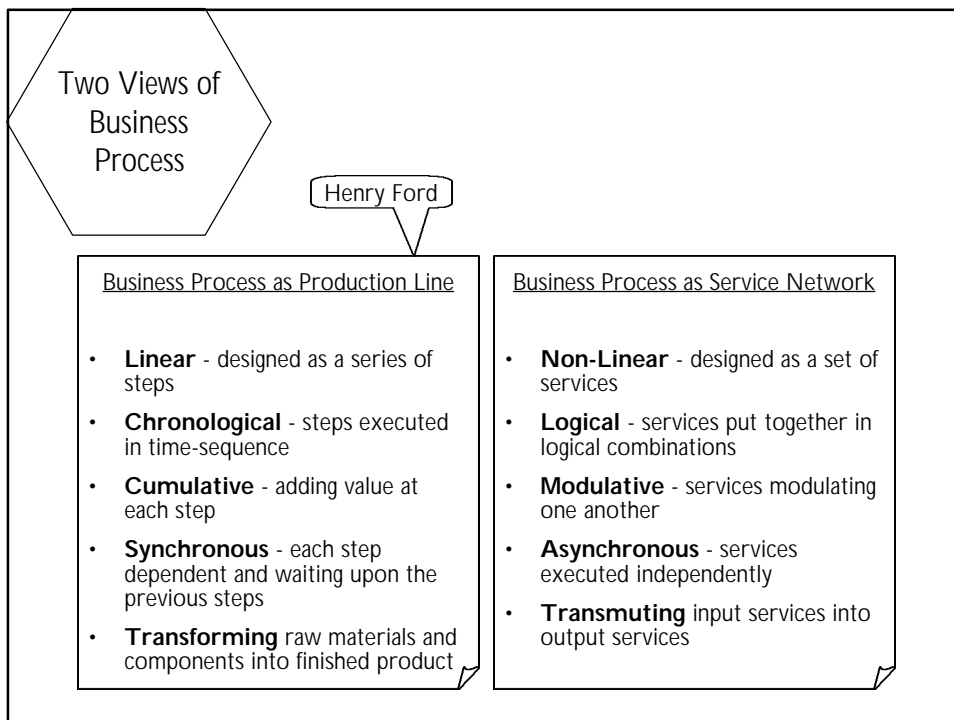
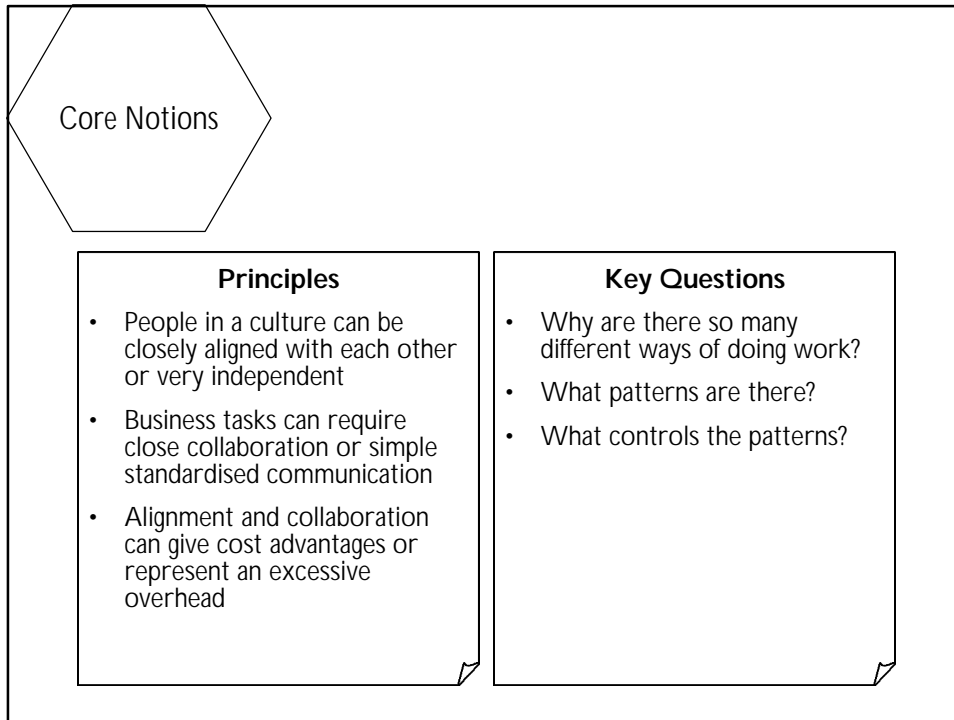
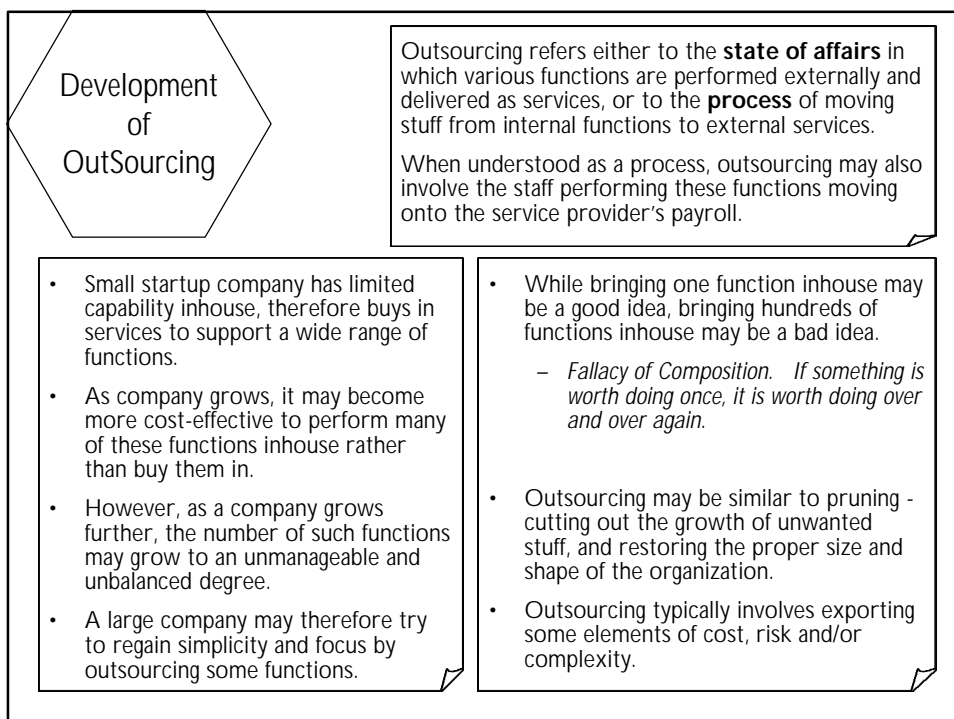
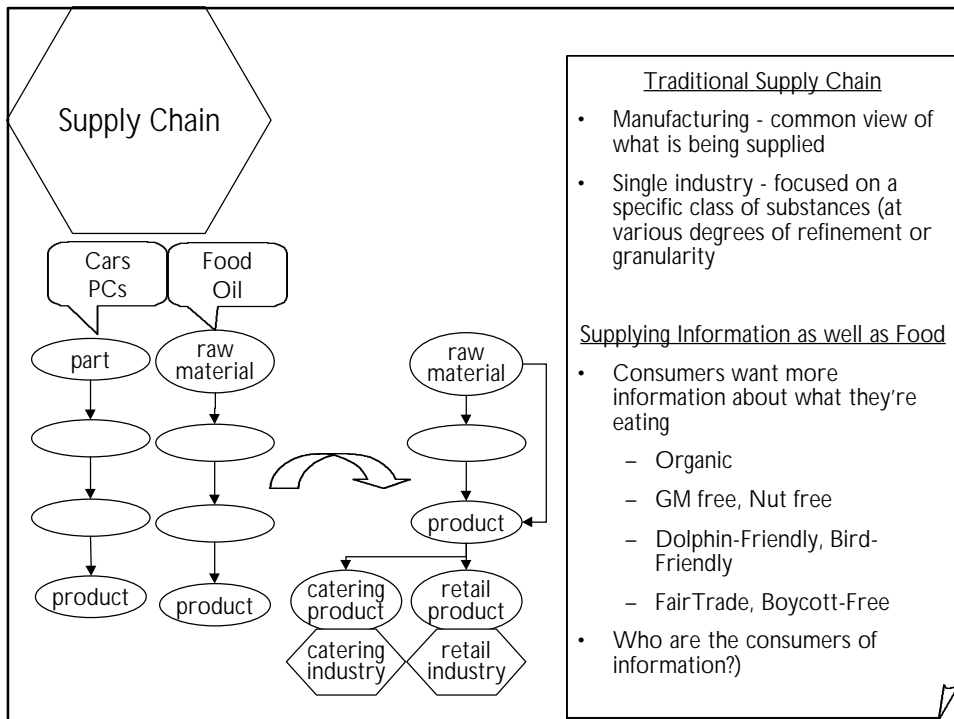


Contents

<ul style="list-style-type: none">• Economics of Structure<ul style="list-style-type: none">- Transaction Costs• Ethics of Structure<ul style="list-style-type: none">- Agency & Responsibility- Trust• Social Patterns and Processes• System Patterns and Processes	<ul style="list-style-type: none">• Structure and Culture: Hierarchy, Market, Network, Clan<ul style="list-style-type: none">- (note various alternative/ equivalent terms)• Growth / Ageing Patterns• Coordination Mechanisms
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Outsourcing Example - Fashion Items

e.g. Nike, Gap

```

graph TD
    A[Smiley Face] --- B[Retail & Design]
    B --- C[Manufacturing]
    D[e.g. Indonesia] -.-> C
            
```

Economics of Outsourcing

- The manufacturing can be located in a country with cheap labour.
- Fashion goods companies gain flexibility by having loose arrangements with many factories in the developing world.
- This partly protects the fashion goods company (retail and design) from the economic consequences of fluctuations in demand.
- The risk is exported onto the factories and their workers, who only get work when there is sufficient demand.

Ethics of Outsourcing

- The fashion goods company is not legally responsible for the working conditions in the factories.
- However, public opinion may still hold the brand to be morally responsible.

Outsourcing Example - Insurance

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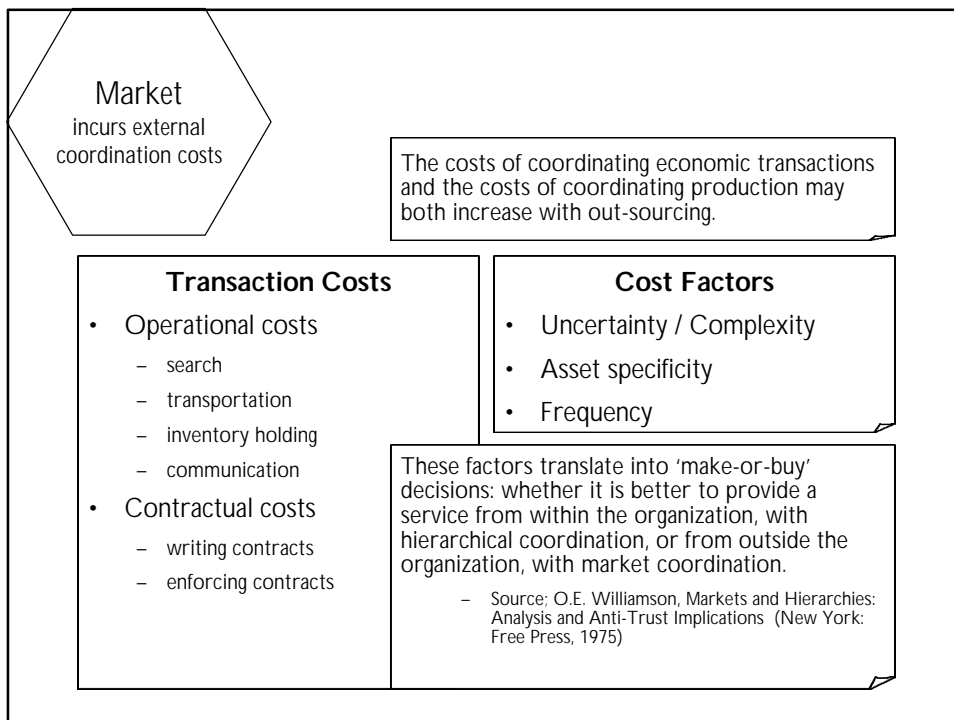
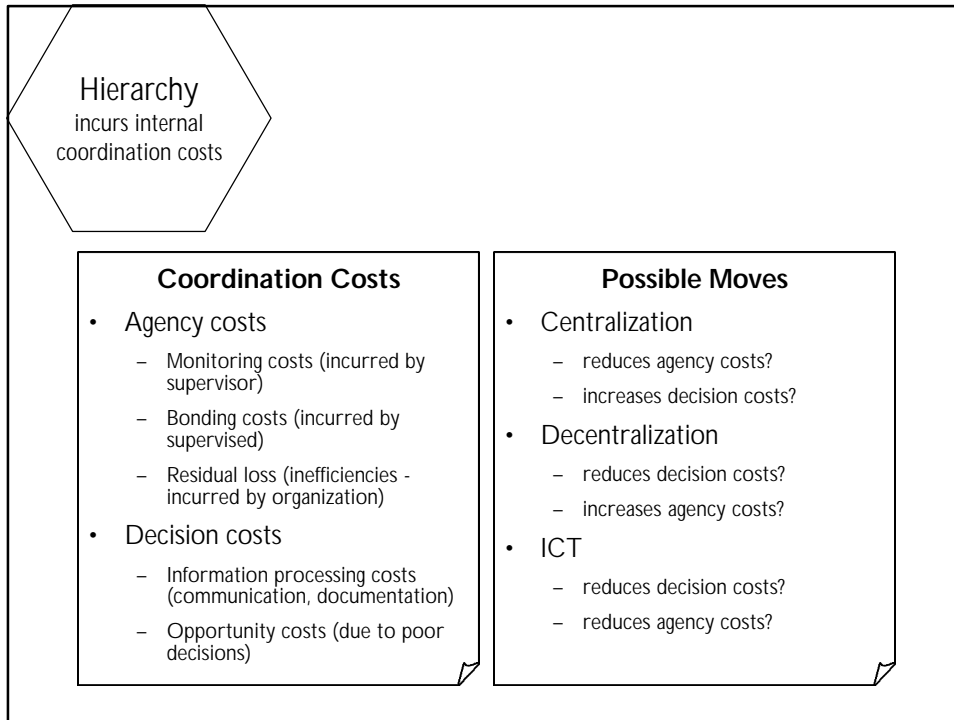
graph TD
    A[Smiley Face] --- B[Broker]
    B --- C[Insurance Company]
    C --- D[Claims Processor]
    C --- E[Underwriting & Reinsurance]
            
```

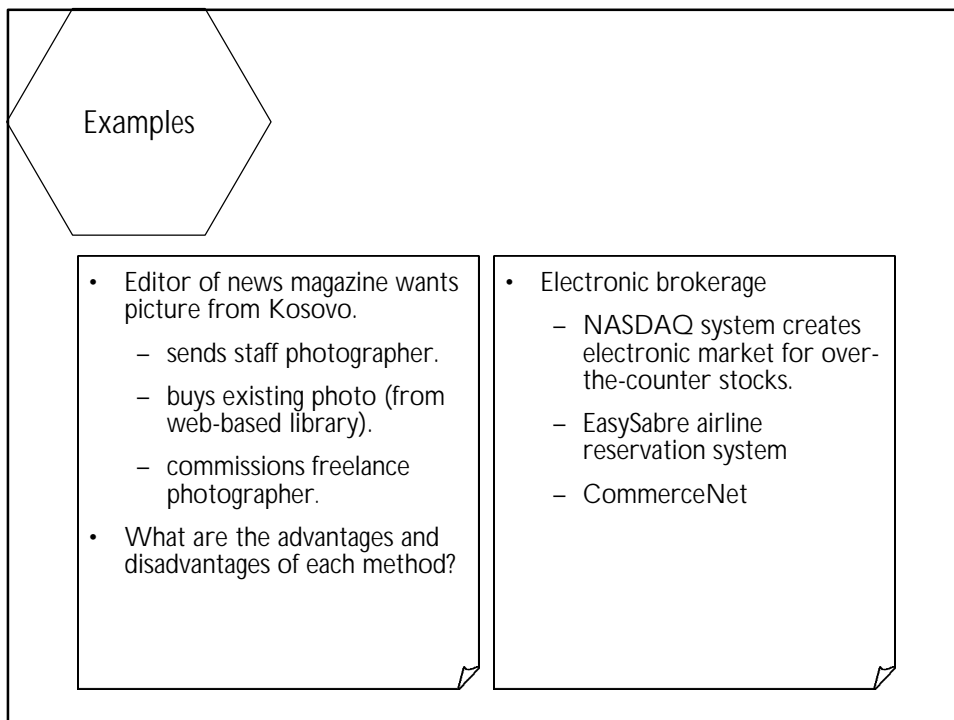
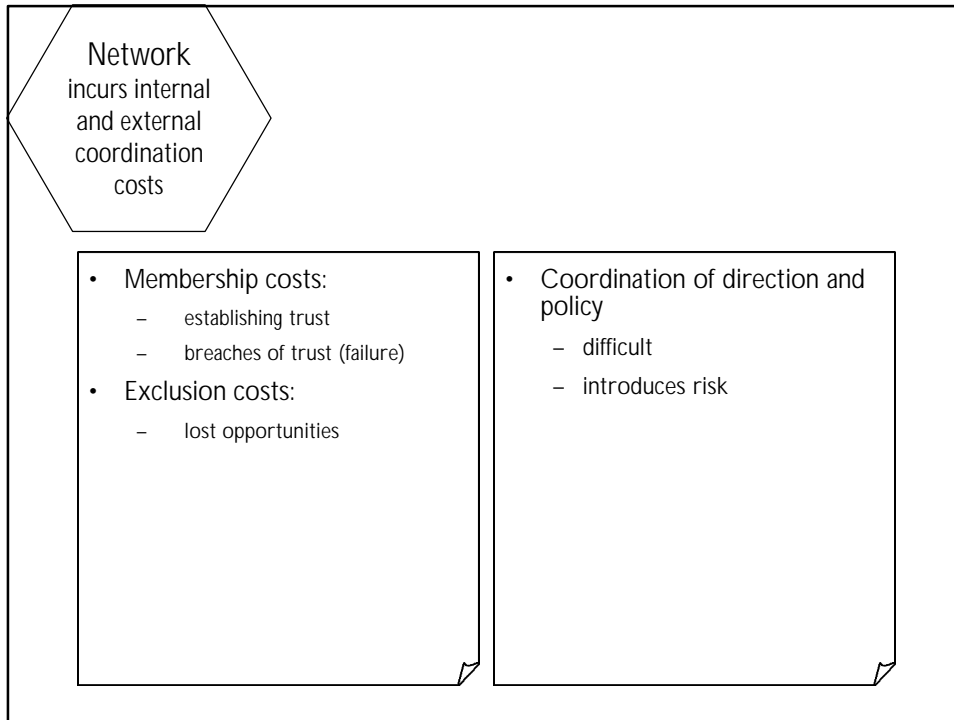
Economics of Outsourcing

- The insurance company **exports paperwork** onto the broker and the claims processor.
- The insurance company **exports risk** onto the claims processor and other insurance companies (underwriting and reinsurance).

Systems Thinking

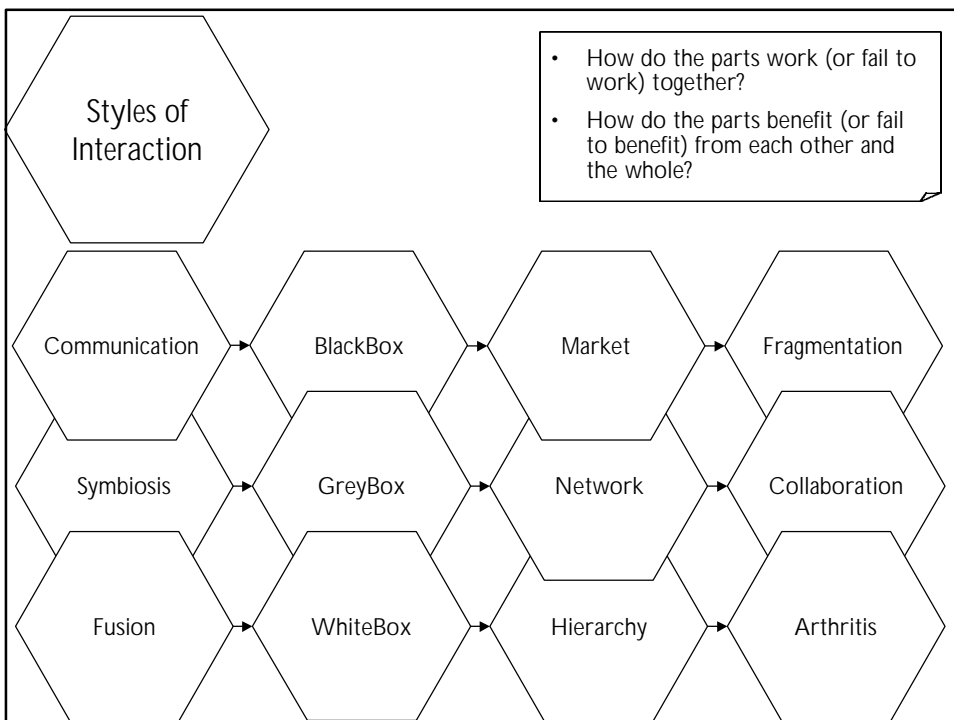
- The broker and the other insurance companies are part of the **environment** of the insurance company. Together they form a **larger system**.
- We need to consider the likely behaviour of the larger system to the outsourcing.
 - Are risks properly contained?
 - Are paperwork costs going to drive away business?





Notes

- What are the key differences between hierarchy, market and network?
- What are the key differentiators?
- Write another example here.



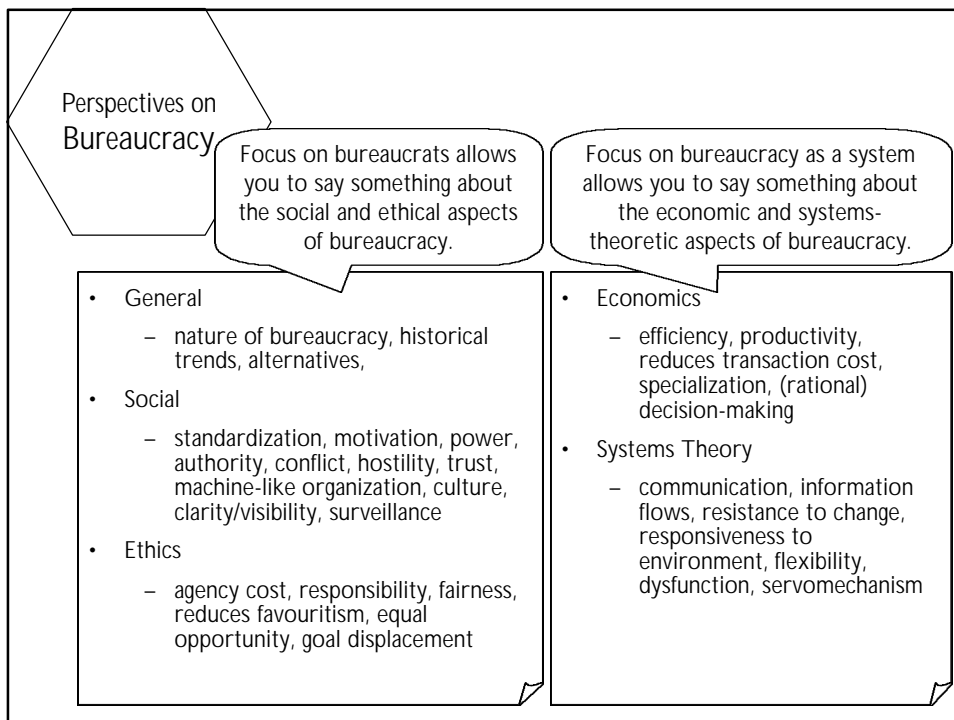
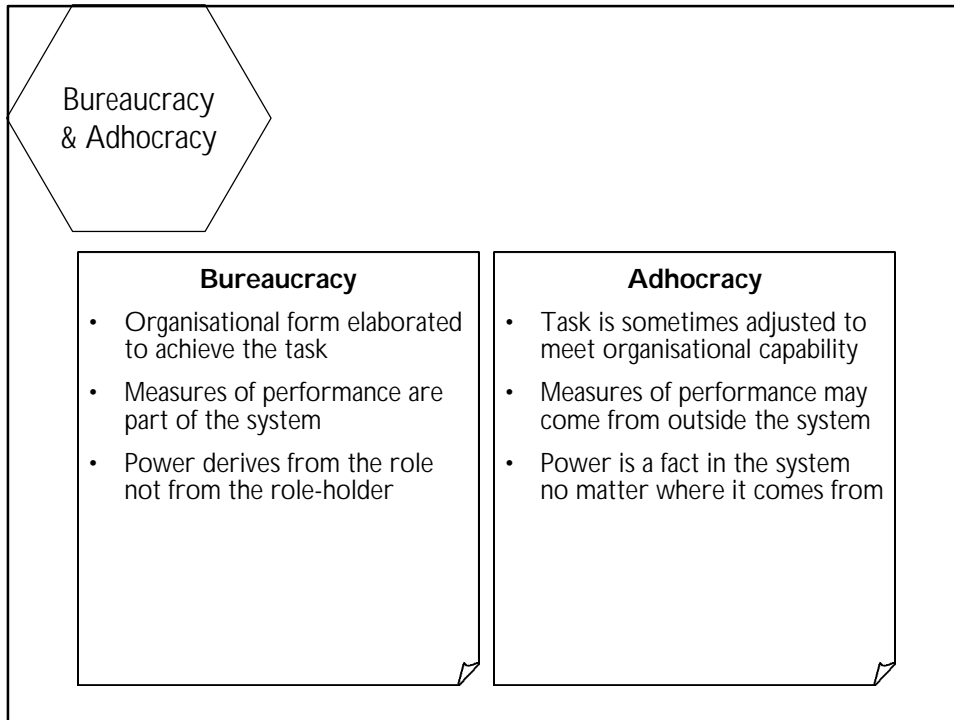
Information
Technology
and Social
Structure

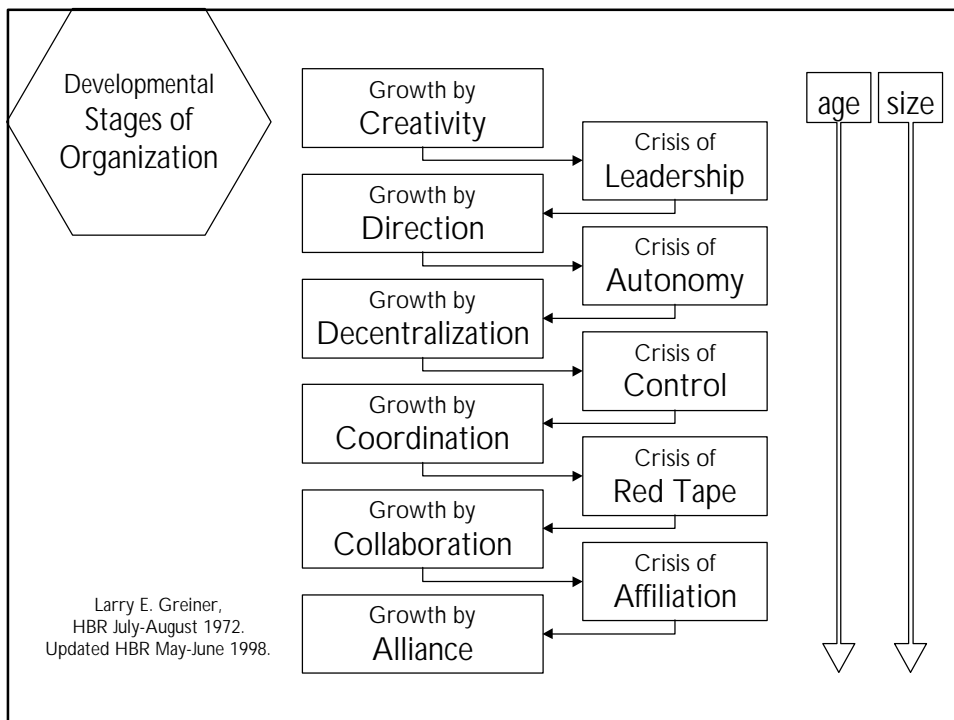
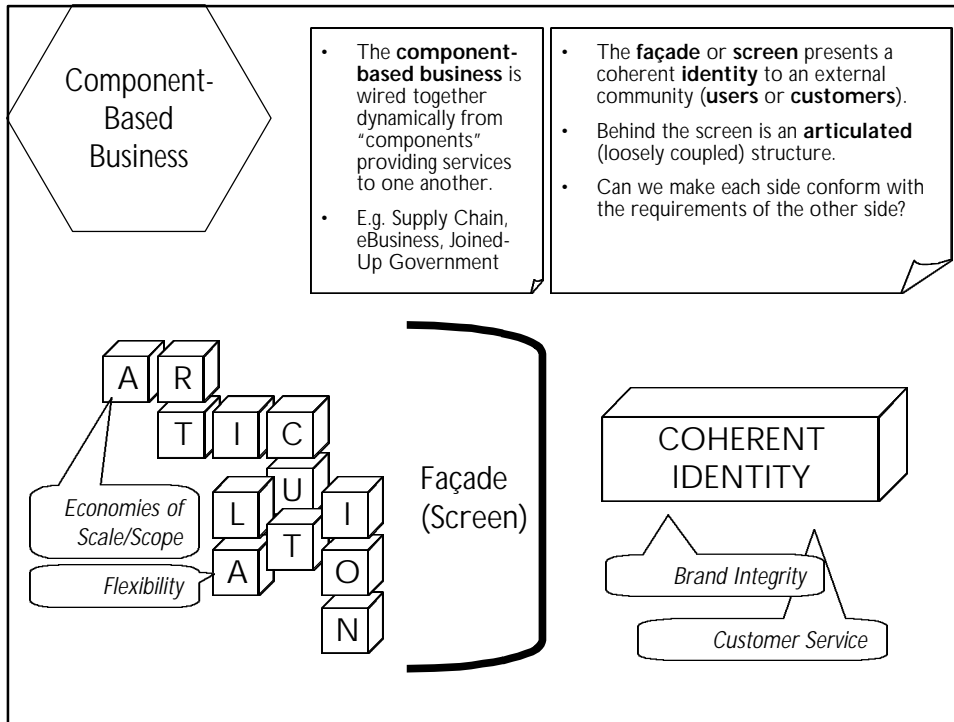
- Information & Communication Technology (ICT) can have a significant impact on transaction and coordination costs.
- Some people have argued that recent developments in ICT (especially internet) shift the advantage away from hierarchy and towards market.
- Why would this be the case? Can you see any evidence for or against this effect?

- ICT enables tight coupling
 - e.g. just-in-time
- ICT enables loose coupling
 - e.g. late binding

Coordination
Mechanisms
(based on
Mintzberg)

Mechanism	Pattern		Suitable for	
	Organization Style	Environment	Task	
Standardize Skills	Professional Bureaucracy	Stable and predictable	Complex	
Standardize Procedures	Machine Bureaucracy		Simple	
Standardize Norms (Indoctrination)	Missionary		Diverse	
Standardize Inputs (Common Components)	Engineering Culture	Moderately Dynamic	Complex	
Standardize Through Tools			Complex	
Mutual Adjustment (Collaboration)	Adhocracy	Dynamic or unpredictable	Complex	
Direct Supervision (Centralization)	Simple Structure		Simple	
Standardize Outputs (Divisionalization)	Divisional Form	Multiple	Diverse	





Development
Crises

Larry E. Greiner,
HBR July-August 1972.
Updated HBR May-June 1998.

- **Leadership:** who will lead the company out of the confusion created by unbridled creativity and solve the managerial problems confronting it through creating formal business structures?
- **Autonomy:** how will lower-level employees be freed from cumbersome and centralized top-down hierarchy to make better use of their more direct knowledge about markets and technology?
- **Control:** how will top-level executives recover control over a highly decentralized organization as autonomous managers prefer to run their own shows without coordinating plans, money, technology, personnel etc?

- **Red-tape:** how do both line and staff managers overcome the inappropriate aspects of the systems and procedures created to manage the enterprise as a whole, as they seek to respond to local conditions?
- **Affiliation:** how will the organization begin to look outside itself for partners and opportunities, as it realises that there is no internal solution, such as through new products, for stimulating its further growth?

Different
Managers Can
Cope with
Time Horizons

Horizon

- Hours
- Days
- Months
- Years
- Decades

Change Management Level

- ➔ Install software
- ➔ Train staff
- ➔ Pilot project
- ➔ Technological Maturity
- ➔ Technological Lifecycles

“Ideal Management Hierarchy is based on Time”

According to Elliot Jaques, an ideal management hierarchy is organized with different time horizons at each level.

- Each manager can see further into the future than his/her subordinates.
- If there is no difference between the time horizons of successive levels of management, then there may be too many levels.

Discussion: Do you think this is true?

		months	years	decades
	days	months	years	decades
hours	days	months	years	
hours	days	months		
hours	days			

Two curved arrows indicate a diagonal progression from the top-right cell (months, years, decades) down to the bottom-left cell (hours, days).

Sample Exam Question

- A satisfactory answer will outline the types of transaction costs, and indicate that both internal and external costs may be reduced by ICT. It will indicate that ICT may enable or facilitate various trends, e.g. delayering and outsourcing.
- An above average answer might discuss some of the problems with trends such as delayering and outsourcing - especially social and ethical problems such as trust - and show how ICT fails to address these problems. It would indicate the social patterns - hierarchy, market, network, clan - and show how they are distinguished in terms of culture and style.
- An excellent answer might discuss the dynamics of change across these social patterns. How do social structures change over time, and how does ICT come into the story?

Define and illustrate transaction costs.

Explain the potential impact of information and communication technology (ICT) on transaction costs.

What is the predicted effect on organization structures?

What other factors may influence organization structure?

Canny McCann Canning Company

Possible Advantages

- CMCCC is now using cans as well as selling them. This potentially means greater economies of scale, and greater stability or demand, in the production of cans.
- CMCCC now has greater visibility over the food supply chain, and is therefore better able to predict and respond to fluctuations in demand.
- CMCCC now has access to the profits generated by food production as well as can production.
- CMCCC now has new opportunities to grow by acquisition - it could take over one of the smaller food producers.

Possible Disadvantages

- CMCCC may not have a sufficient volume of food production (at least initially) to be able to compete with established firms.
- CMCCC may need to buy in expertise in food production.
- CMCCC's entry into food production may hurt its relationships with existing food producers with which it may now be competing. These companies may be less willing to share information, and may even consider taking their business to one of CMCCC's competitors.

The Canny McCann Canning Company (CMCCC) makes cans, which it supplies empty to major food manufacturers. It has some long term relationships with its customers for the cans but increasingly cans are being seen as a commodity item to be bought on price and quality alone. CMCCC is now considering a proposal to get into food production itself, and supply full cans of food direct to supermarkets.

Sample Exam Question

- A satisfactory answer (>40%) should indicate at least one advantage, and at least one disadvantage, and should show some awareness and understanding of the difference between internal (hierarchical) and external (market) relationships.
- An above average answer (>55%) may indicate several advantages and disadvantages. Should note the possible (probably negative) response by existing food producers to the proposal, and the consequent threat to CMCCC's viability.
- In addition, an excellent answer (>70%) might discuss alternative strategies - such as joint ventures - and place these in a sound theoretical framework. Should demonstrate a clear understanding of economic and social notions of viability.
- A mergers or joint venture may have some advantages over direct entry into food production. However, if recommending this option, it is important to acknowledge its possible disadvantages. Mergers can fail for a variety of reasons. Furthermore, a merger would share some of the disadvantages of direct entry - in particular, the possible damage to relationships with other food producers.

The Canny McCann Canning Company (CMCCC) is now considering a proposal to get into food production itself, and supply full cans of food direct to supermarkets.

a) What are the possible advantages of this move? What are the possible disadvantages? What alternative strategies might have been considered?

b) How is this likely to affect CMCCC's relationships with the external environment?

c) What recommendations do you have for CMCCC in implementing this proposal? Base your recommendations on relevant theory.



References

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- Richard Veryard, **Component-Based Business: Plug and Play** (Springer, 2001)
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- O.E. Williamson, **Markets and Hierarchies: Analysis and Anti-Trust Implications** (New York: Free Press, 1975)