



Exam Preparation - Summary

The Entrepreneurial Firm: Building & Managing Professional Organizations (Universität Hamburg)

Exam Preparation – Summary

Lecture 01 – Market vs. Organization

Transaction Cost Economics (TCE)

- Organizing through Markets involves transaction costs
- Organizing activities within firms reduce transaction costs
- Transactions can be organized through 3 alternatives:
 - Market Transactions: Pay for delivery or service (short-term)
 - Hierarchical Transactions (i.e., firms): Transactions that take place in one company
 - Hybrid Transactions (i.e., alliances, franchises, joint ventures): Transaction between two or more firms which involve a long-term commitment
- Mechanisms used in transaction alternatives
 - Authority: Pertains to the type of controls and dispute resolution mechanisms available
 - Markets: Court System
 - Hierarchical: Upper-level manager/ Superior Manager
 - Hybrid: Third-Party mediation
 - Incentives: Pertains to the degree to which incentives can influence behavior
 - Markets: High-Powered Incentives e.g. Customers will change provider if not satisfied
 - Hierarchies: Low powered incentives e.g. only small portion of employee compensation is tied directly to performance
 - Hybrids: reduced/low incentive power: Long-Term commitments make it difficult for parties to walk away
 - Based on transaction costs Market -> Hybrid -> Hierarchy
- Transaction costs examples:
 - Monitoring performance
 - Negotiating and drafting contracts
 - Searching for qualified exchange partners
- Transaction costs are driven by unique attributes
 - Asset specificity: refers to the level of unique investment supporting a transaction (Highly specific e.g. Tooling used to manufacture single product vs Nonspecific asset e.g. Pickup truck which can be sold or used otherwise)
 - Uncertainty:
 - Volume Uncertainty: regarding future demand levels
 - Technological uncertainty: unknown future because of emerging technologies
 - Behavioral uncertainty: Managers unable to evaluate the quality of activities
 - Frequency: refers to which extent the transaction occurs
- High levels of these attributes = internalizing reduces transaction cost and vice versa
- Bounded rationality means that a human is limited in his information processing abilities which create 2 potential hazards
 - Opportunism: Actors act self-serving and take advantage of others (Transaction costs occur as Managers try to protect them from this via e.g. contracts)
 - Maladaptation: Managers must negotiate new agreements or find new partners to adapt to new circumstances which create transaction costs

- When to choose which Alternative?
 - Market: For simple transactions that do not need high coordination
 - Hierarchical & Hybrid: When transaction becomes more complex and value creation depends on partners ability to coordinate outputs
- Theories explaining Markets vs. Organizations
 - Real Options Theory: Managers value flexibility when uncertain -> rather use markets or hybrids and take higher transaction cost than to make irreversible investments by integrating into the company
 - Resource-based Theory: Managers move to hierarchy because they can add value by bundling strategic assets and managing them in creative ways

Organizational Theories

Classical Approaches

- Characteristics:
 - Organization orders are central coordination mechanism (coordinated by orders and hierarchy).
 - Deviations from orders are regarded as a disturbance.
 - Stable working conditions: Homogenous job requirements
- Approaches:
 - **Bureaucracy Approach (Weber)**
 - Organization consist of commands & allegiance
 - Organizations are not a group of people but a combination of roles and tasks. (e.g. Fixed hierarchy, documentation of all administrative proceedings)
 - **Administrative Approach (Fayol)**
 - Managers Tasks: Planning, Organizing, Controlling
 - Principles: Labor division (specialization), Authority & responsibility should be concentrated), Unity of Command: an organization member should be subordinate to exactly 1 superior.
 - **Scientific Management (Taylor)**
 - Planning and task execution should be separated (Tasks are divided into subtasks)
 - High level of labor differentiation

Neoclassical Approaches

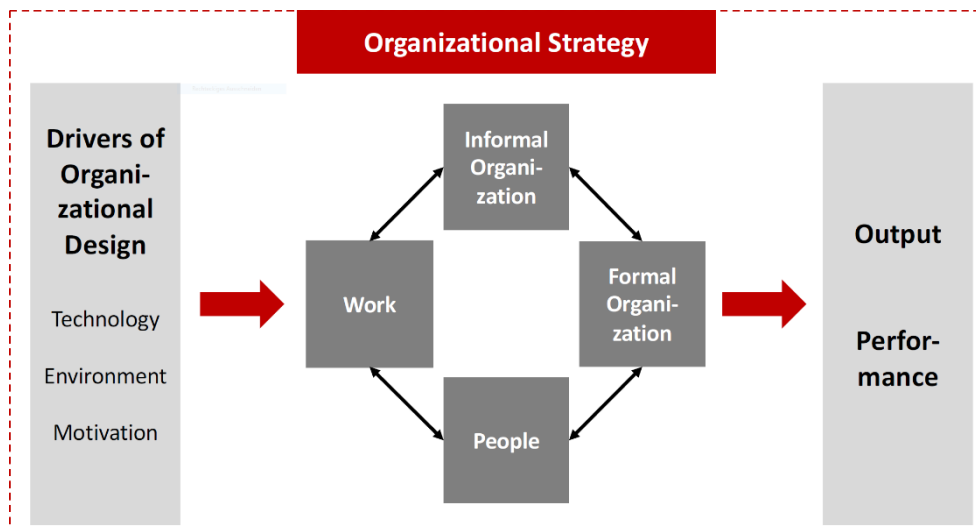
- Characteristics:
 - Calls for more attention to the human factor
 - Focuses mainly on scientifically optimized operational processes within organizations
- Approaches:
 - **Human Relations Approach**
 - Performance not only determined by compensation and working conditions but also by human relations
 - Incentive Contribution Theory
 - Organizations provide incentives(rewards) for employees for their contribution

Modern Approaches

- Characteristics:
 - Integrate manifold perspectives on organizations
 - Comparatively heterogenous
- Approaches:
 - **Human Resource Approach**
 - Based on Human Relations Approach
 - But accentuates the development of new organization structures
 - Structures have to be efficient & human
 - Has participative decision making and self-control (compared to external control by superiors)
 - ~~Structuralist Approach~~
 - ~~Based on bureaucracy approach~~
 - ~~Classifies typical designs~~
 - ~~Explains variances between organization designs~~
 - Decision Theory Approaches
 - 3 Theories: Empirical Analysis, Mathematical Approach, Microeconomic Approach
 - Focus on decisions and their influence on organizational structures
 - Assumes rationality of decisions
 - **Systems Theory Approach**
 - Organizations are systems consisting of connected elements
 - Focusses on the internal structure of systems (organizations)
 - Postmodern Approaches
 - Rational
 - Symbolic organizational cultures
 - objectivity
- IMPORTANT: Difference between Human Relations Approach, Human Resource Approach, General Classical Approaches, and System Theory Approach

Lecture 02 – Organizational Strategy

Framework:



What is strategy?

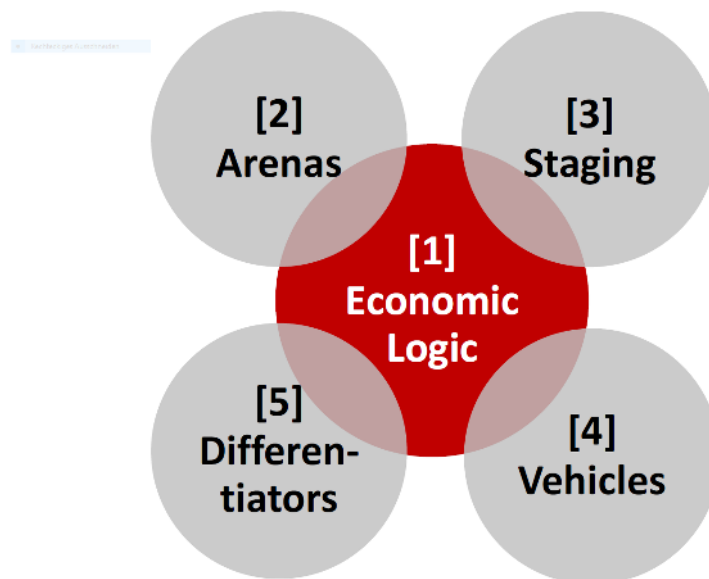
Alternative Views

- Past Decade:
 - Ideal competitive position in the industry
 - Advantages rest on a few key success factors, critical resources, and core competencies
 - Aggressive outsourcing and partnering to gain efficiencies
- Sustainable Competitive Advantage
 - Unique competitive position for the firm
 - Activities tailored to the strategy
 - Operational effectiveness a given

General:

- Collection of internal guidelines defining the relationship between a firm and its environment
- The strategy is the creation of a position which is unique, valuable, and sustainable
- Strategy requires trade-offs on competing and creating a "fit"
 - "fit" describes the ways a firm's activities interact and reinforce each other
 - When activities reinforce each other, competitors cannot imitate them easily
- Overview Strategy:
 - The strategy rests on unique activities
 - As a sustainable strategic position requires trade-offs
 - Strategic fit drives both competitive advantage and sustainability
 - The strategy says what not to do
- Unique Activities
 - Variety-based positioning: Based on the choice of product or service varieties (eg. Jiffy Lube specializes in automotive lubricants and does not offer car repair)
 - Needs-Based Positioning: Closer to targeting a specific segment of customers, tailored set of activities that serve a specific need of customers best
 - Access-Based Position: Based on customer geography
- Trade-Offs
 - Repositioner: Changing existing position fully

- Straddler: Seeks to match benefits of reposition while maintaining an existing position
- Trade-offs arise from three reasons:
 - Inconsistencies in image or reputation: Company delivering one kind of value may lack credibility and confuse customers if it delivers another kind of value. (Bsp. Nivea möchte plötzlich medizinisch gesehen werden) Apple verkauft plötzlich billige iPhones
 - Activities themselves: Value is destroyed if an activity is over- or under-designed for its use
 - Limits on internal coordination and control: Firms that try to be all things for a customer risk confusing in the trenches, as employees cannot make decisions without a clear framework. Better to compete in one way (e.g. IKEA → self-assembling furniture, ALDI → Low Price with no service)
- Strategic Fit: Fit among activities reduces cost or increased differentiation. Fundamental to the sustainability of the competitive advantage
 - First Order fit: simple consistency between each activity and overall strategy
 - Second-order fit: reinforcing activities (synergy)
 - Third-order fit: optimization of synergistic effort
 - (Not mutually exclusive)
- Competitive Strategy:
- Resource-Based View:



- 1 Economic Logic: How will we obtain our returns? E.g. Unique product features?
- 2 Arenas: Where will we be active? E.g. Which market segment?
- 3 Staging: What will be our speed and sequence of moves? E.g. Speed of expansion?
- 4 Vehicles: How will we get there? E.g. Acquisition? Internal Development?
- 5 Differentiators: How will we win? E.g. Image? Price?

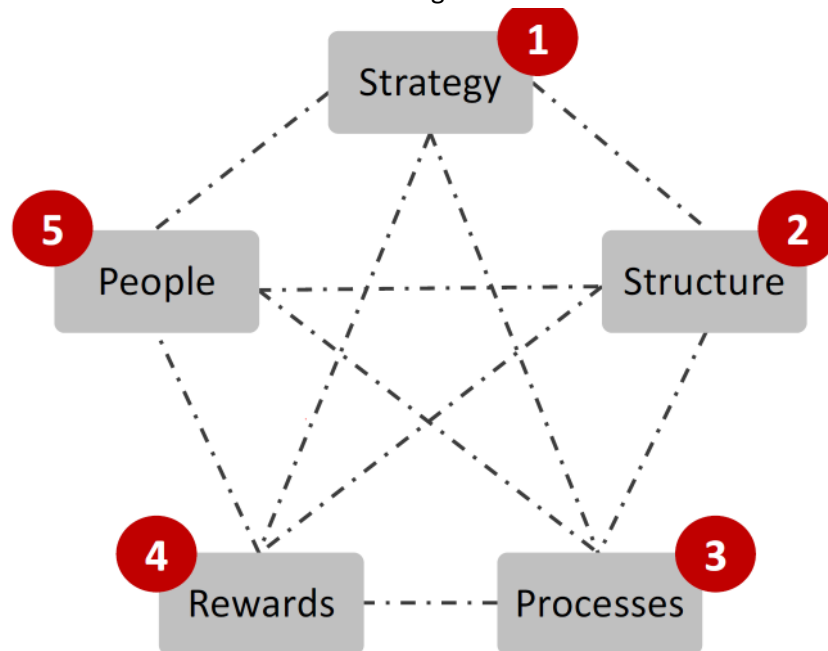
- Porter Five Forces: Five forces determine the competitive intensity and attractiveness of a



market.

- 1. Power of Suppliers depends on
 - Number of suppliers of each input
 - The uniqueness of their product
 - Relative size and strength of the supplier
 - Cost of switching suppliers
- 2. Power of Customers
 - Number of buyers
 - Importance of each buyer
 - Buyers cost to switch
- Competitors/ Rivalry between competitors
 - Price competition
 - Product introduction
 - Advertising and promotions
 - Number of competitors
- Threat of substitutes
 - Number of close substitutes
- New Entrants
 - Number of entrants
- Industry analysis in practice:
 - Understand an industry in holistic and systematic terms
 - Define the relevant industry
 - Identify participants and segment them into groups
- Resource-Based View:
 - What is different?
 - A firm's resources & capabilities basic for strategic choices and decisions, not external environmental conditions
 - Competitive advantage is gained through the acquisition & value of organizational resources
 - Firms can identify locate & acquire valuable key resources
 - Firms Resources:
 - Assets (Technology, Capabilities, Equipment)
 - Resources (Human e.g. Experience, training; Organizational e.g. Structure)
- Does Structure follow a strategy or strategy follow structure?

- They are independent of each other.
 - Star Model design Framework



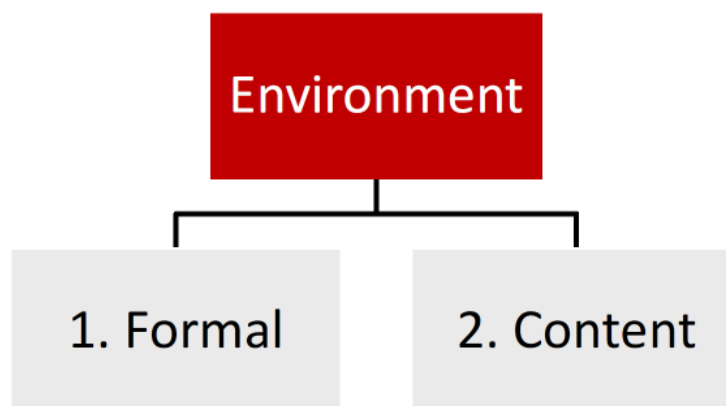
- 1. Strategy: Determines direction
- 2. Structure: determines the location of decision-making power
- 3. Processes: determines the flow of information
- 4. Rewards: Influences the motivation of people to address organizational goals
- 5. People: Influence and frequently define the employee's mindsets and skills

Lecture 03 – Drivers of Organizational Design

- Functions of Organizational Structures
 - Enable organizational members to undertake several activities according to a division of labor that defines Specialization, Standardization, Departmentalization of tasks and functions
 - Enable organizational members to coordinate their activities through integrating mechanisms (e.g. Hierarchical supervision, Formal rules, Procedures)
 - Define boundaries of the organization and its interaction with the environment
- Factors that shape organizational design:
 - 1. Environment
 - 2. Technology
 - 3. Motivation

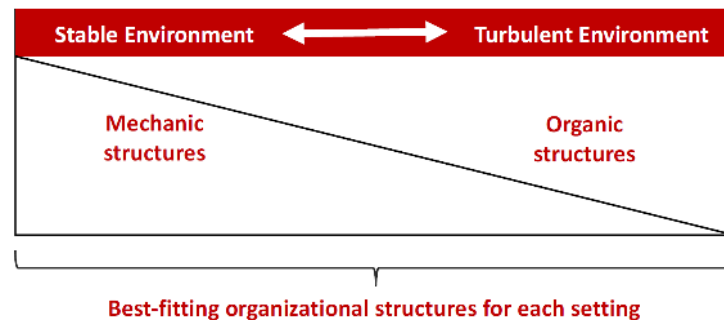
Environment

- Environmental factors influence organizational design (and vice versa):
 - New modes of working (temporary employment, labor leasing, etc.)
 - Technological changes
 - Changes / advanced education of employees
 - Changing traditions and value systems
 - Competition
- The environment is considered as a source of uncertainty for organizations
- Classification of Environment

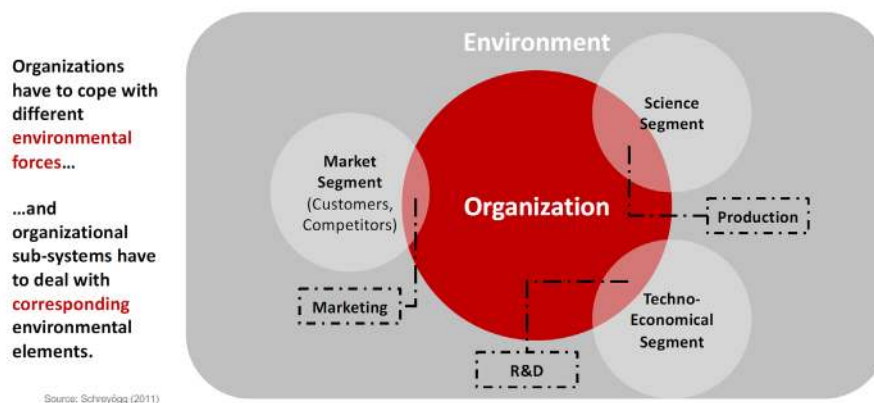


- Formal Classification:
 - Dimension 1: Complexity → Captures the degree of complexity of the environment
 - Dimension 2: Dynamics → Captures changes of the environment over time (evolution), the stability of elements, intensity, and predictability of changes
 - Dimension 3: Illiberality → Captures pressure for organizations to cope with environmental changes
- Content Classification:
 - Organizations should only focus on particularly relevant environmental forces
 - Relevant environmental forces include: Technological, Regulatory, Ecological, Macroeconomics
 - Goal: Reduction of complexity
- 2 Perspectives: Congruence Perspective and Interactional Perspective

- Congruence Perspective: Environment is dominating organizational structures, organizations must adapt to changes induced by the environment
- Interactional Perspective: Environment and organizational structures are interacting with each other
- Mechanic vs Organic Structures
- Mechanic Structures:
 - Strict Hierarchy, Vertical Interaction, Strong formalization, Final authority is centralized
- Organic Structures: Many decision-making centers, lateral interaction, functional authority



- Model of Differentiation and Integration
 - Organizations are regarded as “open systems”
 - ↑ Company size → differentiates itself into separate sub-systems
 - The system integrates all these sub-systems to ensure all sub-departments work together seamlessly (integration)



The characteristics of the **environmental segments** determine organizational structures of the **corresponding (sub-) systems**:

Environmental setting		Organizational structures of (sub-) systems
Safe and stable	→	<ul style="list-style-type: none"> • Mechanic • Formalized • Centralized
Complex and dynamic	→	<ul style="list-style-type: none"> • Flexible • Organic • Easy-to-adapt

Technology

- Production systems (Single item/small-batch, Large-scale/mass production, process production) determine organizational designs
- 2 Dimensions of technology are important
 - Variety: How repetitive are tasks?
 - Analyzability: How well can the task execution be understood and mastered?
- Six Keys to Success
 - Personalization
 - Closed Loop
 - Asses Sharing
 - Usage-Based Pricing
 - Collaborative Ecosystem
 - Agility
- Agile Working benefits
 - ↑ team productivity
 - ↑ employee satisfaction
 - ↓ waste through redundant meetings, repetitive planning, excessive documentation
 - ↓ risk
 - → faster products and features to market

Motivation

- The process that accounts for an individual's intensity, direction, and persistence of effort toward attaining a goal
- 3 Key elements of motivation:
 - Intensity: describes how hard a person tries
 - Direction: describes the focusing of effort towards (organizational) goals
 - Persistence: measures how long a person can maintain effort
- **RECAP:** Neoclassical Human Relations Approach:
 - Organizational designs have to foster motivation and employee's initiative
- Motivational Theories:
- (Early) Content Theories: emphasize what motivates individuals
 - **Hierarchy of Needs: Maslow's Hierarchy**
 - Physiological -> Safety -> Love Belonging -> Esteem -> Self-Actualization
 - People strive to fulfill unsatisfied needs
 - Motivation and actions are determined by the lowest unsatisfied need
 - Deficit needs (physiological, safety, love, esteem) vs. growth needs (self-actualization)
 - → Organizational designs have to satisfy different levels of employees needs
 - Theory of Needs:
 - Need for achievement: Drive to excel and strive to exceed
 - Need for power: Need to make others behave as I want
 - Need for affiliation: Need for friendly and interpersonal relationships
 - **Theory X vs. Y: Managers** have to concepts of employees (X or Y)
 - Theory X: Employees dislike to work, are lazy, dislike responsibility and must be controlled and supervised to work → Organization design displays that → Reverse causality, not employees cause design but another way around
 - Theory Y: Employees like to work, are creative, seek responsibility, and exercise self-direction. → Organization designs enable internal motivation

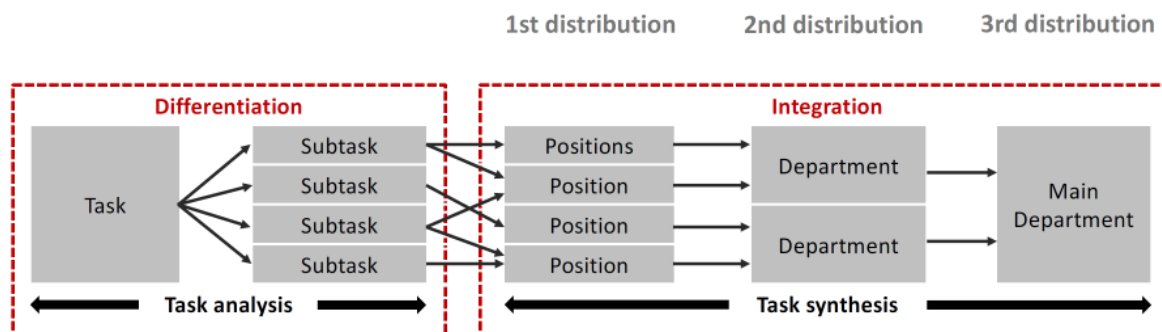
- Two-Factor Theory
 - 2 factors relate to 1. Intrinsic factors to job satisfaction; 2. Extrinsic factors with dissatisfaction
- Self-Determination Theory:
 - People prefer to feel they have control over their actions
 - Extrinsic rewards will reduce intrinsic interest in a task
- (Contemporary) Process Theories: emphasize the actual process of motivation
 - Goal-Setting Theory: Working towards goals is a major source of work motivation
 - Easy Goals → more likely accepted
 - Difficult goals → when accepted result in higher performance than easy goals
 - Feedback → higher performance than non-feedback
 - Self-Efficacy Theory: Self-efficacy refers to an individual's belief that he is capable of performing a task
 - High self-efficacy → more confidence in their ability to succeed
 - Difficult situations → With low self-efficacy people more likely lessen their effort compared to people with high self-efficacy
 - What Managers can do: Let employee gain relevant experience with job or task; Let other people show the person how to do it
 - Equity Theory: Employees compare their outcomes to their input with one of the others
 - If the same input & output → fair and satisfied
 - Not same input & output → Unfair and the employee will change inputs/outputs choose different reference person, distort perception, leave the field
 - Theory of Organizational Justice: An overall perception of what is fair in the workplace
 - Distributive Justice: Perceived fairness of outcome
 - Informational Justice: Degree of trustful explanations for decisions
 - Interactional Justice: Perceived degree one is treated with dignity and respect
 - Procedural Justice: Perceived Fairness of the process to determine the outcome
 - How to increase perceived fairness? → Openly share information about processes and follow unbiased consistent procedures
 - Expectancy Theory: Strength of a tendency to react in a motivated way depends on the attractiveness of outcome and the expectation of an outcome.
 - Effort-performance relationship: If I give max. effort, will it be recognized?
 - Performance-reward relationship: If I get a good appraisal, will it lead to rewards?
 - Reward-personal goals: If I am rewarded, are the rewards attractive to me?
 - Implication: Reward employees based on their performance

Challenges in Organizational Design

- Organizations have to decide on the optimal level of labor division
 - Differentiation and integration of tasks
- Organizations have to decide to which extent decisions should be centralized or decentralized
- Organizations have to decide if activities can be standardized or if they need flexibility
- Whether trade-offs can be manifested in mechanic or organic structures

Differentiation and Integration

- Differentiation: Separation of tasks and activities in manageable (sub-)processes → reduce complexity
- Integration: Combination of such (sub-) processes and integration of activities to enable an efficient input-output transformation.
- Level of differentiation determines the level of integration



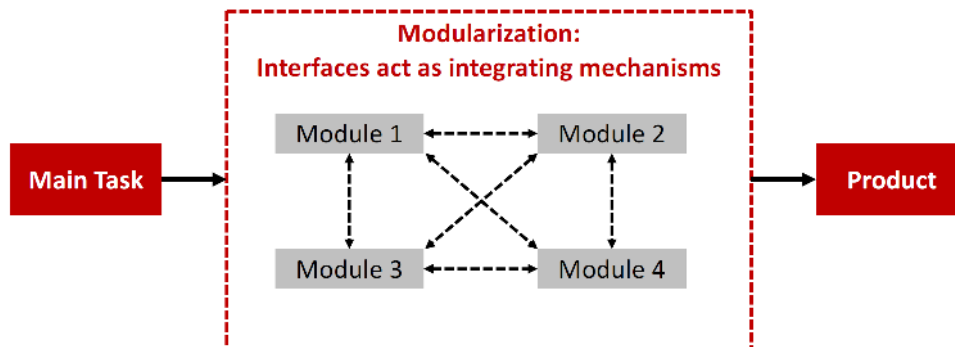
- Differentiation Analysis
 - Task Analysis: sawing, welding, staking
 - Object Analysis: production of tables, chairs cupboards
 - Stage Analysis: planning, execution, controlling
 - Rank Analysis: decision making, execution tasks
 - Relationship analysis: indirect or direct influence on the performance of the main task
 - Different Types of Task differentiation:
 - **Functions (Functional):** e.g. R&D, Purchasing, Production, Marketing
 - + Higher productivity due to specialization
 - - Many interfaces lead to coordination difficulties between functions
 - **Objects (Divisional):** Divides division regarding object e.g. Products, Customers, Markets and Regions, Goods, and services
 - + Strategic orientation towards relevant markets and competitive strategy
 - - Overall organizational goals are hard to achieve
 - **Decision Processes:** differentiates labor according to their integration in the decision process
 - Line Positions: Decision-making instance with instructive power
 - Staff Positions: Positions preparing decision-making processes with no instructive power

- Integration – Synthesis
 - 1st Distribution: Positions → tailored bundles of activities
 - 2nd Distributions: Departments → Integration of several positions manifest a department
 - 3rd Distributions: Main Department → Integration of several departments under the control of an instance
 - Different Types of Integration
 - **Hierarchy:** System of arranged responsibilities establishes institutional provisions and guarantees integration
 - Single- Line Hierarchy (One Boss) Multiple Line hierarchies (many bosses)
 - **Fayolian Bridge** → Employees from different departments on the same level make mutual adjustments
 - **Programs:** Defined guidelines which regulate the integration of specific tasks in the event of certain triggers (happens automatically without instances)
 - Definition of specific objectives to guide org. behavior
 - An integrated system of objectives
 - Problems: Objectives must be updated regularly
 - **Mutual Adjustment:** Horizontal agreement at the discretion of org. members.
 - May undermine hierarchical structures
 - The extent of adjustment depends on the personal network of org. members
 - **Lateral Structures:** Autonomous and hierarchy independent teams which operate problem specific
 - Non-Organizational Coordination
 - Use values and norms to substitute formal integration of processes
- The optimal level of differentiation and integration?
 - Big and Complex (Many products, departments, and functions) → High integration
 - Small and simple (Few products, clear structure) → lower level of integration
 - **Differentiation** leads to specialization advantages. At the same time, differentiation **increases transaction costs due to integration efforts.**
- Centralization vs decentralization
 - Centralization: Integration of org. function in central HQ (only top management has power)
 - Can lead to economies of scale
 - Enables coordination of activities according to org. goals
 - May overstress top management
 - Decentralization: Org. functions in separate business divisions (org. members on lower levels have power)
 - A higher level of flexibility
 - A higher level of transparency
- Standardization vs. Flexibility
 - Flexibility: Org. members make own assessments of problems and coordinate themselves accordingly
 - Can be integrated through mutual adjustment

- Standardization: Formal rules and procedures that are used to standardize processes within organizations → Makes sense when dealing with predictable tasks (e.g., accounting)
- Mechanic vs Organic structures
 - Mechanic:
 - Individual Specialization and clarity of tasks
 - Simple mechanisms of integration and distinct hierarchy
 - Centralized
 - Standardized
 - Organic:
 - Corporate specialization and coordination
 - Integration of tasks and teams are complex
 - Decentralized
 - Flexible

Lecture 05 – Organizational Forms (I)

- Modularization: Reducing the number of elements of a system by grouping them into smaller subsystems.



- Objectives of Modularization:
 - Reduction in the number of relationships between modules
 - Higher levels of adaptability and flexibility
 - Economies of scale if several products contain the same module

Organizational Structures

- Formal organizational structures:
 - Embed employees and resources in formal structures defining activities, positions, and relationships within the organization
- Informal Organizational Structures:
 - Organizations are social systems, members develop relationships based on proximity, liking, etc.

Traditional Organizational Forms

- **Functional Organizations**
 - Integration of similar functions into departments (e.g. Marketing, Production, Finance)
 - Each department has its internal structure, management, objectives, etc.
 - + High level of interaction within functions, common functional-specific knowledge
 - – Suboptimal for very big companies, as many reasons may overstress functions → heterogeneous customer needs, diversity of the product portfolio, geographical diversification, etc.
 - How to promote functional communication → integrate several functions into the same department e.g. Sales + Marketing = Marketing & Sales
- **Divisional Organizations**
 - Integration of all tasks and function to produce one product within the same division (e.g. Product A own R&D, Marketing, Production departments, etc.)
 - Each division can act as a profit center or be operated as a separate business
 - Divisionalization creates smaller units, simplifying communication within divisions and organizational controlling
 - 3 Types: Product-division, Multidivisional, Product-team
 - Product-division: Centralized functions serve all product divisions (eg. Finance), decentralized division execute tasks concerning the individual product

- Multi divisional: centralized support functions e.g. R&D with division-specific teams
 - Product-Team structure: Combines previous types with the focus of new product development
- + Division are closer to market, accountability clearly defined
- - Economies of scale and scope can be lost, the division may develop similar products
- **Regional Organizations**
 - Structures are organized according to the needs of different geographical areas.
 - Good when products are bulky, customers buy from specific area or transportation is difficult
 - Regional organizations may be supported by centralized functions but can have own functions
- **Customer-Oriented Organizations**
 - Organizations are structured according to the needs of specific customer groups (e.g. Private customers, small business, medium business, etc.)
 - Each division can have own structure
 - Good when org. sells comparable products in different markets to different customer segments
- Divisional vs. Customer-Centric Organizations

		Divisional (Product-Centric)	Customer-Centric
Strategy	Goal	Best product for customer	Best solution for customer
	Main offering	New products	Personalized packages of products, service, support, education, consulting
	Most important customer	Most advanced customer	Most profitable and loyal customer
	Priority setting basis	Portfolio of products	Portfolio of customers

- Customer-Centric structures
 - ↑ performance by increasing customer satisfaction
 - ↑ coordinating costs

Profit Center and Holding Organizations

- Profit Center: Organizational division within the same organization (subsidiaries)
 - + Org. can assess the division-specific performance of the business unit
 - Organizational division organized as profit centers conduct their system of operational control
 - HQ can Evaluate the financial performance of profit center
 - Preconditions: Compatibility of objectives, independence of profit center
 - Use internal prices to exchange parts of products, products, services or information with other divisions or departments
 - Determine Internal price: Use real-market information
 - Based on costs
 - Based on negotiations (individual transfer prices)/ SLAs
- Holding Organization: legally independent organizations belonging to the same enterprise
- Concept of Enterprise: A sustained network of legally independent organizations operating under common leadership

Lecture 06 – Organizational Forms (II)

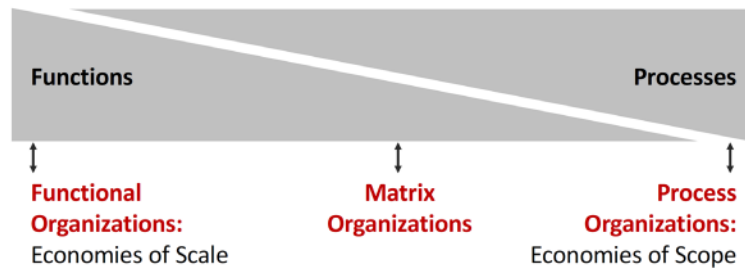
Modern organizational Forms

Process Organization

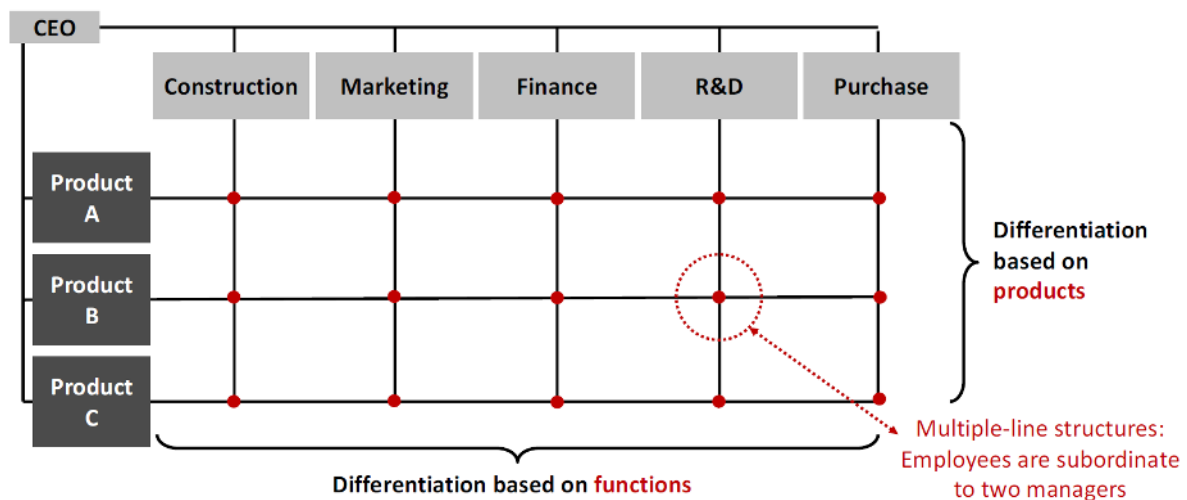
- Processes are a sequence of activities which are necessary to complete tasks
- Characteristics:
 - Market orientation: Processes aim at business- or market partners
 - Output orientation: Each process has clearly defined output
 - Business objective orientation: Processes are designed to achieve org. goals
 - People propose to replace functional hierarchies with a hierarchy based on processes
- Objectives of Process Organizations
 - Reduction of process costs
 - Reduction of lead times
 - Improved delivery time
- Principles:
 - Avoid unnecessary task differentiation → Low levels of integration efforts
 - Work simplified
 - Decentralized through the empowerment of process team
- Hierarchy of Processes
 - Core Processes: Directly focused on the satisfaction of customer needs (e.g. product development, customer service)
 - Supporting processes: Provide necessary resources for smooth execution of core processes (e.g. Staffing, Provision of financial resources)
 - Managing processes: Serve efficient coordination of core and supporting processes to achieve org. objectives (e.g. Strategy)
 - Sub-processes: Core, supporting, and managing processes can be divided into sub-processes enabling efficient structuring
 - Activities: defined as process-specific tasks
- Business Process Management (BPM)
 - Describes the creation and reformation of processes within established organizations
 - Main goal: Reduction of interfaces (e.g., between functions)
- Advantages:
 - High level of customer orientation
 - Process teams operate autonomously, reducing managerial duties
 - High levels of flexibility
- Disadvantages:
 - Cross-functional teams where employees with different specialties work side by side
 - Breaking the unity-of-command principle

Matrix Organizations

- Are a Trade-Off between Functions and processes



- Characteristics:
 - Based on two criteria (e.g. functions and products, or functions and processes)
 - Employees are members of cross-functional and product-specific teams
 - High level of decentralization (Decision making by mutual adjustments)



Source: Jones/Bouncken (2010)

- Flat hierarchy within teams (low level of centralization)
 - Team membership is not fixed
 - Matrix structures are highly flexible
 - Matrix structures result in many coordination processes and meetings
- Advantages:
 - Combines the efficiency of functional structure with the flexibility of divisional structures
 - Dual attention for functional and product goals
 - The organization is highly flexible
- Disadvantages
 - Multiple negotiation partners
 - Role ambiguity because employees have 2 supervisors
 - Employees complain about stress and uncertainty
 - A possible imbalance between two interest if one person is more dominant

Network Organizations

- A cluster of organizations whose activities are coordinated by contracts rather than by formal hierarchies (e.g. **outsourcing contracts**)
- Network organizations are at the boundary between organizational coordination and outsourcing
- Networking organizations must decide about two key decisions:
 - What role in the network should organizations play? (Specialist in one/few capabilities or player in all networks that need specific capabilities?)
 - Which capabilities should organizations own & control and which capabilities should be outsourced?
- Org. should own activities that customers find important, for which there are few suppliers, that involve scale, that influence the brand
- 3 Types of joint activity partnerships
 - Operator model: One partner takes the management and responsibility for the joint activity
 - Share model: Responsibility is shared among both partners
 - Joint Ventures: Decisions are made by the venture itself, which become more independent of their parents
- Companies have to define relationships with external partners
- **Advantages:**
 - Low production cost
 - Easier to manage
- **Disadvantages:**
 - Confidentiality concern
 - Low levels of organizational learning

Lecture 07 – Leadership and Organizational Culture

Informal Organizations

Formal vs. Informal Organization

- Formal organizational structure
 - Structured and planned org. structure
 - All roles are specifically defined
 - Typically detailed in writing, leaving little room for interpretation
- Informal organization structure:
 - Is the social structure in an organization
 - An aggregation of norms, personal and professional connections
 - Relationships between members of the organization

Organizational Culture

What is Organizational Culture?

- A pattern of common assumptions and values
- Two types of Values:
 - Output driven values (e.g. results: quality, excellence)
 - Instrumental values (e.g. desired behavior, hardworking, helpful)

Definition:

- The behavior of humans within an organization and the meaning people attach to those behaviors
- **6 Core Elements/Characteristics:**
 - An implicit phenomenon → not directly observable
 - Practiced in companies' daily routine
 - Refers to common orientations, values, etc.
 - Is an outcome of a learning process from dealing with the problem of internal coordination
 - Different beliefs in an organization melt into a common "view of the world" over the years
 - Is mediated through a process of socialization and is not an active learning process

Functions of Culture

- Has a boundary-defining role (creates distinctions between organizations)
- Conveys a sense of identity to org. members
- Facilitates commitment to something larger than the self-interest of individuals
- Enhances stability of the social system
- Guides and shapes employees' attitudes and behavior

Types of Culture

- “Tough-Guy Macho” Culture
 - Characterized by an aggressive internal competition
 - Managers make decisions quickly and accept risks
- “Work Hard, Play Hard” Culture
 - Characterized by high levels of activity
 - Each employee has to take a few risks
- “Bet Your Company” Culture
 - Prevalent when project dominate that consume large amounts of resources
 - Each project is very risky, and org. makes sure to make the right decisions
- “Process” Culture
 - Mostly perceived as bureaucracies
 - Employees more concerned with how work is done – the process - than actually getting work done
- Different criteria to classify culture into a strong or weak org. culture
 - Conciseness: How clear and consistent are the patterns of orientations and values?
 - Diffusion Rate: To which extend does the personnel share the culture?
 - Anchoring Depth: How deeply are cultural patterns internalized?

Organizational Cultures and Subcultures

- 3 interacting levels
 - Strengthening subculture: The main culture is affirmed
 - Neutral subculture: A own system exists, but there is no conflict with the main culture
 - Counter-Culture: There is a system which is directed against the main culture

Establishment of an Organizational Culture

- Development depends on the interaction of four factors
 - Ownership Structure
 - Organizational Structure
 - Ethical Dimension of Culture
 - Characteristics of Employees

Ethics in Organizations

What are Ethics in Organizations?

- A code of ethics is a set of principles that guide the organization in its program, policies, and decisions
- Values of a corporate culture influence ethical standards within the company
- Ethics take a long-term perspective

What can Managers do to create Ethical Cultures?

- Be a visible role model
- Communicate ethical expectations
- Provide ethical training
- Visibly rewards ethical acts & punish unethical ones
- Provide protective mechanisms

Corporate Social Responsibility (CSR)

- Two Types of social responsibility
 - Instrumental-strategic acting:
 - Interest, driven
 - Targeted on success
 - The dominant type of coordination in an economy based on prices and competition
 - Communication-oriented acting
 - Based on communication
 - Excluded from capitalist market economies
- CSR proponents use four arguments
 - It creates moral obligations
 - It is sustainable
 - It's good for the reputation

Leadership

What is it?

- The ability to influence a group toward the achievement of a vision or a set of goals
- Neither all leaders are managers, nor all managers are leaders
- Organizations need strong management and strong leadership for optimal effectiveness

Managing vs. Leading

- Managers
- Managers typically perform functions associated with planning, investigating, organizing and controlling
- Leaders deal with interpersonal aspects of a managers job (Inspire others, provide emotional support, etc.)

Managers	↔	Leaders
Wait until it happens		Are pro-active
Are happy with the status quo		Challenge the status quo
Are pursuing objectives		Have a vision
Are experts of the past		Are experts of the future
Do the things right		Do the right things
Follow their job description		Change their job description
Respect budgets		Create value

Different Theories

- Trait Theories
 - The Big Five Personality Framework
 - Neuroticism: Tendency to experience negative emotions, such as anger, anxiety or depression
 - Openness: General appreciation for art, emotion, adventure, unusual ideas, curiosity, etc.
 - Extraversion: Includes traits like sociability, talkativeness, excitability
 - Conscientiousness: Include high levels of thoughtfulness, good impulsive control
 - Agreeableness: Includes attributes such as trust, altruism, kindness, etc.
- Behavioral Theories

		Initiating Structure	
		Low	High
Consideration	Low	The leader fails to provide necessary structure and demonstrates little consideration for employee needs and wants.	Primary emphasis is placed on structuring employee tasks while the leader demonstrates little consideration for employee needs and wants.
	High	Less emphasis is placed on structuring employee tasks while the leader concentrates on satisfying employee needs and wants.	The leader provides a lot of guidance about how tasks can be completed while being highly considerate of employee needs and wants.

- Contingency Theories
 - Right traits and right behaviors help in identifying effect or ineffective leaders but do not guarantee success
 - Context matters too
 - 4 Relevant contingency Theories
 - Fiedler model: There is no best style of leadership, instead a leader's effectiveness is based on the situation, this is the result of two factors
 - Leadership style
 - Situational favorableness/ Leader-member relations
 - Situational Leadership Theory
 - No single "best" style of leadership
 - Effective leadership varies on the situation
 - Path-Goal Theory: Leaders
 - Clarify the path
 - Remove obstacles
 - Increase the rewards
 - Leader-Participation Model
 - The best style of situation is contingent on the situation
 - Provides a set of rules to determine the form and amount of participative decisions making in different situations
 - New Approaches: Mentoring & Both/And Leadership

Leadership Styles

- Charismatic Leadership
 - Has a vision and expresses it as an idealized goal
 - Is willing to take on high personal risk and engages in self-sacrifice to achieve a vision
 - Is sensitive to followers' needs
 - Can have unconventional behavior
- Transactional Leadership
 - Guide followers towards goals by clarifying role and task requirements
- Transformational leaders
 - Inspire followers to transcend their self-interest for the good of the organization
- Transactional and transformational leadership complement each other → best leaders are transactional and transformational
- Authentic Leadership
 - Leaders know who they are and know what they believe in
 - Followers consider them ethical people → Trust is produced
 - Leaders stick to their ideals → Develops faith
- Ethical Leadership
 - Is knowing and doing what "is right" → Problem: Difficult to define "right"

Lecture 08 – Organizational Dynamics

Change Management

- Organizational change is the transitioning of an organization from its current state towards a desired future state
- Forces of Change
 - Nature of the Workforce e.g. Aging population, increased immigration, etc.
 - Technology e.g. faster, cheaper and more mobile computers
 - Economic Shocks: Global recession, financial sector collapse
 - Competition e.g. Global Competitors, mergers and consolidations, etc.
 - Social Trends e.g. increased environmental awareness
 - World Politics e.g. rising health care costs

Types of Change

- Planned Change vs Emergent Change
 - **Planned Change**
 - Change that the company actively seeks
 - Goals: Improve the ability of organizations to adapt to changes, Change employee behavior
 - Steps: Problem → Search for solution → select best → plan implementation → kick off new solution → phase of tolerance → new solution implemented
 - **Emergent Change (unplanned change)**
 - Company is forced to accept & integrate change
 - Occurs because of a major surprise → causes members to respond highly reactive and disorganized
 - Examples: CEO suddenly leaves Org.; Quick loss in customers, disruptive situations arise, etc.
- Episodic Change vs Continuous Change
 - **Episodic Change**
 - Closely associated with planned change
 - Discontinuous and intermittent
 - Implement changes in org. which then remains unchanged for some period
 - **Continuous Change**
 - Emergent, cumulative, and pretty much constant
 - Company is seen as a dynamic entity: ever-changing, ever-evolving and ever-unfolding
 - Closely associated with emergent change

Barriers to Change

- Individual Barriers
 - E.g. Feeling of insecurity about the future working field, colleagues and workplace
- Group Level
 - Group norms, groupthink
- Organizational Level
 - Power and conflict between departments, fixed systems of values, mechanic structures

Managing Organizational Change

- **Lewin's Three-Step Model**
 - Unfreezing Status-Quo
 - Moving to desired End State
 - Refreezing the implemented change to make it permanent
- Kotter's 8-Step Plan
 - Use compelling reasons why change is needed
 - Form a coalition with enough power to lead change
 - Create a new vision to direct the change
 - Communicate the vision throughout the organization
 - Empower others to act on the vision by removing barriers
 - Plan for & create short-term wins
 - Consolidate improvements and make necessary adjustments
 - Reinforce the change
- Organizational Development (OD)
 - Collection of change methods that try to improve organizational effectiveness & employee well-being
 - Value human and organizational growth,
 - A collaborative and participative process
- Total Quality Management (TQM)
 - For continuous improvements of processes
 - Seeks to integrate and motivate all employees to formulate and accept improvement suggestions
- Creating a Culture of Change
 - Stimulating an innovative culture
 - Creating a learning organization

Team Dynamics

Definition, Types, Size & Functions

- Formal Group: Group is formed by a professional to help the organization to accomplish its goals
- Informal Group: Group naturally evolves and is not deliberately created e.g. friendships and interest groups
- As group size increases group leaders tend to become more directive and member satisfaction tends to decline slightly

Roles

- Role Theory: wants to explain how social expectations influence employee behavior
- Roles: Sets of behavior people expect from occupants of a job or instance
- **Task Roles**: Enable the workgroup to define, clarify and pursue a common purpose → Keep the group on track
 - Initiator: Suggests new goals or ideas
 - Information seeker/giver: Clarifies key issues
 - Opinion seeker/giver: Clarifies pertinent values
 - Elaborator: Promotes great understanding through examples and exploration of implications
 - Coordination: Pull together ideas and suggestions
 - Orienter: Keeps group headed towards its goals

- Evaluator: Tests groups accomplishments with various criteria such as logic and practicality
- Energizer: Prods group to move along to accomplish more
- Procedural Technician: Performs routine duties
- Recorder: Performs “group memory” function by documenting discussion and outcomes
- **Maintenance Roles:** Foster supportive and constructive interpersonal relationship → keep the group together
 - Encourager: Fosters group solidarity by accepting and praising various points of view
 - Harmonizer: Mediates conflict through reconciliation or humor
 - Compromiser: Helps resolve conflict
 - Gatekeeper: Encourages all members to participate
 - Standard setter: Evaluates the quality of group processes
 - Commentator: Records and comments on group processes/dynamics
 - Follower: Serves as a passive audience
- Challenges
 - Role Overload: Occurs when the sum of roles a person has far exceeds what he or she can do
 - Role Conflict: Happens when different members of the role expect different things
 - Role Ambiguity

Norms

- Norms are unspoken and often unwritten sets of informal rules
- Norms can influence attitudes, opinions, feelings, and actions
- Have a strong influence on people’s behavior

Group Development

- Tuckman’s Group Development & Formation Process
 - 4 Stages
 - Forming: Members are uncertain and anxious about their roles and want to be accepted by the others
 - Storming: Time of testing, members try to determine how they fit
 - Norming: Team manages to have a common goal and agree on a mutual plan
 - Performing: Activity focused on solving task problems

Challenges in Groups

- **Social Loafing:** is the tendency for individual effort do decline as group size increases
- **Asch Effect:** Most people yield to the pressures of group opinion → Group Think

Lecture 09 – Foundation, Growth, and Innovation

Specifics of Emerging Organizations

Organizational Lifecycle

- Stages a firm may pass through
 - Birth (Foundation Phase)
 - Growth
 - Decline
 - Death
- Each phase is passed at a different pace
- Not all organization pass through all phases

Foundation Phase

- Foundation is risky
- Most important risks
 - No formal organizational structure though flexible has disadvantages like uncertainty, no stability
 - Environment threats e.g. competitors have more power, funding, reputation
- Proper Business Plan is important to face these threats
 - Preparation:
 - Notice a product opportunity and develop a basic business idea
 - Conduct SWOT Analyses
 - Decide whether a business opportunity is feasible
 - Prepare a detailed business plan
- Population Ecology Theory:
 - The population of organizations: Organizations compete for the same set of resources in the environment
 - Environmental niches: sets of resources or skills
 - Number of foundations determined by the availability of resources
- Survival Strategies:
- R-Strategy:
 - The early and first entry with first-mover advantage
 - Operation in one niche and concentration on few resources
- K-Strategy:
 - Late entry into a less risky environment
 - Operation in several niches and competition for a broad range of resources
- Specialist or Generalist

Growth Phase

- Phase in which organizations develop value-creation skills and competences that allow them to acquire additional resources (=growth)
- Institutional Theory:
 - Explains how organizations increase their ability to grow and survive in a competitive environment
 - Institutional Environment
 - Values and norms in an environment that govern the behavior of a population of organizations
 - Organizational Isomorphism

- The similarity of processes or structures of an organization to those of another under similar constraints
- 3 Processes explain why organizations become similar over time
 - Coercive Isomorphism
 - Organizations adopt certain norms because of pressure exerted by other organizations and society in general
 - Mimetic Isomorphism
 - Organizations intentionally imitate another to increase their legitimacy
 - Normative Isomorphism
 - When organizations indirectly adopt the norms and values of other organizations
 - Disadvantages of Isomorphism
 - May adopt behavior that has become outdated
 - Imitation may reduce the level of innovation
- Grainers Model of Organization Growth
 - A paradox that success creates its own problems
 - 5 Phases in the growth of a firm
 - Growth through Creativity and crisis of leadership
 - - “ - Direction and crisis of autonomy
 - - “ - Delegation and crisis of control
 - - “ – Coordination and crisis of Red tape
 - - “ – Collaboration

Organizational Decline

- The stage that an organization enters when it fails to anticipate, neutralize, recognize, adapt or avoid to external or internal pressures that threaten its long-term survival
- May occur because organizations grow too fast or too extensively
- Effectiveness and Profitability of Firms
 - Effectiveness: Involves comparing its profitability relative to others
 - Profitability: Measures how a firm is making use of its resources that generate profit
- Organizations often do not react to changes in the environment because of organizational inertia
 - 3 Factors that cause organizational inertia:
 - Risk aversion: Managers become unwilling to bear the uncertainty of change
 - Desire to maximize rewards: Managers may increase the size of the firm to maximize their rewards even when this reduces org. effectiveness
 - Over-Bureaucratization

- Weitzel & Jonsson's Model of Organizational Decline
 - 5 Stages of decline:
 1. Blinded Stage: Organization is unable to recognize internal or external problems that threaten it
 2. Inaction Stage: Despite clear signs of deteriorating performance, the organization takes little actions to correct problems
 3. Faulty action
 - Managers have changed too little and/or made wrong decisions because of conflict in the management team
 4. Crisis Stage
 - Only radical changes in strategy and structure can stop decline at this point
 5. Dissolution
 - The decline is irreversible, and organization cannot recover

Innovations in Organizations

Introduction

- 3 main types of Innovations
 - Product Innovation
 - Process Innovation
 - Organizational Innovation

Drivers of Innovation

- Internal Drivers
 - Nurturing Talent: Have people with a natural talent for innovations
 - Managing Creativity: Employees need to feel that their ideas are valued and recognized
 - Building Relationships: A strong relationship can boost creativity and encourage individuals and teams
 - Encouraging "A Culture of Innovation":