interest of the company.
* Corp. executive would therefore be spending someone else’s money for general social interest.
* In acting in accord with social interest he may be reducing shareholders’ returns, raising the prices for customers or lower the wages of employees.
* The exec. is exercising a distinct “social responsibility” rather than serving as an agent of stockholders or customers or employees only if he spends the money in a different way than they would have spent it.
* Therefore he is in effect imposing taxes on the one hand, and deciding how the tax proceeds shall be spent on the other.
* Raises political questions on two levels: principle and consequences.
* On political level: the imposition of taxes and the expenditure of tax proceeds are governmental functions. Already government functions that assure taxes imposed are in accordance with the preferences and desires of the public. “Taxation without representation.”
* Here the businessman is to be simultaneously legislator, executive and jurist. He is to decide whom to tax by how much and for what purpose and he is to spend all the proceeds.
* Justification for permitting the corp. exec. to be selected by shareholders is that the exec. is an agent serving the interests of his principal. This justification disappears when the corp. exec imposes taxes and spends the proceeds for “social” purposes. Becomes in effect a public employee even though still an employee of a private enterprise.
* If a public employee, must be elected through a political process.
* If they are to impose taxes and make expenditures to foster social objectives then political machinery must be set up to make the assessment of taxes and to determine through a political process the objectives to be served.
* Basic reason why “social responsibility” involves the acceptance of socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses.
* Suppose the corp. exec. could get away with spending the shareholders’ or customers’ or employees’ money, how is he to know how to spend it??
* Nothing about the corp. exec.’s election makes him an expert in the field in which he is to implement the “social responsibilities.” E.g. how would he know how to manage inflation? He wouldn’t know all the consequences his actions would have on the company or the market!
* Whether he wants to or not, could he get away with spending their money? Would they not fire him? Would the customers and employees not desert him in favour of employers less scrupulous in exercising their social responsibilities?
* The difficulty in exercising “social responsibility” illustrates the great virtue of private competitive enterprise – it forces people to be responsible for their own actions and makes it difficult for them to “exploit” other people for either selfish or unselfish purposes! They can do good – but only at their own expense.
* Some may argue that the exercise of social responsibility by businessmen is a quicker way to solve pressing current problems, rather than waiting on the government!
* Same arguments apply to the phenomenon of calling upon stockholders to require corporations to exercise social responsibility. What is in effect involved is some shareholders trying to get other shareholders to contribute against their will to “social” causes favoured by the activists. Insofar as they succeed they are again imposing taxes and spending the proceeds.
* The situation of the individual proprietor is somewhat different. If he acts to reduce the returns of his enterprise in order to exercise his “social responsibility”, he is spending his own money not someone else’s. That is his right.
* Doctrine of “social responsibility” is often a cloak for actions that are justified on other grounds rather than a reason for those actions.
* E.g. may well be in long run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. May make it easier to attract desirable employees, may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects.
* In such a case there may be strong temptations to rationalize these actions as an exercise of “social responsibility.” However it is one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest.
* Such window-dressing may harm the foundation of a free society.
* He expresses admiration for those individual proprietors or owners of closely held corporations or shareholders of more broadly held corporations who disdain such tactics as approaching fraud.
* Businessmen are too short-sighted in matters outside their business but may affect the possible survival of business in general. Exemplified in calls by businessmen for wage and price guidelines or controls or income policies. Also in speeches by businessmen on social responsibility. Strengthens view that the pursuit of profits is wicked and immoral and must be curbed and controlled by external forces. One this vies in adopted the external forces curbing the market will not be social responsibilities but the iron fists of government bureaucrats. Here they reveal a suicidal impulse.
* The political principle that underlies the market mechanism is unanimity. In ideal free market resting on private property, no individual can coerce any other all cooperation is voluntary, all parties to such cooperation benefit or they need not participate. There are no values, no “social responsibilities” in any sense other than the shared values and responsibilities of individuals.
* The political principle that underlies the political mechanism is conformity. The individual must serve a more general social interest whether that be determined by a church, a dictator, or a majority. The individual may have a vote and say in what is to be done but if he is overruled, he must conform. It is appropriate for some to require others to contribute to a general social purpose whether they wish to or not.
* Unanimity is not always feasible. Some respects in which conformity is unavoidable. Friedman doesn’t see how the political mechanism can be avoided altogether.
* The doctrine of “social responsibility” taken seriously would extend the scope of the political mechanism to every human activity.
* Believes it is a “fundamentally subversive doctrine” in a free society.

**23- What’s A Business For? - Charles Handy**

- In this article, the author tries to outline the different types of capitalism that exist, the flaws that they have and how the business world will need to change in the future.

* Essentially, the primary model of capitalism is the Anglo-American/Saxon model which is associated heavily with the stock market. It defines success as increasing shareholder value. Share price can be influenced by increasing productivity, buying and selling the business through acquisitions and mergers or most commonly, postponing expenditures that are geared to the future rather than the present. The consequence however is that companies are mortgaging their future in return for higher stock in the present.
* Another characteristic of this stock market capitalism is the growing popularity of “the stock option”. This relates to the growing number of executives who are tying their salaries to stocks. The returns these executives receive are astronomical; reports state that some American CEOs earn 400 times the wage of their lowest wage employee.
* The positive aspects of this particular brand of capitalism are a high level of energy, innovation and dynamism; it is the reason why the US produces such a high level of entrepreneurs.
* However it is not without flaw. Some of these faults include.....

- A culture overly obsessed with shareholder value, prioritising it above all else

- The belief that business is so important that it needs to be heavily involved in a country’s policy decisions

- A decline in civil society and an erosion of attention and funds paid to non business sectors like education and health care

- Unsustainable levels of consumer indebtedness

- Erosion of confidence in a company’s balance sheet and its board of directors

- Increasing levels of debt owed to foreign countries

* The Europeans have their own model and look on the British/American model with uncertainty and mistrust.
* They are on the whole outraged by the levels of executive remuneration under stock market capitalism, feel it makes a mockery of a society claiming to value equality.
* Wonder why those working in business should receive such great financial rewards in comparison to all other professions e.g. teachers and doctors.
* Stock market capitalism also directly opposes certain ideals that the Europeans value highly such as free health care and education and a guarantee of reasonable living standards in old age, sickness or unemployment (in essence, our welfare system).
* However, in recent decades after constantly being accused of a lack of management and lacklustre management, the Europeans have begun to copy the American way of business.
* Thus European countries have like their counterparts fallen victim to dubious ethics and corporate collapses due to overambitious acquisition policies. They seem to have drifted too far towards stock market capitalism.

- Today, people have little faith in capitalism. It relies on a market of rules and regulations which no one is abiding by anymore. According to Handy, trust and truth are at an all time low in the business world and eventually customers will stop investing in shares and find somewhere else to keep their money, like their homes.

- There is an urgent need to retain the energy and dynamism of the old system while simultaneously fixing its flaws. In the short term this can be achieved through corporate governance watchdogs enforcing penalties when companies act irresponsibly/illegally.

- **However for a long term solution, we need to ask ourselves for whom and what is a business for? In essence we have to deconstruct what a business is, note the problems with the present day definition and look for solutions.**

**- We have a distorted view of what a business actually is. This view is problematic in several ways and important changes need to take place.......**

* (***1***) Ownership of a business has indeed been replaced by investment. Both sides of the Atlantic would agree that an important role of a company is to meet the expectations of its “theoretical owners”, the shareholders. Without them, share prices would fall putting the business in great financial difficulty and making it vulnerable to unwanted predators.
* The mistake being made is that companies see shareholder needs as their primary goal, i.e. nothing exists beyond what the shareholders wants which is essentially, money.
* But the purpose of a company should not be to make a profit, full stop. It is to make a profit do that it can do “something” better. This idea has been lost of late.
* Companies need to fight the stereotype that they are immoral and have no higher purpose except to themselves.
* (***2***) Employees of companies are still being treated as costs rather than assets. This belief needs to be reversed. Costs are something to be minimised, assets something to be and cherished.
* The value of a modern corporation lies in its intellectual property, in the skills and experience of its workforce. The growing importance of the knowledge worker can be seen in every 21st century business. Assets today refer to human’s capital rather than land and machinery. Thus, they should be cherished as much as the financiers. The employees who contribute their time and energy should have just as much a say in a company’s future as those who contribute their money.
* (***3***) Another misconception of what a business is that a company is simply a piece of property subject to the normal laws of ownership. In fact, it is a community with a purpose and a community is not something that can be “owned”. It is made up of members with certain rights who all have the ability to express their views on major issues. Too many managers are focusing on the economic activity of producing output, forgetting the true nature of an organization is that of a community.
* Many European companies have always regarded a business as a community whose members have legal rights. German employees for example have numerous safeguards against unfair dismissal and an array of statuary benefits.
* The benefits of a community atmosphere are that it encourages innovation, creativity and a commitment to the company even in bad times.
* (***4***) The lack of trust in relation to corporations is growing and businesses need to instil more confidence in their wealth creating capabilities of capitalism. They can primarily achieve this by honestly and realistically reporting their results (modern business statements are prone to over estimation due to carelessness and exaggeration when the figures are being collected).
* A community setting would again have benefits in this situation as it encourages accountability and truth telling down the line of employees from the executive to the lowest worker. Thus, all the employees would be more likely to validate the results of their work before presenting it to the financiers (accountants and auditors) who would then have more confidence in the accuracy of the statement they create.
* A company’s “members” would be even more likely to take an interest in the truth of the numbers and financial statements if they were reworded with a share of the profit that they helped create. It is only logical and fair that dividends are rewarded to those who contribute their skill as well as those who contributed their funds. In the growing talent and knowledge sector, employees will eventually stop accepting fixed annual salaries and demand performance related pay. An example of this type of remuneration already in existence is that of authors. A writer is paid by the publisher for her novel but is also entitled to a certain percentage of the profits made from book sales. (and commission)
* (***5***) Anti-globalization protestor’s claim that global business does more damage than good. If those charges are to be rebutted, companies need to bind themselves to a vow similar to that of a doctor’s Hippocratic Oath. This oath makes a promise to “do no harm”. Businesses need to take the lead in areas such as ethics, community relations and environmental sustainability.
* J. Browne, a CEO of an oil company states why it is actually in a company’s best interest to act in a socially responsible manner. He states that few businesses are short term entities, most hope to operate well into the future. Therefore, investing in environmental research programs that aim to help our planet is beneficial in the long run. Companies need a sustainable planet for their own survival. If the earth deteriorates to a point where there are no viable resources left, businesses will not be able to function.
* Some say there is money to be made in creating goods and services that sustainability requires.
* Companies cannot continue to act as they are, destroying the earth, waiting until laws are created to regulate their actions. The legal system is often slow to catch up with societies needs, given legal time lags, by the time regulations are put in place, the environmental damage could be irreversible.
* In our knowledge economy, sustainability also relates to human resources. Workers quality of life is deteriorating as they struggle with the work/leisure balance and fall victim to the stresses of the long-hours cultures.
* If a company’s foundation of human assets is to stay stable, workers individual needs can no longer be neglected.
* There are many European examples of corporations protecting workers from the demands of the job including legally mandated paternity leave and the obligatory 35 hour working week in France.
* (***6***) The overall goal of a business community should not be to survive or prosper through its profits, which is what many people think. It should aim to create a lasting legacy by making the good things of life available and affordable to ever more people. Companies should, like charities, measure success in terms of outcomes for others as well as for themselves.
* E.g. G. Merck, owner of a pharmaceutical company said that his business sold medicine to help patients not to increase profits. This ideal has been lost in recent years.
* Being generous however does not mean automatically cancelling out profits. There is a huge neglected market amongst the billions of poor people in the 3rd world. Citicorp for example has an aim to serve neglected consumers in India. By revising their technologies, they can now offer services to people with as little as $25 to invest. While helping the unfortunate try and escape from poverty they are also managing to make money.
* Until such “enlightened” companies become the norm, capitalism will be forever seen as a selfish, self serving game for the rich man. Eventually, disgusted talent and customers will desert such corporations and governments will have to strictly shackle businesses, taking away their independence. In such an outcome, everyone (the executive, worker and customer) will suffer.

**Extra**

**The Emergence of Managerial Capitalism - A. D. Chandler**

**Def:** Managerial Capitalism is the placing of the decision-making process of production and distribution in the hands of professional management teams in place of the owner.

- Emerged in the U.S.

- Railroad; birth of bureaucracy, synchronisation of time.

- **American** Growth:

- Rail road.

- Population explosion.

- Immigration.

- Antitrust legislation.

- Rationalisation (J.D. Rockefeller: oil refineries).

- **British** Growth:

- Industrialised before transport/communication revolution.

- Moderate scale achievements.

- **German** Growth:

- Home markets dominated by U.S. / specialised in complex machinery.

- Financial innovation/No capital markets in Germany: banks on supervisory board.

- **Japan**:

- Hydro-electric power until 1950’s.

- Electrical machinery → diversification → appliances etc.

- East Asia: more efficient outsourcing.

**U.S.A. vs. Britain**

Britain’s development was slower because:

**1.** **Geography**: domestic market grew at slower rate, thus less incentives to exploit economies of scale.

**2.** **History**: Britain industrialised before transport/communication revolution. Businesspeople became complacent in slower moving, smaller scale processes.

**3. Culture/Education**: Attitude towards business enterprises was that they were family estates and they should manage them themselves and pass them down to their heirs.

**4. Absence of Antitrust legislation**: less pressure was put on British companies to construct hierarchies or alliances/mergers to avoid control regulations. I.e. Number of persons controlling enterprise.

**The Principles of Scientific Management Part 2 – F. Taylor**

**Intro:**

* In this article Taylor shows how Scientific Management (SM) displaces the crude, cold, rule-of-thumb methods. He then applies the science to the ancient skilled trade of bricklaying.
* Generally, people are sceptical that are science exists while referring to kinds of labour such as shovelling.
* However, if an intelligent man analysed shovelling, deliberately trying to find an essence of science, he would find it in the end.
* For the workers on the other hand, the rules-of-thumb are so dominant that the vast majority of them do not know that there is a *science* of shovelling.

1. **The Science of Shovelling:**

* There is a certain shovel load that exists whereby if a worker continues to shovel this exact amount for the whole working day, he will be at his highest working capacity.
* So what is this shovel load? Well **experiments** must be carried out. A certain amount of shovellers are taken and must perform their daily work with varying shovel sizes until a winning shovel-size is chosen. When this was carried out it was found that a shovel-load of 21 pounds is the ideal weight. (The workers were paid extra to partake in the experiments; otherwise they probably wouldn’t have taken part!)
* Obviously every shovel-load will not weigh this exact weight; however the *average* shovel-load should be 21lbs in order for a worker to do his biggest day’s work.
* Taylor stresses that this is not the whole of the art of science of shovelling; he mentions that there are many other elements that must be considered.

1. **Ten Different Kinds of Shovels:**

* Due to the above law (about shovel size), the Bethlehem Steel Company (not Jesus’ Bethlehem, this place is in the US) began to provide a choice of 8-10 shovels which the workers would use depending on the material they were shovelling. (Previously they had just brought their own shovel.)
* As a result, a large tool room had to be built for storage.
* Small shovels were used to shovel ore, while large shovels were used to shovel ash. Therefore roughly 21lbs of each material was shovelled. Previously, workers had either been:
  + Overworked, due to shovelling too much ore and not being able to complete a day’s work
  + Or completely underworked due to shovels being too small while shovelling the ‘light’ ashes.
* Thousands of stop-watch tests were done to study the time it took workers to shovel correctly.
* ‘Directing shovellers’ showed the workers how to shovel correctly, making sure the workers were using their strengths to the very best of their advantage.
* Daily tasks were assigned to the workers and bonuses were given out accordingly.
* In order for each worker to obtain their relevant implement and instructions, a detailed system was designed. (Previously, workers worked in large gangs and were managed by a foreman.)
* This new system involved workers having their own pigeon hole at work which would contain 2 pieces of paper on a daily basis.
  + The first stated what implements he needed and where he was to begin his work for the day.
  + The second was a record of the previous day’s work.
    - If this piece of paper was **yellow,** this meant that the worker had failed the previous day’s tasks.
    - If the piece of paper was **white,** all was well.
* However many of the workers were foreign, so they couldn’t read these documents.

1. **Saving the Energies of Workingmen:**
   * Due to the large numbers of workers, many new facilities and infrastructure had to be built. A **Labour office**, where a superintendent and clerks resided was constructed. This is where the labourers’ work was planned out weeks in advance. **Telephone and messenger system** was also set up, so that they organisation of labourers could be achieved at ease.
   * When the rules of thumb were used, workers also worked in large gangs no matter how much work needed to be done. (Not cost effective, as there would be many idle workers.)
   * Under the new plan however, if a worker was not up to scratch, a competent teacher was sent to help and encourage the **individual** (and also to have a subtle look at his capabilities as a worker.) In this new way, the worker is given time to become more efficient. He could be shifted to another class of work which he is more suited to (mentally or physically) rather that just being sacked altogether.
   * To achieve these above measures, a more elaborate organisation had to be born. The herding of large gangs of workers around a yard was no longer seen as sustainable. So this organisation consisted of:
     + A group of **men who developed the science** of labouring using time studies.
     + A group of **skilled labourers** who knew the job inside out and could teach the other labourers appropriately.
     + A group of men who were in control of the **tool-room** and all of its implements.
     + A group of **clerks** who planned the workers’ day out.
   * Cooperation must be achieved between the above groups in order for the organisation to prosper.
   * So one would ask; can an elaborate organisation like this be made to pay for itself? The following is the statement of results from the third year working under the new plan. They should go some way to answer this question.

|  |  |  |
| --- | --- | --- |
|  | **Old Plan** | **New Plan** |
| **The number of yard labourers** | **400-600** | **140** |
| **Average number of tons per man per day** | **16** | **59** |
| **Average earnings per man per day** | **$1.15** | **$1.88** |
| **Average cost of handling a ton of 2240lbs** | **.072** | **.033** |

* + The figure of $0.033 accounts for all wages (tool-room men, clerk, labourers etc)
  + A total saving of $36,417.60 (compared to using the old plan) was achieved during this year. When the plan had been running for a few years, savings were in the range of $75,000-$80,000.

1. **How the Workmen Themselves are Affected:**
   * Maybe the most important of all results is the effect on the workmen themselves. After an inquiry into the condition of the 140 workers, it was found that only 2 were said to be ‘drinking men’. Most were sober, therefore saving money and having a better standard of living than before.
   * The workmen had huge respect for the men who were of a greater rank within the organisation. They saw them as friends, who were helping them to earn greater wages and bonuses.
   * ‘‘Prosperity for the employee, coupled with prosperity for the employer’’, the two principal objectives of management.
   * It must also be said that this prosperity was brought about due to the four fundamental principles of SM.
     + 1. The development of a science for each element of a man’s work and replacement of the rule-of-thumb methods.
       2. The scientific selection and training of each workman.
       3. The cooperation between management and workers.
       4. An equal division of work and responsibility between management and workers.
2. **Do Men Work Well in Gangs?:**
   * Well the quick answer is no!
   * Why? When workers are in gangs;
     + They lose ambition and initiative.
     + Each man in the group becomes less efficient.
     + The efficiency falls to the level of the worst workman. (If a group of workers notice that one person in the group is not doing as much work as them, they will say, ‘‘Why should I work any harder than that guy, if he is still getting paid for doing very little work?’’ Therefore they will only do as much as the worst workman.)
   * When the gang mentality was abolished and each man worked for his individual gain, each man was given a separate car to unload each day and his wages depended on how much ore was unloaded.
   * Much of this ore came from the Lake Superior region. The same ore was also delivered to Pittsburg and Bethlehem. (Bethlehem is the place where Taylor has been concentrating all of his studies and assumptions so far in this essay!)
   * There was a shortage of handlers in Pittsburg. The steel works in Pittsburg had heard about the men in Bethlehem who were extremely efficient. So they sent an agent to hire the Bethlehem workers.
     + They offered them a greater wage per ton shovelled.
     + Bethlehem believed it was not wise to offer their workers a higher wage. The workers there were one of the highest paid in the town. So they called each employee in one by one to the office and told them that Pittsburg were offering a greater wage per ton shovelled and that they should work in Pittsburg. But they also mentioned that they were always welcome to come back to Bethlehem.
3. **A Gang Takes Flight in Pittsburg:**
   * Almost all the Bethlehem workers moved to Pittsburg. But within six weeks, they were back in Bethlehem shovelling at their old rate. Why?
   * When the workers went to Pittsburg, they returned to the gang mentality. They noticed that a worker was not working as hard as the rest of the gang. So they decided to just shovel when this certain worker shovelled. When they were paid, the received less than what they would have received in Bethlehem. This shows that when the men work individually (in Bethlehem), even though they are on a smaller wage per ton shovelled, they still make more money than what they would if they worked in a gang with a greater wage per ton shovelled (in Pittsburg).
   * It must be said that the Pittsburg managers knew how the Bethlehem managers had achieved their success. But they were unwilling to go to the small trouble and expense and plan ahead; for example assigning separate cars to individuals and keeping a record of individuals’ work etc.
4. **How Bricks are Scientifically Laid:**
   * Bricklaying is probably the oldest of the ‘mechanic arts’, about 4000 years old. So surely a good system must have been developed over those 4000 years?
   * A man named Mr. Gilbreth became interested in motion study and studied it thoroughly. He came to the conclusion that it might be useful in bricklaying.
   * He made an analysis and time study of each movement a bricklayer makes. And made certain observations.
     + 1. He noticed that bricklayers lower their body to pick up bricks.
       2. He noticed that bricklayers always turn the brick multiple times to check for imperfections.
       3. He noticed that bricklayers only use one hand to pick up a brick and then dip it into the mortar.
       4. He noticed that bricklayers always tap the brick to set it in place.
   * Perhaps the above movements never need to happen? Gilbreth came up with ways to stop these waste motions and ultimately increase efficiency:
     + 1. He devised an adjustable scaffold so that bricklayers would no longer have to bend down to pick up bricks.
       2. He placed a labourer at each place were a bricklayer was located to examine the bricks so the bricklayer didn’t have to do it.
       3. He shortened the distance between the pile of bricks and the mortar board so that a bricklayer could take a brick with one hand and grab some mortar with the other hand.
       4. He made sure the mortar was properly tempered so there was no need for the bricklayers to tap the bricks into place.
   * Gilbreth had decreased the number of motions need in bricklaying from eighteen to less than five.
   * Gilbreth built a large building in Boston and was able to pay his workers $6.50 a day (compared to the ruling wage of $4.50 at that time). All the workmen were taught the proper way to work. Those who did the job well were rewarded with substantial bonuses, while those who failed to adapt to the conditions were sacked.
   * It must be said that numerous bricklayers have noticed the need to eliminate the waste motions over the years. But no one could come up with an ingenious plan such as Gilbreth’s.
   * Also it would not be a good idea if one bricklayer was more efficient that others around him, as the four walls of a house need to grow at the same rate in order for it to be built properly. So every bricklayer would need to work at the same speed. (This could be linked to the gang-mentality from earlier as the bricklayers would work at the same speed as the slowest bricklayer.)
   * Faster work could only be ensured by:
     + 1. Enforced standardisation of methods
       2. Enforced adoption of the best tools available
       3. Enforced cooperation
   * The only way these things can be enforced is by management alone. Management must realise that workers will only word extra hard if they receive extra pay.
   * The writer stresses that the success of the above examples are due to the use of the four elements (these are mentioned in part 4) which constitute the essence of Scientific Management!