

Core Notions

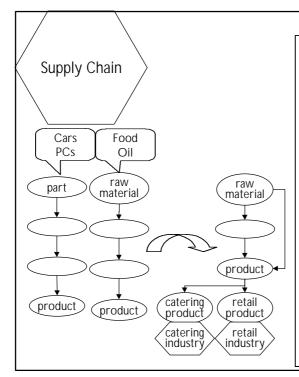
Principles

- People in a culture can be closely aligned with each other or very independent
- Business tasks can require close collaboration or simple standardised communication
- Alignment and collaboration can give cost advantages or represent an excessive overhead

Key Questions

- Why are there so many different ways of doing work?
- What patterns are there?
- What controls the patterns?

Two Views of **Business Process** Henry Ford **Business Process as Production Line Business Process as Service Network** Linear - designed as a series of Non-Linear - designed as a set of steps services Chronological - steps executed Logical - services put together in in time-sequence logical combinations Cumulative - adding value at Modulative - services modulating each step one another Synchronous - each step **Asynchronous** - services dependent and waiting upon the executed independently previous steps Transmuting input services into Transforming raw materials and output services components into finished product



Traditional Supply Chain

- Manufacturing common view of what is being supplied
- Single industry focused on a specific class of substances (at various degrees of refinement or granularity

Supplying Information as well as Food

- Consumers want more information about what they're eating
 - Organic
 - GM free, Nut free
 - Dolphin-Friendly, Bird-Friendly
 - FairTrade, Boycott-Free
- Who are the consumers of information?)

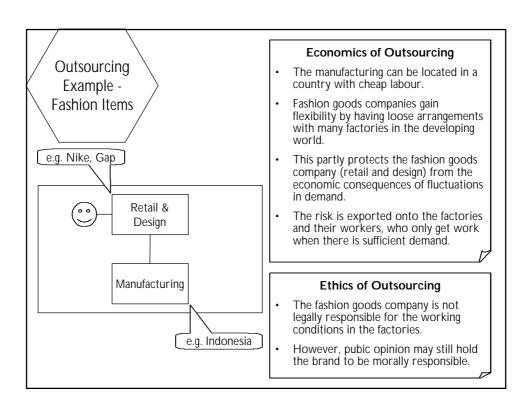
Development of OutSourcing

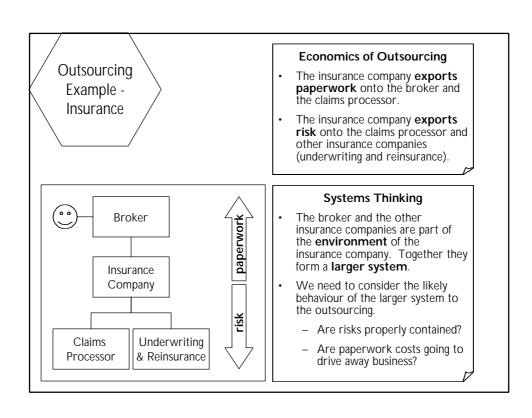
Outsourcing refers either to the **state of affairs** in which various functions are performed externally and delivered as services, or to the **process** of moving stuff from internal functions to external services.

When understood as a process, outsourcing may also involve the staff performing these functions moving onto the service provider's payroll.

- Small startup company has limited capability inhouse, therefore buys in services to support a wide range of functions.
- As company grows, it may become more cost-effective to perform many of these functions inhouse rather than buy them in.
- However, as a company grows further, the number of such functions may grow to an unmanageable and unbalanced degree.
- A large company may therefore try to regain simplicity and focus by outsourcing some functions.

- While bringing one function inhouse may be a good idea, bringing hundreds of functions inhouse may be a bad idea.
 - Fallacy of Composition. If something is worth doing once, it is worth doing over and over again.
- Outsourcing may be similar to pruning cutting out the growth of unwanted stuff, and restoring the proper size and shape of the organization.
- Outsourcing typically involves exporting some elements of cost, risk and/or complexity.





Hierarchy incurs internal coordination costs

Coordination Costs

- Agency costs
 - Monitoring costs (incurred by supervisor)
 - Bonding costs (incurred by supervised)
 - Residual loss (inefficiencies incurred by organization)
- Decision costs
 - Information processing costs (communication, documentation)
 - Opportunity costs (due to poor decisions)

Possible Moves

- Centralization
 - reduces agency costs?
 - increases decision costs?
- Decentralization
 - reduces decision costs?
 - increases agency costs?
- ICT
 - reduces decision costs?
 - reduces agency costs?

Market incurs external coordination costs

The costs of coordinating economic transactions and the costs of coordinating production may both increase with out-sourcing.

Transaction Costs

- Operational costs
 - search
 - transportation
 - inventory holding
 - communication
- · Contractual costs
 - writing contracts
 - enforcing contracts

Cost Factors

- Uncertainty / Complexity
- Asset specificity
- Frequency

These factors translate into 'make-or-buy' decisions: whether it is better to provide a service from within the organization, with hierarchical coordination, or from outside the organization, with market coordination.

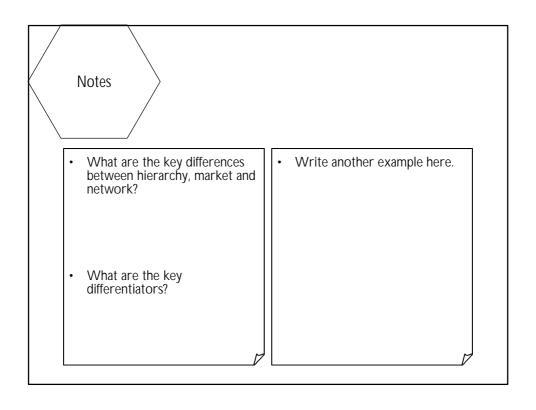
 Source; O.E. Williamson, Markets and Hierarchies: Analysis and Anti-Trust Implications (New York: Free Press, 1975)

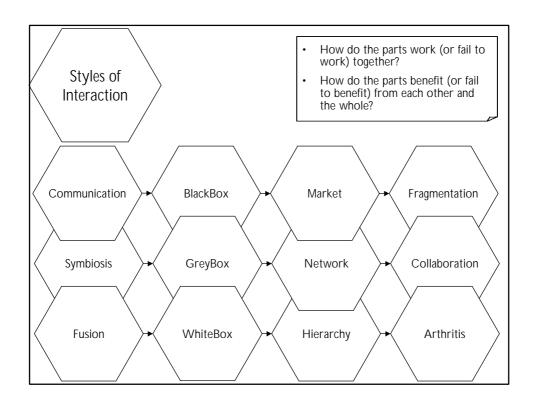


- Membership costs:
 - establishing trust
 - breaches of trust (failure)
- · Exclusion costs:
 - lost opportunities
- Coordination of direction and policy
 - difficult
 - introduces risk

Examples

- Editor of news magazine wants picture from Kosovo.
 - sends staff photographer.
 - buys existing photo (from web-based library).
 - commissions freelance photographer.
- What are the advantages and disadvantages of each method?
- Electronic brokerage
 - NASDAQ system creates electronic market for overthe-counter stocks.
 - EasySabre airline reservation system
 - CommerceNet





http://www.veryard.com/orgmgt/student.htm

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

Bureaucracy & Adhocracy

Bureaucracy

- Organisational form elaborated to achieve the task
- Measures of performance are part of the system
- Power derives from the role not from the role-holder

Adhocracy

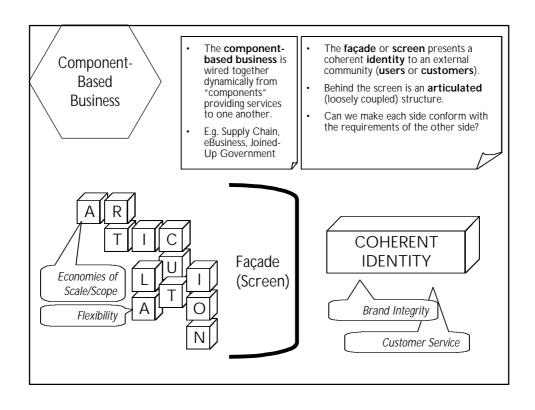
- Task is sometimes adjusted to meet organisational capability
- Measures of performance may come from outside the system
- Power is a fact in the system no matter where it comes from

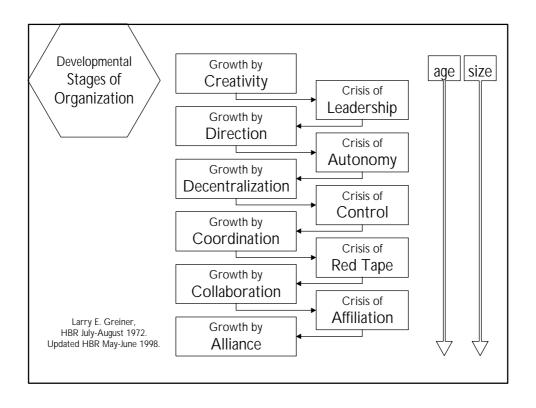
Perspectives on Bureaucracy

Focus on bureaucrats allows you to say something about the social and ethical aspects of bureaucracy. Focus on bureaucracy as a system allows you to say something about the economic and systems-theoretic aspects of bureaucracy.

- General
 - nature of bureaucracy, historical trends, alternatives,
- Social
 - standardization, motivation, power, authority, conflict, hostility, trust, machine-like organization, culture, clarity/visibility, surveillance
- Ethics
 - agency cost, responsibility, fairness, reduces favouritism, equal opportunity, goal displacement

- Economics
 - efficiency, productivity, reduces transaction cost, specialization, (rational) decision-making
- Systems Theory
 - communication, information flows, resistance to change, responsiveness to environment, flexibility, dysfunction, servomechanism





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?

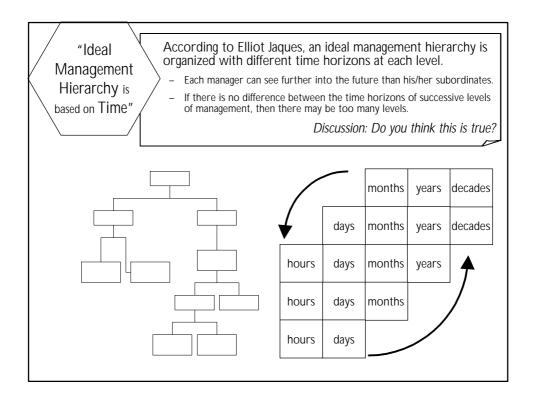
Different Managers Can Cope with Time Horizons

Horizon

- Hours
- Days
- Months
- Years
- Decades

Change Management Level

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





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?

- 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?

Canny McCann Canning Company

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.

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.

Sample Exam Question

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.

- 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.

References

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