Theme 3 – Summary – Modes of Organising

**How a firms capabilities affect boundary decisions – J. Barney**

* Threats of opportunism may be high or costly so different governance mechanisms used
* 3 Governance mechanisms
  + Market Governance – buy and sell goods at a pre-determined price by the market. Ie. Oil
  + Intermediate Governance – firms form alliances and carry out joint ventures – retailer agreeing price with supplier in long run
  + Hierarchical Governance – Firms trades within their own organisation/internally – produces in their own factories
* Must consider which activities to bring inside business, be careful not to become overly bloated and lose focus
* Creating Capabilities
  + Historical context – being in the right place at the right time – ie.Caterpillar ww2 subsidies
  + Path Dependence – can take a long time to build up and develop experience - ie. Japans manufacturing system took 500 years to develop, can’t be copied overnight
  + Social Complexity – Building trust,confidence, can’t be created overnight
  + Casual Ambiguity – Several different paths available, hard to decide which option to take
* Acquiring Capability – Acquire firms that have cababilites you need
  + Legal Constraints – Legislation may prohibit takeovers,prevent foreign companies etc..
  + Reduced value of capabilities – could ruin customer relationships
  + Uncertainty or Strategic Flexibility (change from strategy) should not be acquired
  + Unwanted Baggage – going to have to pay for parts of the firm you may not require
  + Leverging acquired capabilities – difficult to utilise capabilities of acquired firm,could be caused by different methodologies, manufacturing methods

Sometimes it’s better to just do it yourself. Sometimes no point in competing with firms, it can be costly to acquire new firms, analyse different costs of each method

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

* 5 Key stages to how organisations develop
  + Age of the organisation – more difficult to change,complacency
  + Size of the organisation – problems and solutions change with size,jobs overlap
  + Stages of evolution – sustained periods of undisturbed growth
  + Stages of revolution – big changes, in management – failure to change can see collapse and slow down in growth
  + Growth rate of industry – growing industries have to rapidly employee more people
* Phases of growth
  + Creativity
    - Evolutionary – Entrepreneur owners,focus on making/selling,getting started
    - Revolutionary – Crisis of leadership,must find suitable leader – manager
  + Direction
    - Evolutionary – Production,marketing separation,accounting systems,motivation to work introduced – hierarchy developed
    - Revolutionary – Crisis of autonomy,managers begin to run the show,need to delegate more
  + Delegation
    - Evolutionary – more delegation, decentralisation, motive and power to mid-level management, rapid growth
    - Revolutionary – Crisis of control – top management lose control,divisions become isolated
  + Co-Ordination
    - Evolutionary – product groups developed,merge decentralised units, formal planning put in place, Quality control programs,data processing centralised at HQ
    - Revolutionary – Red tape crisis, rigid formal systems slow things down,restrict innovation
  + Collaboration
    - Evolutionary – focus on fast problem solving, team action, key managers regularly meet to discuss problems. Management educated, economic rewards, experimentation encouraged
* Know your stages of development,don’t skip phases, must be prepared to follow changes in structure, otherwise remove yourself.

**Organisation Design: Fashion or Fit? – Mintzberg**

* Organisation structure must match task
* Simple Structure
  + One large unit – Classic Entrepreneurial company - few top managers,operators who do basic work.
  + Don’t waste time with meetings,planning etc.
  + Lean and flexible,ideal for innovation
  + Necessary for most companies starting up,many fail…
* Machine Bureaucracy
  + Offspring of industrialisation, emphasis on standard work practices
  + Requires many analysts,design and maintain systems
  + Need stability,tend to vertically integrate keep support services as close as possible
  + Work dull and repetitive,alienated,no longer fashionable
* Professional Bureaucracy
  + Relies on standardization of skills rather than work processes
  + Favoured among hosptials,schools etc..
  + Skilled people given large control over work, high skill level, similar method in the end. Ie.Doctors
  + Can be very large, not many managers needed
  + Not used to innovate, more perfect what is already known
* Divisionalized Form
  + Structure broken up, divided into different sectors of the business
  + Decentralised, HQ visits periodically and makes some of the more important decisions
  + Leaves operating details to divisions, exercise control by measuring performance
* Adhocracy
  + The is a structure of interacting project teams
  + Very fluid,power constantly shifting
  + Relies on trained experts to get the bulk of work done, must work together to create new things instead of following standard processes
  + Highly skilled and flexible workers, great variety
  + Ie. Consultant firms
  + Big separation between admin and operating work.
  + Admin combines manager and staff into project teams to innovate. Operating component then puts results into production so as not to interfere with innovation.
  + Clearly structure of our age, prevalent in almost every industry today
  + Can be time consuming, lots of meetings necessary,
  + Achieves effectiveness through innovation, but very good at it

**The Effective Organisation: Forces and Forms – Mintzberg**

* A System of forces
  + Direction – where the organisation must go.
  + Efficiency – standardisation and formalisation.
  + Proficiency – knowledge and skills
  + Concentration – Concentrate efforts on particular market
  + Innovation – Need to discover new ideas, adapt and learn
* Configuration – refers to any form of organisation that is consistent and highly integrated – it all fits together
* Portfolio of Forms
  + Entreprenurial form – Chief executive takes personal control – startups
  + Machine form – force for efficiency is most important
  + Professional form – when proficiency is dominant, ie.Doctors
  + Adhocracy form – Innovation most important
  + Diversified form – need to concentrate on distinct markets and products
* **Containment by configuration** – One force dominants to give direction. Ie.Drive for efficiency removes innovation
* **Configuration of Control** – When the need for change arises, the dominating force may act to resist it. Other forces need to come into play, but they too may be too weak.ie.the need to change from machine to innovation but can’t be done, no skills available
* **Containment of Configuration –** What keeps a configuration effective is the dominant of one force but also the constraining effects of the others
* Combinations are organisations that balance the certain forces that shape two or more different configurations
* Kinds of combinations
  + Hybrid – two forces roughly balanced
  + Balance can be steady or change back and forth over time
  + Can have different aspects without competing – newspapers editors, newspapers printers
* Cleavage in combinations
  + Two or more forces begin to dominate against each other, paralyze the organisation
* Conversion – when a firm must change from one configuration to another
  + Cycles of conversion – as organisations grow and age they need to change.
    - Ie. Entreprenurial ->machine -> Diversified -> Adhocracy
  + Cleavage in Conversion
    - Two sides may conflict when change is needed: ie. Old executive backs status quo, “upstarts”want change
* Contradiction – Organisations have to reconcile the two contradictory foces:Idealogoical and Political
  + Both can stop or bring about change
* Cooperation through Ideology
  + Pulls the whole organisation together
  + Organisation looks inside itself for inspiration,not to others ie.HP
  + Draws people together to work to bring the organisation to wear they think it must go
* Limits to Cooperation
  + Effective ideologies are built slowly,difficult to maintain in old organisiations
  + Can get in way or organisation effectiveness
  + Difficult to maintain, hard to change
  + Represents the status quo,difficult to change it
* Competition through politics – people may take any opportunity to confront idealogy
* Benefits of competition
  + Politics can challenge entrenched ideology when change is needed
    - Can stop ideology from causing an implosion
* Conclusion
  + To be effective means to do the right thing at the right time
  + One force can dominate, as long as you tend to the others as well
  + Ensure needs for conversion are met, watch out for cleavage
  + Infuse company with ideology,but empower competition and politics to keep things fresh and innovative