STRATEGY, ORGANIZATION DESIGN, AND EFFECTIVENESS

The Role of Strategic Direction in Organizational Design

An organization is created and designed to achieve a certain goal.

The structure and organizational design are a result of the search for this objective.

The main responsibility of top management are:
- **To determine the objectives;**
- **To determine the strategy;**
- **To determine the structure of the organization;**

The manager of intermediate level have the same responsibility with reference to the major organizational units, within the framework of the guidelines provided by top management.
The organizational design represents the manner in which objectives and strategies are implemented

Process of determining the strategic direction

- **Detecting threats and opportunities from the external environment**
- **Detection of strengths and weaknesses within your organization**
- **Definition of general mission and the official objectives**
- **Formulating goals and/or operational strategies**

Organizational Purpose

Purpose may be referred to as the overall goal or mission.
Different parts of the organization establish their own goals to help the organization achieve its overall purpose.

Strategic Intent

Strategic Intent means that all the organization’s energies and resources are directed toward a focused, unifying, and compelling overall goal.
Three aspects of strategic intent include:

- **Mission.**

  The official overall goal for an organization is its mission.

  The mission describes the organization's vision, its shared values and aspirations, and its reason for existence.

- **Competitive Advantage.**

  Competitive advantage refers to what sets the organization apart from others and provides it with a distinctive edge for meeting customer or client needs in the marketplace.

- **Core competence.**

  Core competence is something the organization does especially well in comparison to its competitors.

OFFICIAL OBJECTIVES/MISSION

- **Are the official wording of the purpose and philosophy of the organization (official goal)**
- **They are the reason for which an organization exists**
- **Describe what that in the organization and shared about vision, values, raison d'être**
- **They are usually put in writing**

OPERATIONAL OBJECTIVES

- **Designate the purposes pursued by the organization**
- **Describe specific measurable results**
- **Refer to the short period**
- **Relate to the primary tasks that an organization must play**

Concern:

1. **The overall performance: affects the profitability and growth and the volume of output.**
2. **Objectives of resources: relates to the acquisition by the environment of the needed material and financial resources.**
3. **Objectives of the market: relate to the market share of the market position desired by the organization.**
4. **Objectives of staff development: relate to the training, promotion, security and growth of employees.**
5. **Objectives of innovation and change: the first relate to the development of new services, products, processes; the second concern the internal flexibility and the ability to adapt**
6. **Productivity Objectives: are the amount of output obtained from available resources**

IMPORTANCE OF OBJECTIVES

OFFICIAL OBJECTIVES

- **Provide LEGITIMACY with internal and external stakeholders**
- **Help to CREATE/COMMUNICATE positive image of the organization**

OPERATIONAL OBJECTIVES

- **Provide DIRECTION to members of the organization**
- **Help to motivate employees, especially if they contribute to their choice**
- **Act as GUIDELINES for decision-making process**
- **Provide a standard for performance criteria**

A Framework for Organizational Strategies and Design

STRATEGY is a plan for interacting with the competitive environment to achieve organizational goals.

GOALS define where the organization wants to go.

STRATEGIES define how the organization will get there.

Two models for formulating strategies are the Porter model of competitive strategies and Miles and Snow's strategy typology.

Porter's model of competitive strategies

Michael Porter introduced a framework describing competitive strategies.

To use this model, managers evaluate two factors: competitive advantage and competitive scope.

Whether the organization competes on a broad or narrow scope determines the selection of strategies.

1. **LOW COST LEADERSHIP STRATEGY tries to increase market share by keeping costs low compared to competitors.**
   Whit a Low-cost leadership strategy, the organization aggressively seeks efficient facilities, pursues cost reduction, and use tight controls to produce, products or services more efficiently than its competitors.
   - **Emphasis on low costs**
   - **Maximizes the efficiency**
   - **Favors stability**

2. **DIFFERENTIATION STRATEGY Organizations attempt to distinguish their products or services from others in the industry.**
   An organization may use advertising, distinctive product features, exceptional service, or new technology to achieve a product perceived as unique.
   A differentiation strategy can reduce rivalry with competitors and fight off the treat of substitute products because customers are loyal to the company's brand.
   - **Emphasis on the differentiation of products/services (perception of the product as the only)**
   - **Focus on the activities of research and product development, design and marketing**

3. **FOCUS STRATEGY the organization concentrates on a specific regional market or buyer group.**
   The company will try to achieve either a low cost advantage or a differentiation advantage within a narrowly defined market.
   - **Choice of a specific market area or group of buyers**
   - **Two types of focus: Cost Leadership - Differentiation**

Miles and Snow’s Strategy Typology

Raymond Miles and Charles Snow assume that managers form strategies congruent with the external environment.
There must be a fit among internal organization characteristics, strategy, and the external environment.
Four strategies can be developed.

1. PROSPECTOR

The prospector strategy involves innovation, taking risks, seeking out new opportunities and growth.

- **Learning orientation; flexible, fluid, decentralized structure**
- **Strong capability in research**
- **Values creativity, risk taking and innovation**
- **Suitable for growing and dynamic environments**

2. DEFENDER

The defender strategy is concerned whit stability or even retrenchment. This strategy seeks to hold on to current customers without innovation or growth

- **Efficiency orientation; centralized authority and tight cost control**
- **Emphasys on production efficiency: low overhead; close supervision; little employee empowerment**
- **Consists in maintaining the status quo**
- **Suitable for environments stable or in decline**

3. ANALYZER

The analyzer strategy tries to maintain a stable business while innovating on the pherifery

- **Balances efficiency and learning: tight cost control whit flexibility and adaptability**
- **Consists in combining the status quo and innovation**
- **Efficient production for stable product lines; emphasys on creativity, research, risk taking for innovation**

4. REACTOR

The reactor strategy is not really a strategy at all. Rather, reactors respond to environmental threats and opportunities in an ad hoc fashion.

- **No clear organizational approach; design characteristics may shift abruptly depending on current needs**
- **It cannot be regarded as a true strategy**

How Strategies Affect Organization Design

Design must support the firm's competitive approach.
For example, if the organization uses the low-cost leadership or defender strategy, the design is for efficiency.
If the organization uses the differentiation or prospector strategy, the design calls for a learning structure with strong horizontal coordination.

Other Factors Affecting Organization Design

In addition to strategy affecting organization design, other contingency factors: environmental stability, workflow technology, size and life cycle.
Corporate culture must *fit* as well.

Assessing Organizational Effectiveness

EFFECTIVENESS: the degree to which an organization realizes its multiple goals.

EFFICIENCY: the amount of resources used to produce outputs (ratio of inputs to outputs)

Effectiveness is often difficult to measure in organizations, especially those that are large, diverse, and fragmented.
No measure easy-to-use, secure and simple will provide a unique representation of the performance.

Traditional Effectiveness Approaches

Traditional approaches to measuring effectiveness look at different parts of the organization and measure indicators connected with outputs, inputs, or internal activities.
There are two problems that must be solved: the issues related to multiple targets and subjectivity of the indicators of achievement of objectives
As organizations have multiple objectives and conflicting, the effectiveness often cannot be detected through a single indicator.

1. Goal Indicators

The goal approach measures effectiveness by evaluating the extent to which output goals are achieved.
This is a logical approach because organizations do try to attain certain levels of output, profit, or client satisfaction.
The objectives important to consider are those operational. The official objectives tend to be abstract and difficult to measure, while those operational represent activities that the organization is doing.
Indicators: operational goals
Utility: the goal approach is used in economic organizations because the objectives of output are easily measurable. Companies typically evaluate the results in terms of profitability, growth, market share ROE and ROI.

2. Resource Based Approach

The resource-based approach evaluates the ability of the organization to obtain valued resources from the environment. Thus it looks at the input side of the transformation process. This approach is useful when other indicators of performance are difficult to obtain.

Indicators: include in the following sizes:

- **Negotiating position - ability to obtain scarce resources and value (financial resources, human resources, raw materials technology)**
- **Ability to perceive and interpret correctly the real characteristics of the external environment**
- **Ability to use tangible resources (supplies, people) and intangible (knowledge, corporate culture) to achieve superior performance**
- **Ability to respond to changes**

Utility: the approach based on resources is precious when it is difficult to obtain other performance indicators such as in many non-profit organizations.

3. Internal Process Approach

The internal process approach evaluates effectiveness by examining internal organizational health and economic efficiency.
An evaluation of human resources and their effectiveness is important.
Indicators of effectiveness include a strong, adaptive corporate culture and positive work climate, operational efficiency, undistorted horizontal and vertical communication, and development of employees.
Utility: the approach of the internal process is important because the efficient use of resources and the harmonious internal operation are parameters to measure the effectiveness. However, one must be aware that represents a limited vision of the organizational effectiveness as the total output and the relations of the organization with the external environment are not evaluated.

The Balanced Scorecard Approach to Effectiveness

- **Try to balance the reasons for different parts of the organization**
- **Combine different indicators of effectiveness in a uniform scheme**

The Balanced Scorecard is a model of performance measurement (score card) based on the balance (balanced) of various classes of indicators, each of which focuses on a special perspective of analysis: financial), customer processes, internal management, learning and growth (learning and growth). The Balanced Scorecard measuring the implementation of a specific strategy, bridging the gap between formulation and implementation, and is based on a chain of cause-effect.

1. **The financial perspective is oriented to the measures of economic and financial results. The indicators financial measure the consequences of corporate decisions on economic result, noting in what extent the implementation of the strategy is helping the profitability of the company. The indicators can be oriented to quantify the value of the company for the shareholders, for example with rates of profitability, return on capital employed, Economic Value Added (EVA), or, alternatively, to assess the development of the business, for example with the growth rate of sales or the values of cash generation (cash flow).**

2. **The perspective of the customer identifies the segments of the market and of customer in which units of business compete and measure performance. This perspective that integrates in the system of government of the company some variables of marketing, includes indicators for the efficiency and effectiveness as:**
   - **Customer satisfaction indices;**
   - **Dynamics of customers: new customer acquisition, retention of existing customers, abandonment;**

- **Profitability and value of customers;**
- **Market shares.**

3. **The prospect management processes Internal Business Process) identifies the internal processes in which the company must excel. The prospect of the processes and selective, as considers only the critical processes to form the added value for the customer, and is innovative, as the processes in question are not only existing ones. In fact, the methodical approach of the Balanced Scorecard leads to identify new critical processes, for example, the mechanism to anticipate the customer's response to the possible innovations on the market. The prospect process adds to the traditional value chain, which included the operating cycle (from the supplies of raw materials to delivery of the finished product) and the innovation cycle (from the definition of the needs of the potential customer to their actual satisfaction through product development), the measurement of both the cycles that is essential:**
   The operating cycle determines the creation of value in the short term;
   The innovation cycle determines the creation of value in the medium term.

4. **The fourth perspective, learning and growth, and aimed at measuring the performance of the infrastructure that a company must build to obtain improvements and developments in the long term. The three main elements of the infrastructure are: the staff, systems, procedures and organizational practices.**
   The infrastructure is crucial for the success of the company. A company to remain competitive, must continuously improve its ability to provide value to their customers and shareholders. Frequently, however, the strategies financial, customer, innovation cannot be implemented in the absence of adequate infrastructure and it is necessary to invest massively in the conversion of the staff (primary factor for the success of every business), in the development of

new computer systems and finally in change, sometimes radical, of organizational practices.

Design Essentials

- Organizations exist for a purpose. Top managers decide the organization's strategic intent, including a specific mission to be accomplished. Operative goals designate specific ends sought through actual operating procedures.

- Two other aspects related to strategic intent are competitive advantage and core competence.

- Strategies may include any number of techniques to achieve the stated goals. Two models for formulating strategies are Porter's competitive forces and strategies and the Miles and Snow strategy typology.

- Assessing organizational effectiveness reflects the complexity of organizations as a topic of study. Organizations must perform diverse activities well—from obtaining resource inputs to delivering outputs—to be successful.

- No approach is suitable for every organization, but each offers some advantages that the others may lack. A recent approach to measuring effectiveness is the balanced scorecard approach.