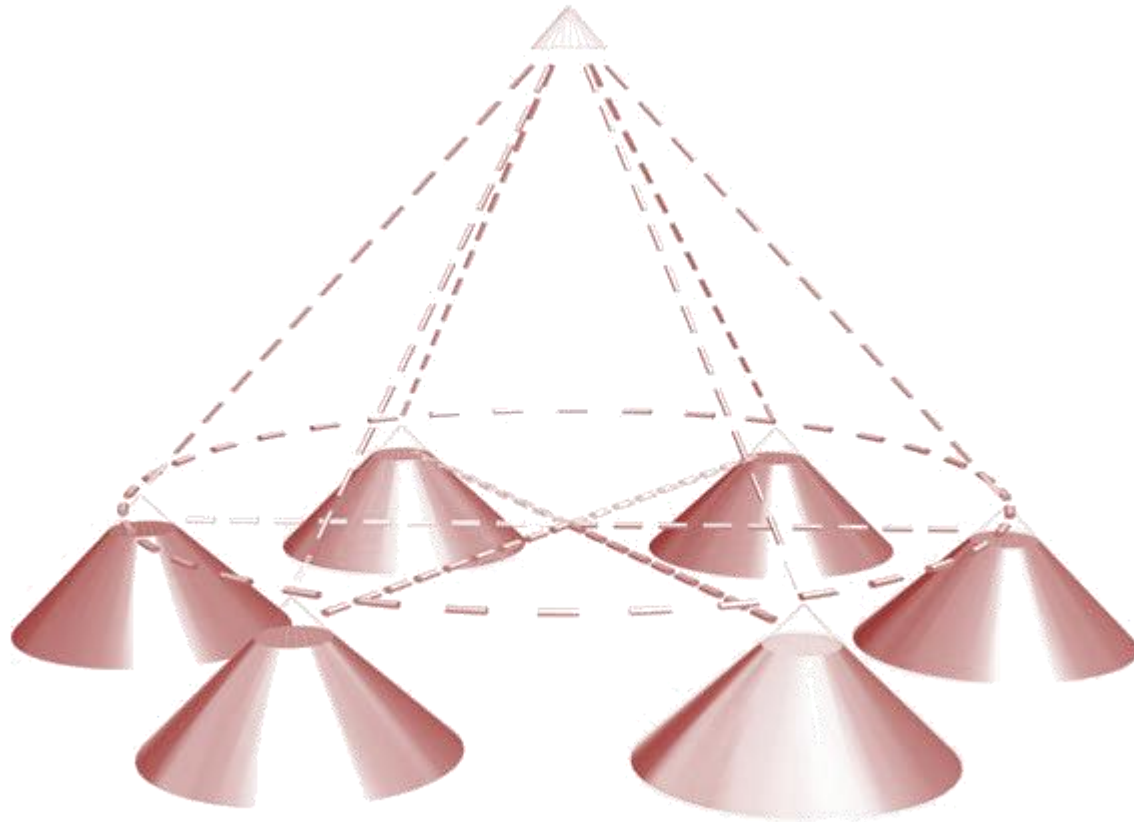


Module 8

Organisational Design and New Forms of Service-Driven Organisations



8.1 Making Sense of Organisational Anatomy

- 8.1.1 Understanding Organisational Design
 - How Do Managers Tackle the Problem of Creating an Effective Organisational Design?

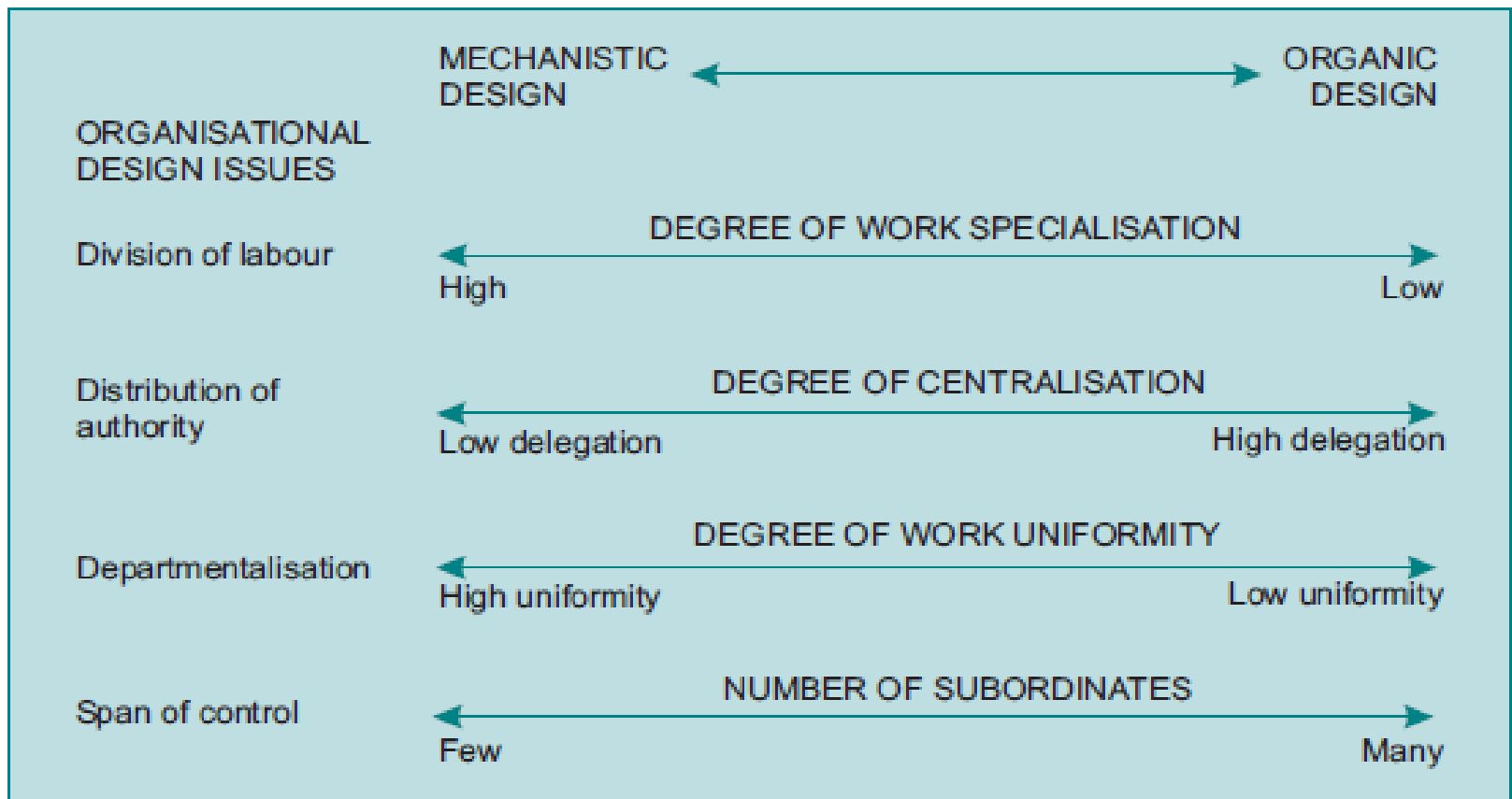


Figure 8.1 Fundamental issues in organisational design

8.1 Making Sense of Organisational Anatomy

- 8.1.2 Aspects of Organisational Design
 - Division of Labour
 - Delegation of Authority
 - Why Must Managers Delegate Authority?
 - Principles of Delegation
 - Authority & Responsibility
 - Lowest Organizational Level Possible
 - Get Involved in Problems
 - Tell them what and how
 - You are accountable

8.1 Making Sense of Organisational Anatomy

Departmentalisation

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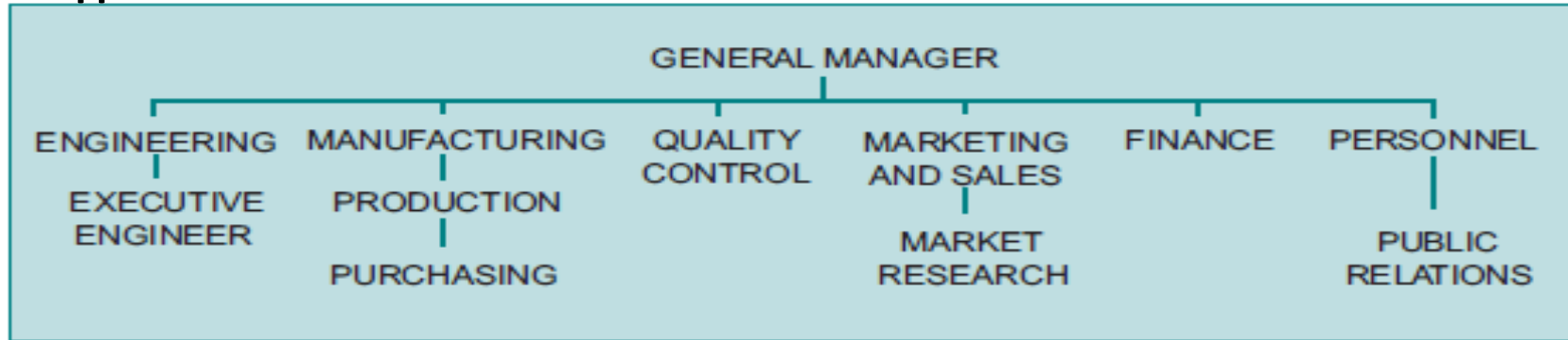


Figure 8.2 The functional design

8.1 Making Sense of Organisational Anatomy

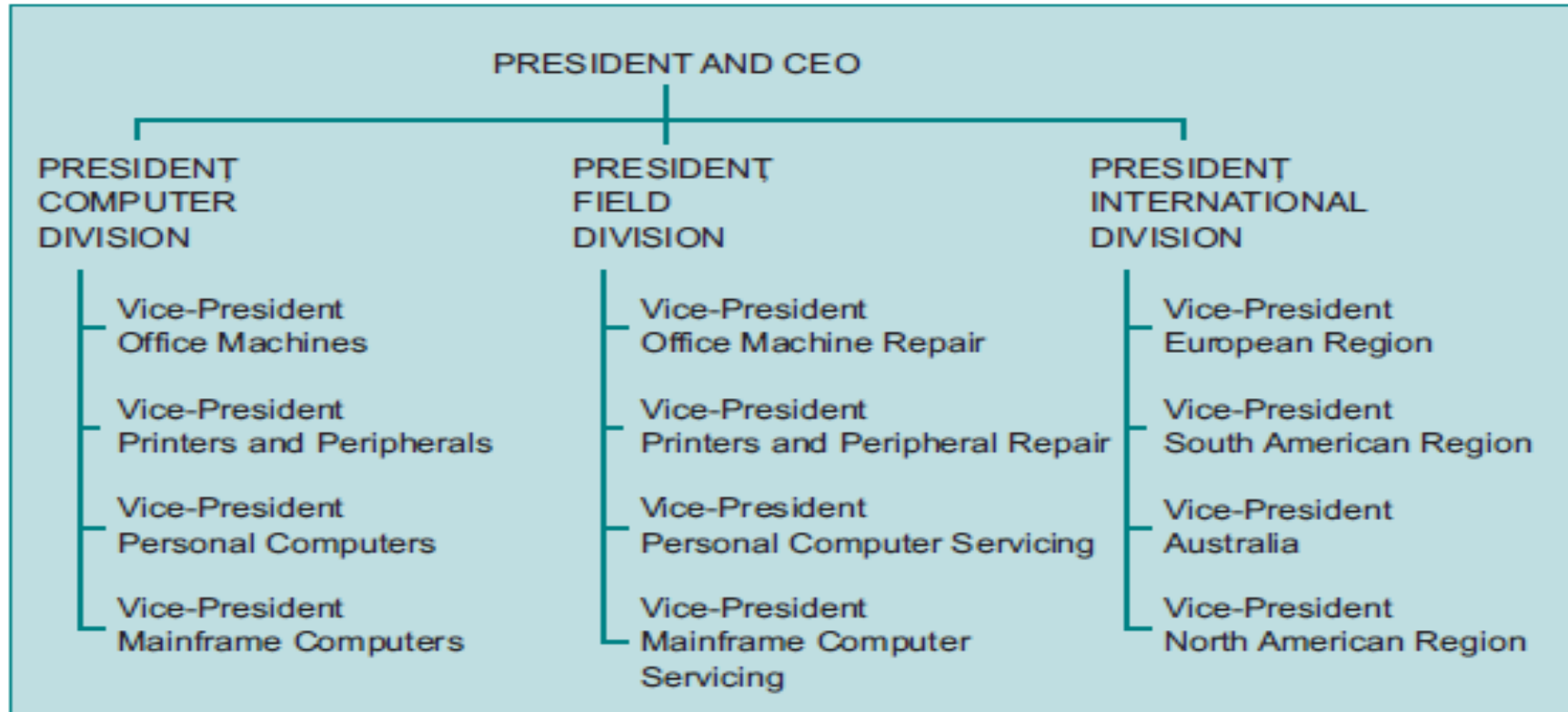


Figure 8.3 Combined product and territorial design

8.1 Making Sense of Organisational Anatomy

- What Kinds of Problems Can the Complex Product Divisional Design Create?

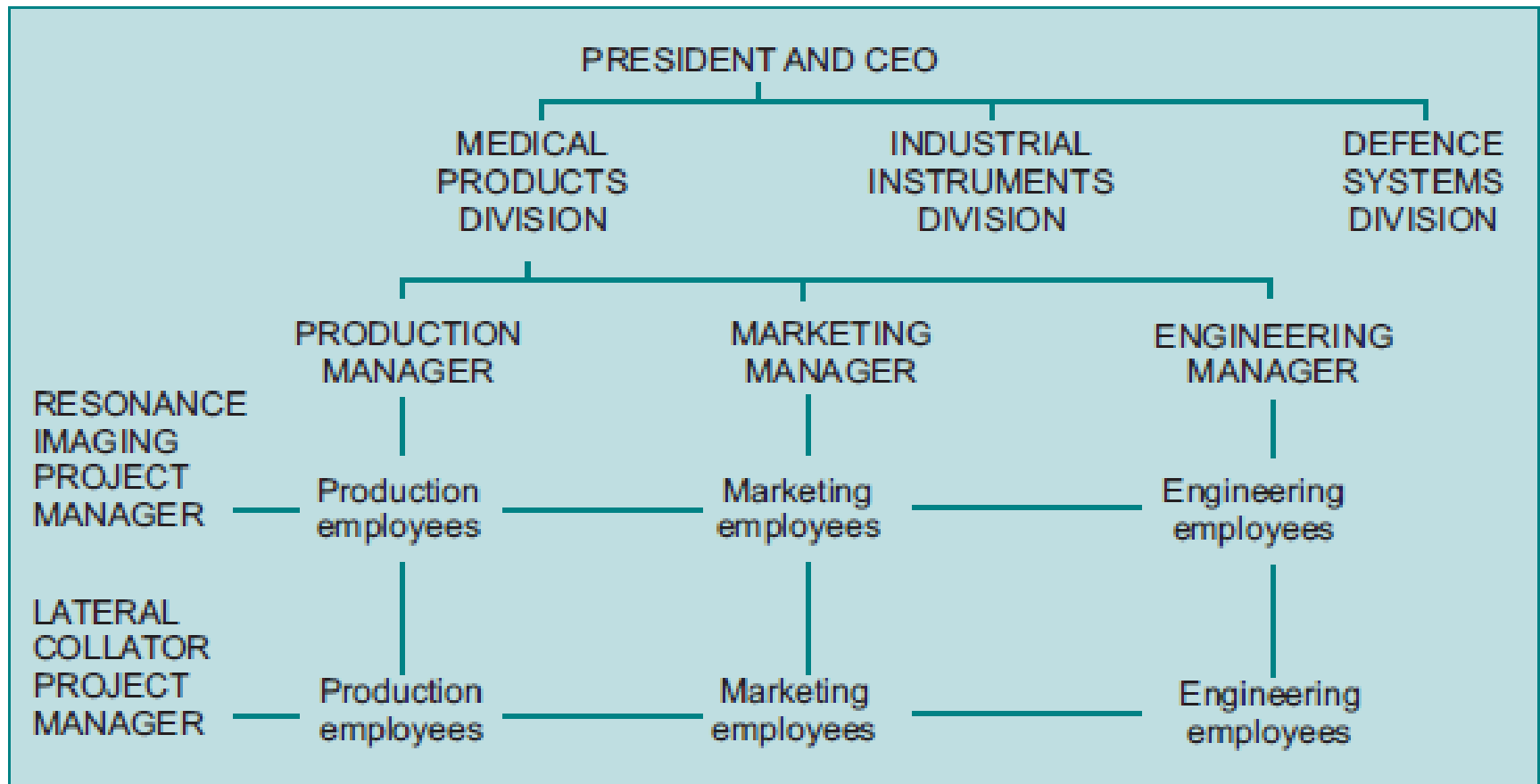


Figure 8.4 The matrix design in a medical products firm

8.1 Making Sense of Organisational Anatomy

Table 8.1 Forms of departmentalisation

	Functional	Product divisional	Hybrid/territory	Decentralised matrix
Emphasis on:				
Profit responsibility	CEO	Subsidiary president	Regional manager	Project / programme managers
Self-directed teams	de-emphasised	used at unit level	customer-driven	project expertise
Cross-training for manager and employees	de-emphasised	used at unit level	vendor and customer-driven	emphasised for project managers
Customer relations and service quality	de-emphasised	mostly a product focus	balanced emphasis on product and service	emphasises mostly product
Broadening of managers' and employees' technical skills	emphasised on process basis	emphasised on a product and process basis	emphasised on a process and service basis	emphasised on a product and process basis

8.1 Making Sense of Organisational Anatomy

- Span of Control
 - Required Contact
 - Degree of Specialization
 - Ability to communicate

8.2 Organisational Structure:

Understanding the Basics

- 8.2.1 Centralisation and Decentralisation
 - Outsourcing, and Decentralisation

Table 8.2 Strengths and Weaknesses of Decentralised Designs

Strengths	Weaknesses
1 Meshes well with rapid change and fast company growth	1 Innovation is often restricted to projects or specialised programmes
2 High awareness for projects, programmes, or products	2 Difficult to allocate pooled resources such as computer analysis
3 A high task focus which yields control over time, financial and human resources	3 Coordination problems in joint functions such as purchasing
4 Customers can determine task responsibilities and project personnel are highly responsive to their needs	4 Deterioration of broad managerial skills and potential for loss of technically skilled employees
5 Concurrent multiple tasks can be coordinated across functional departments	5 Jurisdictional and priority disputes
	6 Possible neglect of high-level coordination to ensure organisational effectiveness

- 8.2.2 Inter organisational Designs

8.2 Organisational Structure: Understanding the Basics

- 8.2.3 Organisational Design and Employee Needs
- 8.2.4 Coordination and Control
 - How Much Coordination is Needed in Organisations?
 - What Requirement Must a Coordination Mechanism Meet?

8.2 Organisational Structure: Understanding the Basics

- 8.2.5 Vertical Coordination Mechanisms
 - Teams and task forces (& Collateral Org)
 - Use direct supervision.
 - Use standardisation of work processes.
 - Use standardisation of outputs.
 - Use PA. PA is a tool not often recognised as a vertical coordination mechanism.
 - Create a management information system.

8.2 Organisational Structure: Understanding the Basics

- 2.6 Horizontal Coordination
 - Use direct contact.
 - Use liaison positions.
 - Use permanent teams to manage recurring workflow problems.

8.2 Organisational Structure:

Understanding the Basics

- 8.2.7 Control in the Organisation
 - Process
 - Results

Table 8.3 Problems caused by external process controls

Lack of patience. External process controls may lead to sub-optimal decision-making as managers search for the first solution rather than a team-generated best solution. This erodes integration of work activities.

Across-the-board cuts. Heavy emphasis on external process controls leads to high costs that are then cut across the board (silos) when business conditions deteriorate.

Confusing documentation with action. Concern for external process controls and standards may lead to impressive process control documentation but no actual results. This is 'means-ends' inversion: lots of data that means nothing!

Vague and unrealistic expectations. A heavy emphasis on how work is done may lessen the concern for clearly specified results and challenging goals.

Panic. This often occurs when controls are established in a department which formerly had none. Employees resent the 'sudden' imposition of standards in their work.

Escalating standards. To improve productivity, managers may unilaterally raise work standards without increasing resources, rewards, or the number of employees.

8.2 Organisational Structure: Understanding the Basics

- What Are Some of the Motivational Characteristics of MBO Systems?
 - Knowledge of what is expected
 - Knowledge of results
 - Manager-subordinate teamwork creates trust based on performance
- Steps in the MBO Process

8.2 Organisational Structure: Understanding the Basics

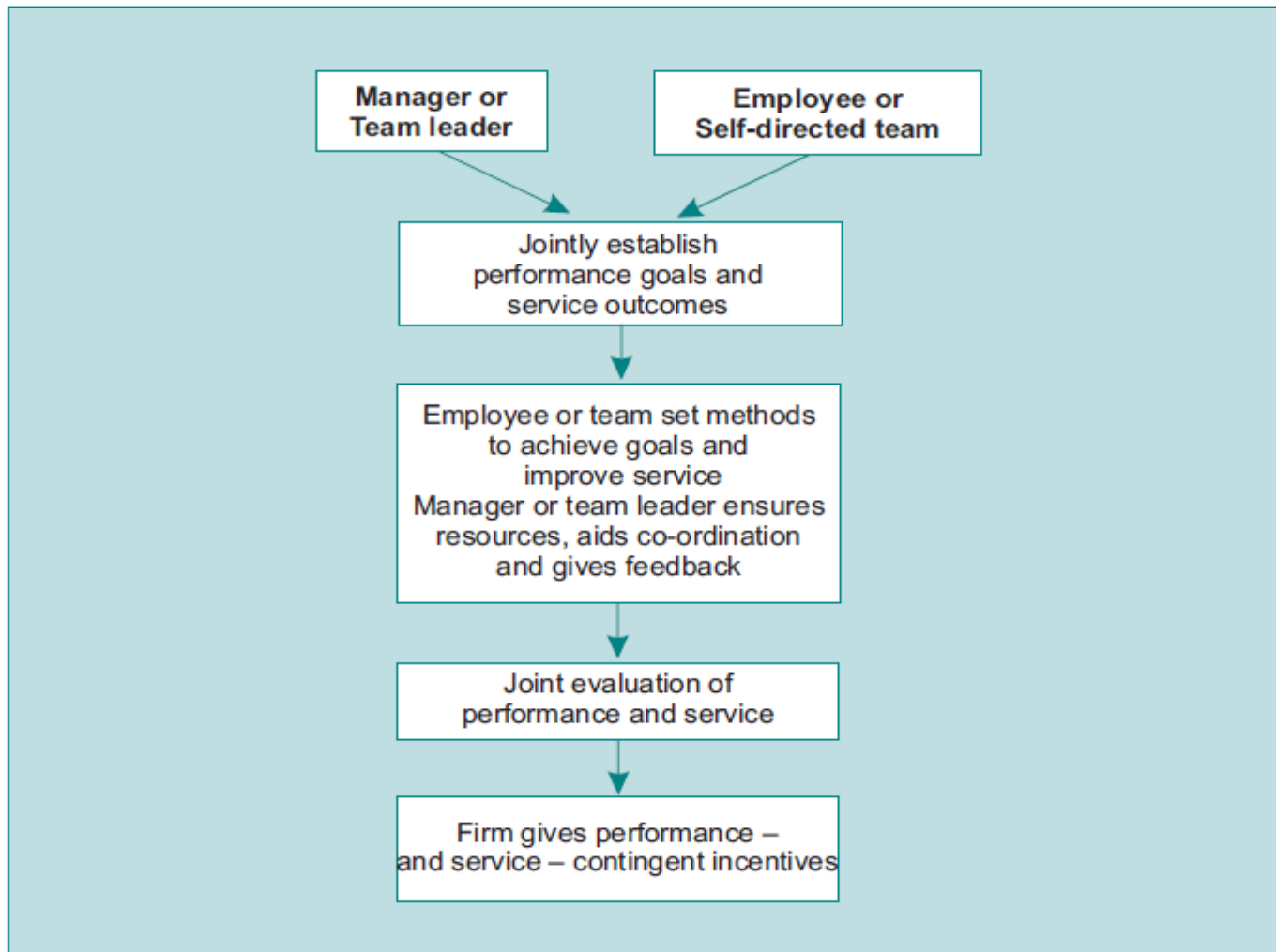


Figure 8.5 The MBO process in devolved organisations

8.2 Understanding the responsive organization

- Simplify & Delayer
- Reassign supporting staff employees
- Widen spans of control
- Empower and engage the work force
- Create team-based work system

8.2 Understanding the responsive organization

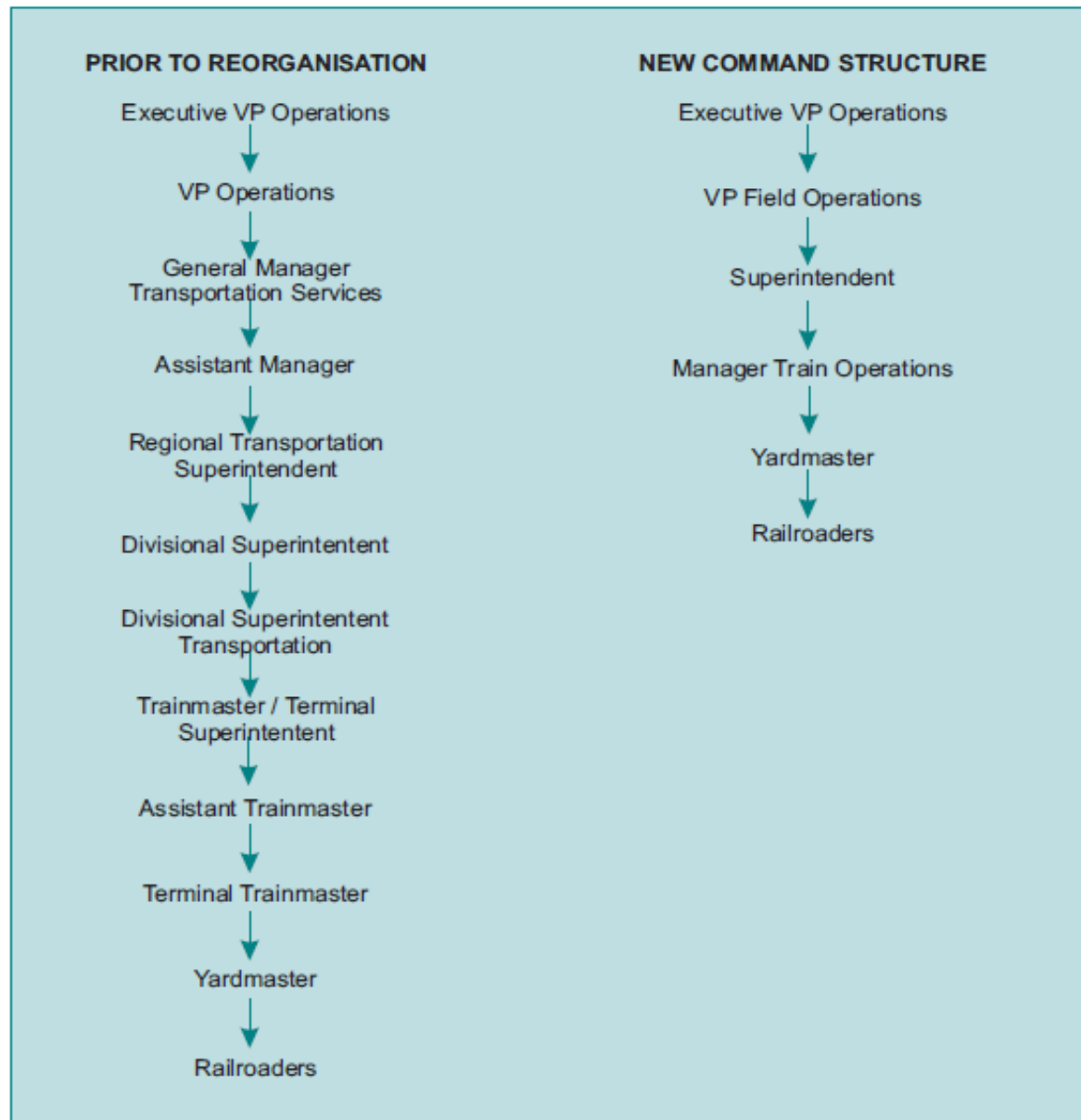


Figure 8.6 Union Pacific Railroad hierarchy: 1987 and now

8.2 Organisational Structure: Understanding the Basics

- 8.3.1 Experiments with the Boundaryless Organisation
 - The authority boundary
 - The task boundary
 - The political boundary
 - The identity boundary

8.2 Organisational Structure: Understanding the Basics

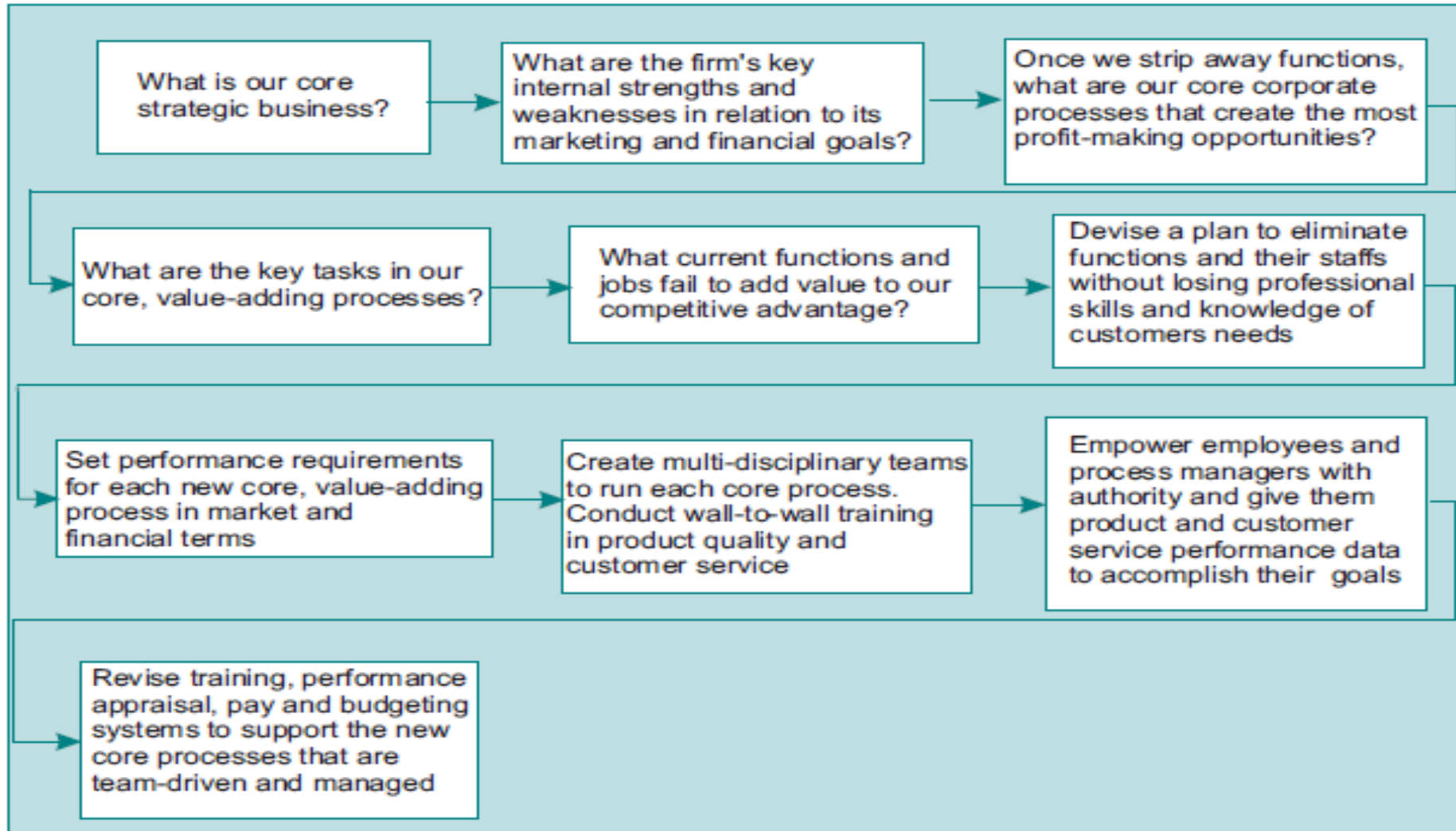


Figure 8.7 Creating a boundaryless (horizontal) design

8.4 Drivers of Growth in Customer Service

- Differentiating service is often easier and faster than differentiating products in terms of their physical characteristics.
- Customers demand better quality.
- Service improvements strengthen brand loyalty and erect market segment and industry entry barriers.
- Bad service quickly drives off customers and lowers or erases profits.

8.5 Designing Service for Customer Retention

- 8.5.1 Managing Services Differs from Producing Products
 - Not until the serviced is demanded it is produced
 - Service is often provided directly by employees without direct supervision
 - When and where customer desires
 - Labor intensive
 - Difficult to measure
 - Produced in the presence of the customer
- Pillars of Competitive Advantage:
 - Service Driven Business Model
 - Customer-Oriented frontline people
 - Customer friendly systems

8.5 Designing Service for Customer Retention

- 8.5.2 Excellent Service Goes Beyond Manufacturing Efficiency

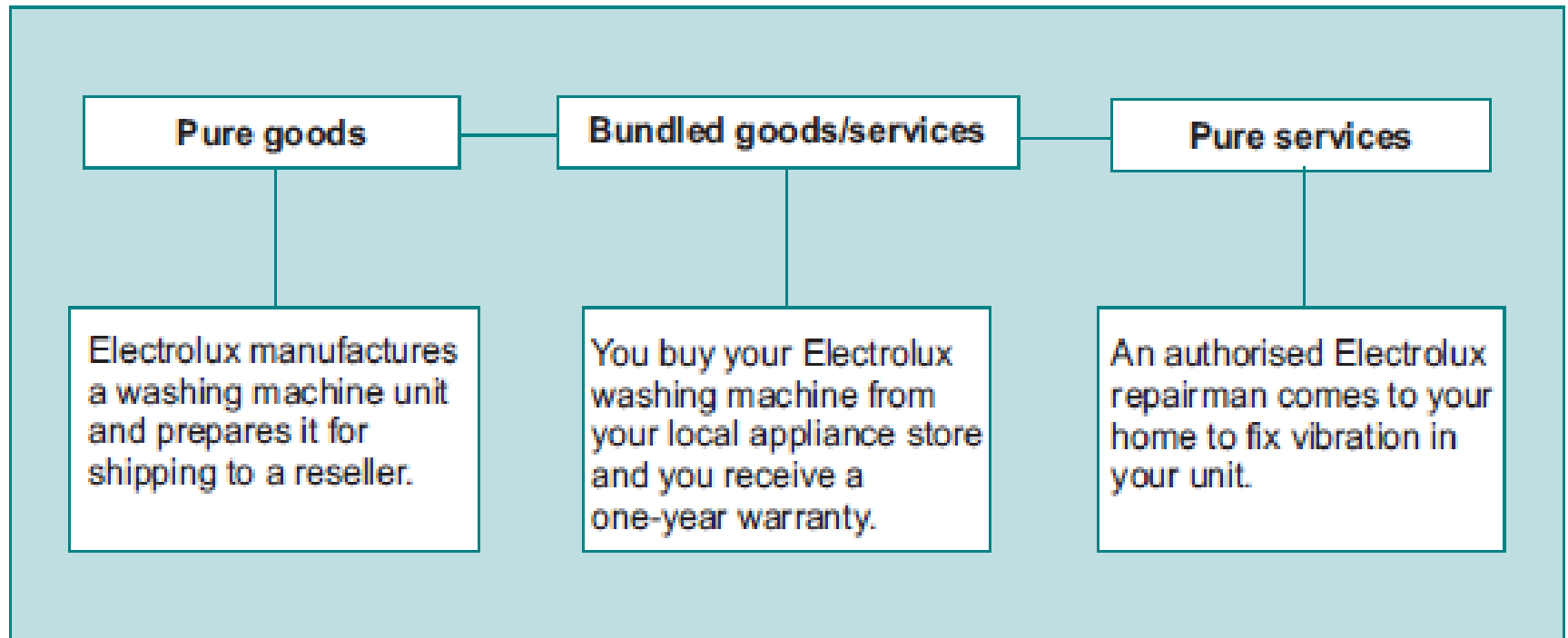


Figure 8.8 The goods-services continuum

8.5 Designing Service for Customer Retention

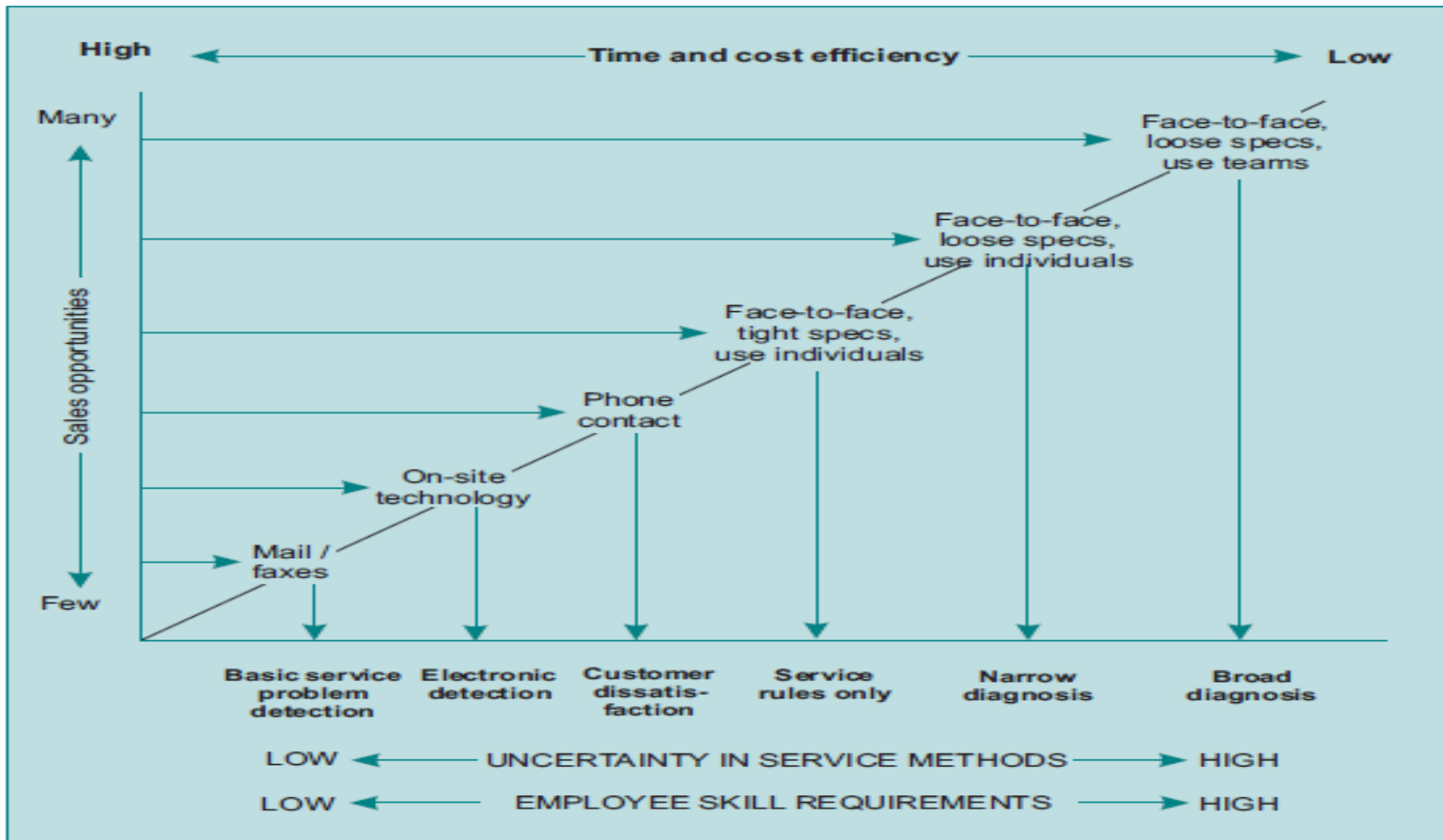


Figure 8.9 A graphical representation of service design strategies

8.6 Organising Principles of Service Quality

- Classifying the firm's services on the client service spectrum
- Organizing to improve service
- Using Employee engagement
- Consciously avoiding the temptation to apply manufacturing assumptions in service quality delivery.

8.6 Organising Principles of Service Quality

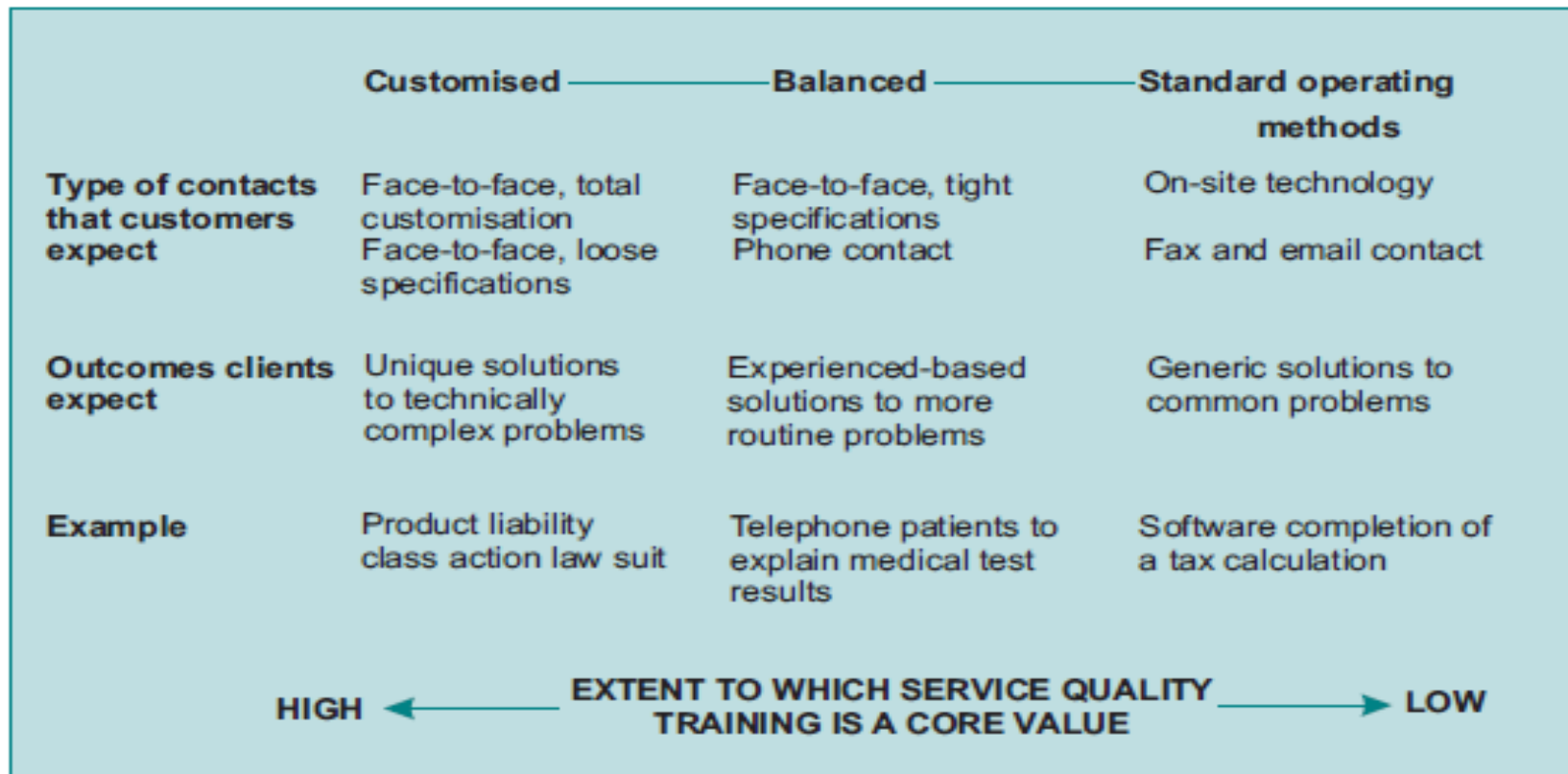


Figure 8.10 The range of services and the extent of service customisation

8.6 Organising Principles of Service Quality

Table 8.4 Perspectives on empowering employees to deliver excellent service

Organisational practice	Manager's perspective	Employee's perspective
Select employees for their interests and values in high quality service delivery	Value diversity in the work force	What you think and believe about service quality is more important than who you are
Revise job descriptions to emphasise teamwork cooperation	Coach employees and develop a teamwork approach to each job in the company	The customer is at the centre of service delivery
Give teams of employees access to real-time data on unit service quality, costs and productivity performance	Decentralise information systems and simplify them to capture features of service delivery and service results	Employees' work to provide service is related to unit
Adjust incentive systems to 'pay for performance'	Develop appraisal system that stresses service behaviours based on service outcomes	Employees who deliver excellent service receive incentives
Base significant portion of manager's pay on quality of unit's service performance	Teach employees the relationship between service enhancement and unit market share and profit	All employees can be 'entrepreneurial' and find new ways to deliver better service
Move managers to where the service is being delivered	Interact with customers and model good service work	Managers are looking for ways to enhance service, not so they can check up on our work

8.7 Creating a Service-Driven Organisation

- Step 1: Conduct a service audit.
- Step 2: Develop a company-wide service strategy.
- Step 3: Conduct 'wall-to-wall' employee training.
- Step 4: Implement the service improvement programme.
- Step 5: Make the service improvements permanent.

Summary Points

- The four key aspects of organisational design are division of labour, allocation of authority, departmentalisation and span of control.
- Mechanistic (X) designs vary in terms of division of labour, allocation of authority, departmentalisation, and span of control.
- Division of labour subdivides work and it creates economies of scale through task specialisation. It sustains the competitive advantage of the low-cost producer in a given industry.
- Delegation of authority gives control of work activities and goals to employees.
- When done broadly and consistently across the firm, delegation of authority is employee empowerment.
- Departmentalisation is the grouping together of like jobs.
- Large, complex firms blend all four forms of departmentalisation in their designs. The choice of design is heavily influenced by the extent of environmental uncertainty.
- Centralisation is the retention of authority to make decisions by top management.
- Highly centralised (X) firms are formalised, standardised and specialised.
- Formalisation is the extent to which employees' work is controlled by written documentation of rules, regulations and work procedures.

Summary Points

- Standardisation limits behaviour variation in a job.
- Outsourcing is contracting with outside firms for goods and services that support manufacturing, accounting functions purchasing, sales, customer service, product development and personnel practices.
- Decentralised firms delegate authority to employees.
- Coordination is the linking of subunits to achieve a pattern of consistent outcomes.
- The level of coordination needed is highly sensitive to the amount of information that must be processed to accomplish tasks throughout the firm.
- Vertical coordination is improved by using groups, a collateral organisation, direct supervision, standardised work processes, standardisation of outputs, use of performance appraisal, and management information systems.
- Horizontal coordination is improved by using direct manager contact, liaison roles, horizontal task forces, and permanent teams to manage recurring workflow problems.
- Inter-organisational designs (conglomerates) engage in related and unrelated diversification. Strategic alliances are cooperative arrangements between two firms that are often used to help a company enter global markets.

Summary Points

- Organisational control refers to the set of mechanisms used to keep action and outcomes within predetermined limits.
- Process control standardises task performance by either specifying work methods or setting work standards.
- Results-oriented control (MBO) achieves uniformity by specifying the results to be obtained by employees and their work units.
- MBO rests on superior–subordinate teamwork to: 1) establish goals, 2) review goal progress, and 3) resolve conflicts and take corrective action with respect to set goals.
- Responsive firms focus on customers and their service needs.
- The responsive firm stresses employee training, reward system design and improved organisational practices to strengthen its service mix.
- Sealing off company systems from external risk is a hallmark of ‘X-based’ manufacturing assumptions.

Review Questions

- **1 of 10**
- Organisational design specifies the structural features of a firm. The design process begins with which of the following?
 - **A.** Listing all job classifications and titles.
 - **B.** Specifying all job designs throughout the company.
 - **C** Articulating the organisation's goals.
 - **D.** Arranging jobs into various work units or departments.

- **2 of 10**
- Principles of organisational design do not include which of the following?
- **A.** Departmentalisation.
B. Span of control.
C. Division of labour.
D Scientific unit specialisation.

- **3 of 10**
- The principal contributor to marginal productivity among employees is which of the following?
 - **A. Span of control.**
 - **B Division of labour.**
 - **C. Organisational design.**
 - **D. Piece rate pay system.**

- **4 of 10**
- Span of control is defined by which of the following?
- **A.** Number of vertical levels in a company.
B. Vertical differentiation.
C. Degree of division of labour.
D Number of subordinates reporting to a given manager.

- **5 of 10**
- The most prominent cause of job or work specialisation in a firm's design is which of the following?
 - **A** Division of labour.
 - **B**. Distribution of authority.
 - **C**. Span of control.
 - **D**. Job redesign.

- **6 of 10**
- Increased use of delegation of authority in an organisation would be most likely after which of the following major organisational events?
- **A.** Change to a system's 1 organisational design.
B Re-engineering after de-layering and downsizing.
C. Change to a functional organisational design.
D. None of the above.

- **7 of 10**
- A firm has the following characteristics: 1) a strong customer service orientation; 2) widespread use of self-directed teams; 3) a highly trained workforce; 4) shortening product lifecycles; and 5) a management team that stresses employee participation. Given this profile, which of the following would not be an appropriate management practice in this company?
 - **A.** Avoid of the use of time clocks to track when employees come to or depart from work.
 - **B** Close supervision by managers who emphasise limiting the authority of employees.
 - **C.** Create a two-tiered reward system to emphasise the importance of teams meeting their customer service goals.
 - **D.** Use surveys and phone enquiries to check levels of customer satisfaction with the service.

- **8 of 10**
- An organisational design with few vertical layers would be characterised by which of the following?
- **A** A high ratio of employees to supervisors and managers.
B. Close supervision.
C. Slow, unresponsive communication channels that distort information.
D. Narrow spans of control.

- **9 of 10**
- Which of the following choices below should you use to complete the sentence? The functional organisational design emphasises _____ and _____ to accomplish the firm's goals.
- **A.** delegation of authority; few vertical layers
B minimal duplication of effort; narrow employee training on work process and product features
C. multiple career channels; project teams
D. geographic specialisation for company units; divisions focusing on specific products

- **10 of 10**
- The organisational design that is most appropriate in an industry producing products with few substitutes, few rivals, long product life cycles and a few large, stable customers would be which of the following?
 - **A.** Matrix design.
 - **B** Product-divisional design.
 - **C.** Functional design.
 - **D.** Hybrid design.