



Strategy and Effectiveness

Objectives

- ▶ The role of Strategy Direction and Organization Design
- ▶ Organizational Operating Goals
- ▶ The importance of goals
- ▶ Selecting strategy and design
- ▶ Contingency factors affecting organization design
- ▶ Assessing and Measuring organizational effectiveness

Mission / Vision

- ▶ A Mission statement talks about **HOW** you will get to where you want to be. Defines the purpose and primary objectives related to your customer needs and team values
- ▶ A Vision statement outlines **WHERE** you want to be. Communicates both the purpose and values of your business

THE
ART
OF
INNOVATION



2. Make mantra

Wendy's Mission

**THE
ART
OF
INNOVATION**



“The mission of Wendy’s is to deliver superior quality products and services for our customers and communities through leadership, innovation, and partnerships.”

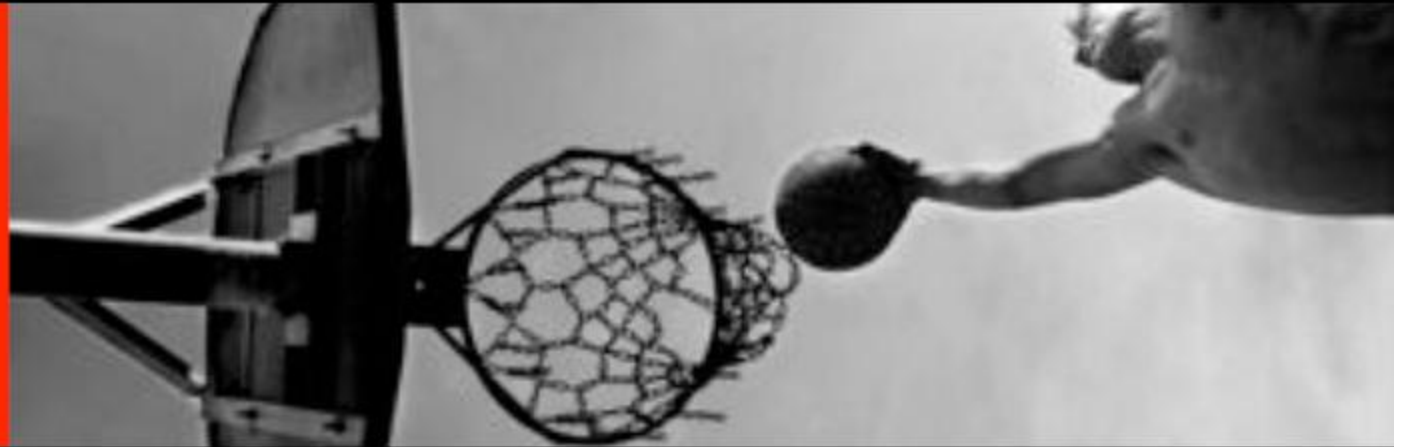
Wendy's Vision

**THE
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INNOVATION**



- **Wendy's "Healthy fast food"**

THE ART OF INNOVATION



- **Wendy's** **“Healthy fast food**
- **Nike** **“Authentic athletic performance”**

THE ART OF INNOVATION



- **Wendy's** **“Healthy fast food”**
- **Nike** **“Authentic athletic performance”**
- **FedEx** **“Peace of mind”**

**THE
ART
OF
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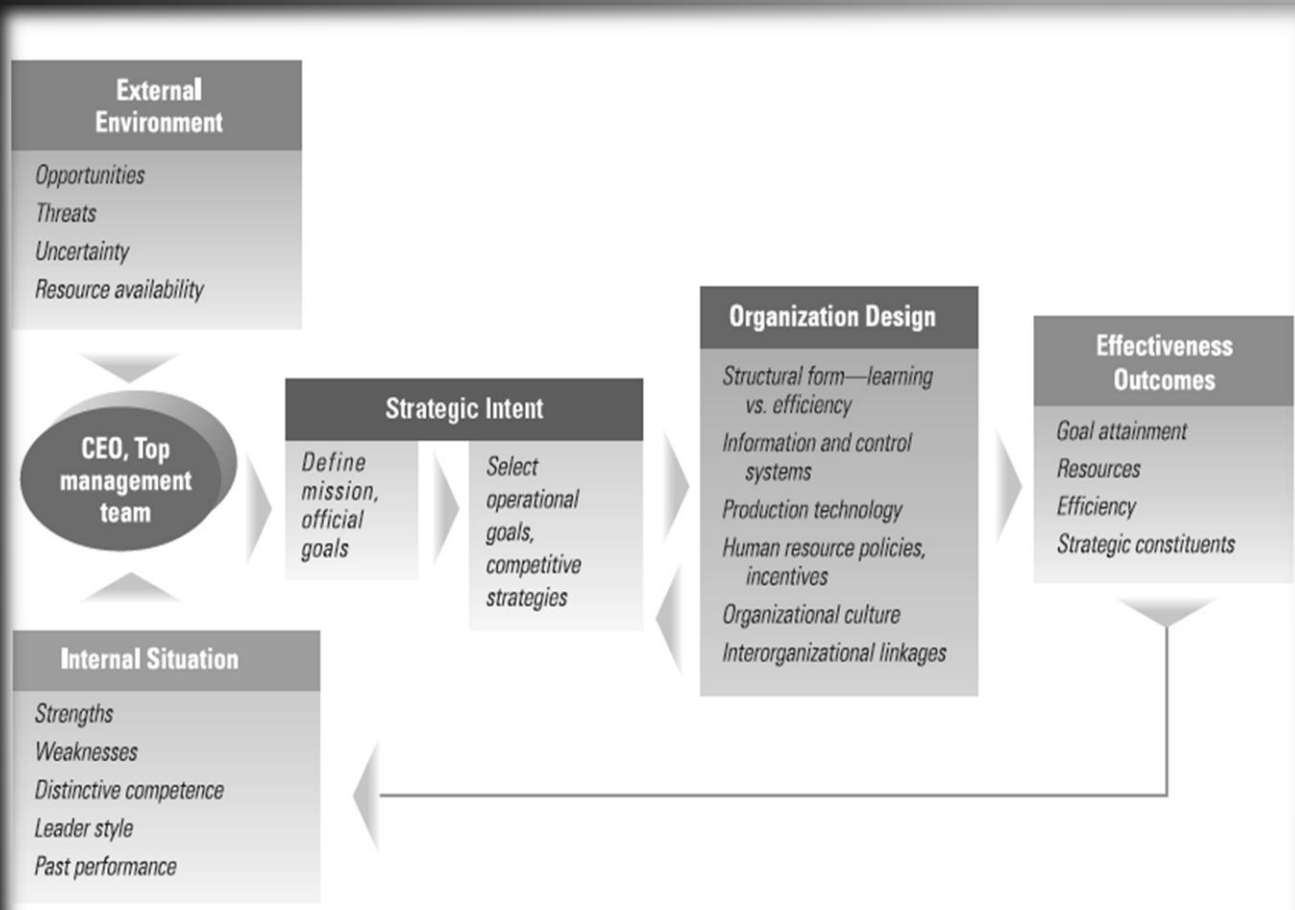
- **Wendy's** **“Healthy fast food”**
- **Nike** **“Authentic athletic performance”**
- **FedEx** **“Peace of mind”**
- **eBay** **“Democratize commerce”**

T H E
ART
O F
INNOVATION

“We exist to professionally build long-term high-impact sources so that we may endeavor to synergistically leverage existing effective deliverables to stay competitive in tomorrow’s world.”

Dilbert Mission Statement Generator

Strategy Direction and Organization Design



Organizational goal – a desired state of affairs that an organization attempts to reach

Source: Adapted from Arie Y. Lewin and Carroll U. Stephens, "Individual Properties of the CEO as Determinants of Organization Design," unpublished manuscript, Duke University, 1990; and Arie Y. Lewin and Carroll U. Stephens, "CEO Attributes as Determinants of Organization Design: An Integrated Model," *Organization Studies* 15, no. 2 (1994), 183–212.

Organizational Purpose

Strategic intent – organization’s energies and resources are directed toward a focused, unifying, and compelling goal

- 
- Mission
 - Competitive Advantage
 - Core Competence

Operating Goals

- Overall Performance
- Resources
- Market
- Employee Development
- Innovation and Change
- Productivity

Example – Canon – “To beat Xerox”

Coca-Cola – “To put a coke within arm’s reach of every consumer in the world”

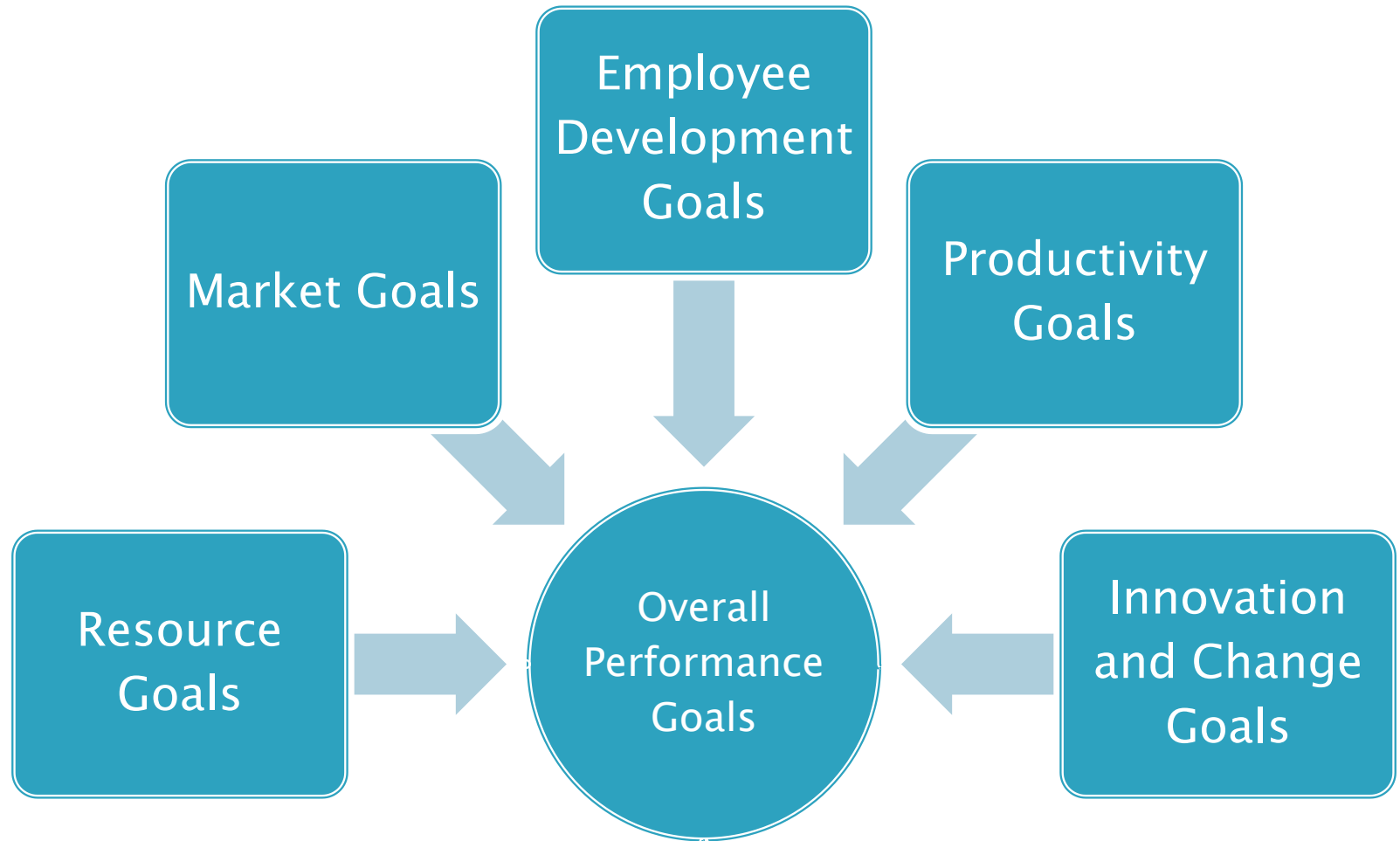
Mission

- ▶ Organization's reason for existence
- ▶ Mission is the official goal
- ▶ The mission statement communicates to current and prospective employees, customers, investors, suppliers and competitors what the organization stands for and what it is trying to achieve
- ▶ Help the organization achieve a sustainable competitive advantage

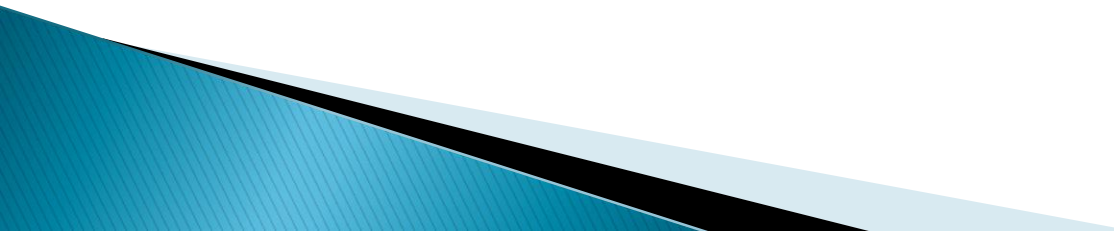
Video

- ▶ Mission and Vision – Pixar vs. Disney >>

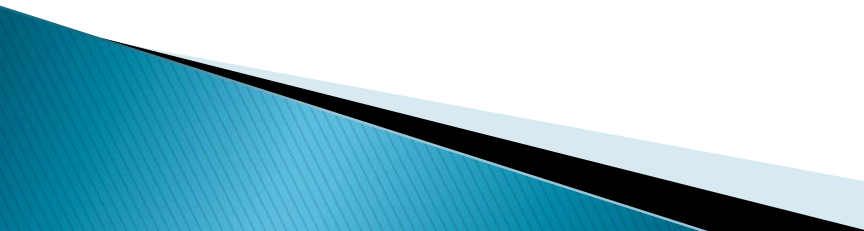
Organizational Operating Goals



The Importance of Goals

- ▶ Two types of goals
 - ▶ Mission; Official Goals
 - Communicate organization's purpose and values
 - Bestow Legitimacy
 - ▶ Operating Goals
 - Provide employee direction and motivation
 - Offer decision guidelines
 - Define a standard of performance
- 

Selecting Strategy and Design

- ▶ A strategy is a plan for interacting with the competitive environment to achieve organizational goals
 - ▶ Managers must select specific strategy design
 - ▶ Models exist to aid in formulating strategy:
 - Porter's Five Forces
 - Miles and Snow's Strategy Typology
- 

Porter's Five Forces Model of Competition

Threat of New Entrants

Barriers to entry

- Economies of scale
- Product differentiation
- Capital requirements
- Switching cost to buyers
- Access to distribution channels
- Other cost advantages
- Government policies

Incumbants' defense of market share

Industry growth rate



Determinants of Supplier Power

Supplier concentration
Availability of substitute inputs
Importance of suppliers' input to buyer
Suppliers' product differentiation
Importance of industry to suppliers
Buyers' switching cost to other input
Suppliers' threat of forward integration
Buyers' threat of backward integration



Rivalry Among Existing Firms

Number of competitors (concentration)
Relative size of competitors (balance)
Industry growth rate
Fixed costs vs. variable costs
Product differentiation
Capacity augmented in large increments
Buyers' switching costs
Diversity of competitors
Exit barriers
Strategic stakes



Determinants of Buyer Power

Number of buyers relative to sellers
Product differentiation
Switching costs to use other product
Buyers' profit margins
Buyers' use of multiple sources
Buyers' threat of backward integration
Sellers' threat of forward integration
Importance of product to the buyer
Buyers' volume



Threat of Substitute Products

Relative price of substitute
Relative quality of substitute
Switching costs to buyers

Porter's Competitive Strategies

- ▶ **Differentiation strategy** – to distinguish products or services from others in the industry
 - Ex – Apple
- ▶ **Low-Cost Leadership** – increase market share by keeping costs low compared to competitors
 - Ex– GoAir

Organizations may choose to focus broad or narrow in reaching multiple markets.

Case

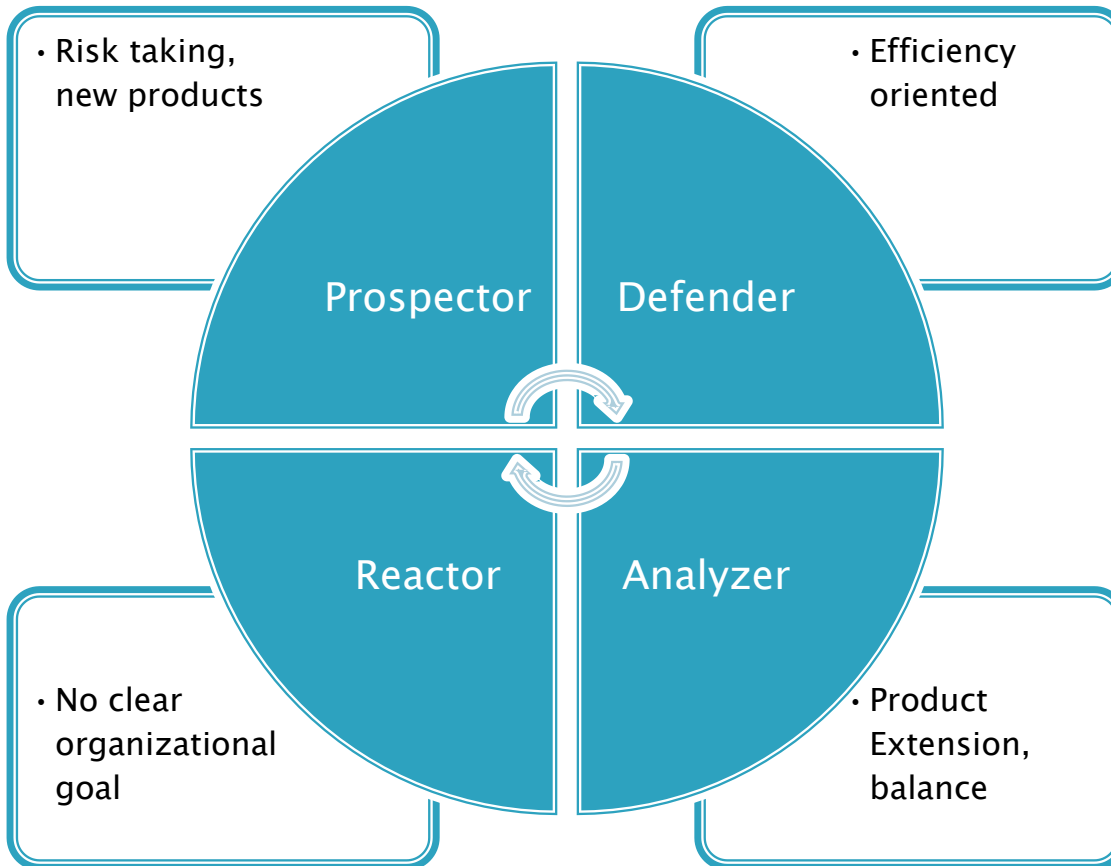
- ▶ Apple – Page 99

Porter's Focus Strategy

- ▶ In Porter's focus strategy, the organization concentrates on a specific regional market or buyer group
- ▶ Company will try to achieve either a low-cost advantage or a differentiation advantage within a narrowly defined market
- ▶ Ex – Vichare Courier targets low cost for the metros in Maharashtra

Miles and Snow's Strategy Typology

Managers should seek to formulate strategy that matches the demands of the external environment



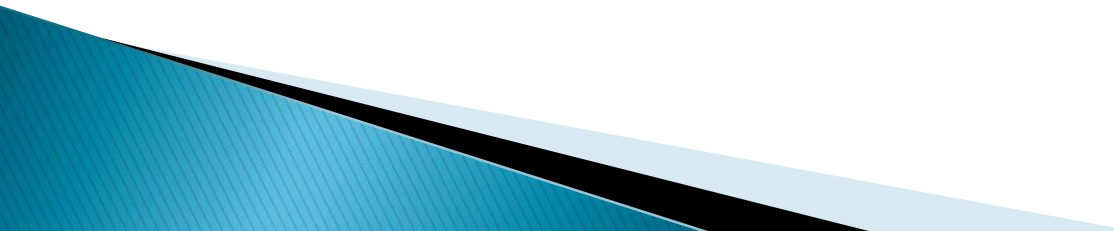
Miles and Snow's Strategy Typology

Managers should seek to formulate strategy that matches the demands of the external environment

- ▶ **Prospector**
 - Learning orientation; flexible, fluid, decentralized structure
 - Values creativity, risk-taking, and innovation
- ▶ **Defender**
 - Efficiency orientation; centralized authority and tight cost control
 - Emphasis on production efficiency, low overhead
- ▶ **Analyzer**
 - Balances efficiency and learning; tight cost control with flexibility and adaptability
 - Emphasis on creativity, research, risk-taking for innovation
- ▶ **Reactor**
 - No clear organizational approach; design characteristics may shift abruptly depending on current needs

How Strategy Affects Organization Design

- ▶ Strategy impacts internal organization characteristics
- ▶ Managers must design the organization to support the firm's competitive strategy



Porter's Competitive Strategies

Strategy: Differentiation

Organization Design:

- Learning orientation; acts in a flexible, loosely knit way, with strong horizontal coordination
- Strong capability in research
- Values and builds in mechanisms for customer intimacy
- Rewards employee creativity, risk taking, and innovation

Strategy: Low-Cost Leadership

Organization Design:

- Efficiency orientation; strong central authority; tight cost control, with frequent, detailed control reports
- Standard operating procedures
- Highly efficient procurement and distribution systems
- Close supervision; routine tasks; limited employee empowerment

Miles and Snow's Strategy Typology

Strategy: Prospector

Organization Design:

- Learning orientation; flexible, fluid, decentralized structure
- Strong capability in research

Strategy: Defender

Organization Design:

- Efficiency orientation; centralized authority; tight cost control
- Emphasis on production efficiency; low overhead
- Close supervision; little employee empowerment

Strategy: Analyzer

Organization Design:

- Balances efficiency and learning; tight cost control with flexibility and adaptability
- Efficient production for stable product lines; emphasis on creativity, research, risk-taking for innovation

Strategy: Reactor

Organization Design:

- No clear organizational approach; design characteristics may shift abruptly, depending on current needs


Organizational Design Outcomes of Strategy

Source: Based on Michael E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: The Free Press, 1980); Michael Treacy and Fred Wiersema, "How Market Leaders Keep Their Edge," *Fortune* (February 6, 1995), 88–98; Michael Hitt, R. Duane Ireland, and Robert E. Hoskisson, *Strategic Management* (St. Paul, Minn.: West, 1995), 100–113; and Raymond E. Miles, Charles C. Snow, Alan D. Meyer, and Henry J. Coleman, Jr., "Organizational Strategy, Structure, and Process," *Academy of Management Review* 3 (1978), 546–562.

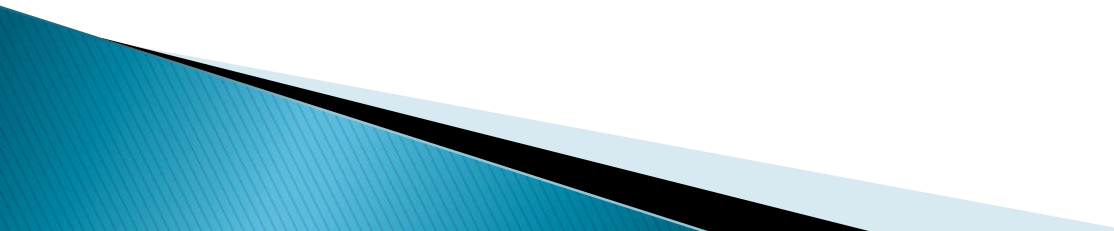
Chandler's Thesis - Strategy to Structure

Chandler studied almost 100 of America's largest firms from 1909 to 1959, including DuPont, General Motors, Standard Oil of New Jersey, and Sears, Roebuck.

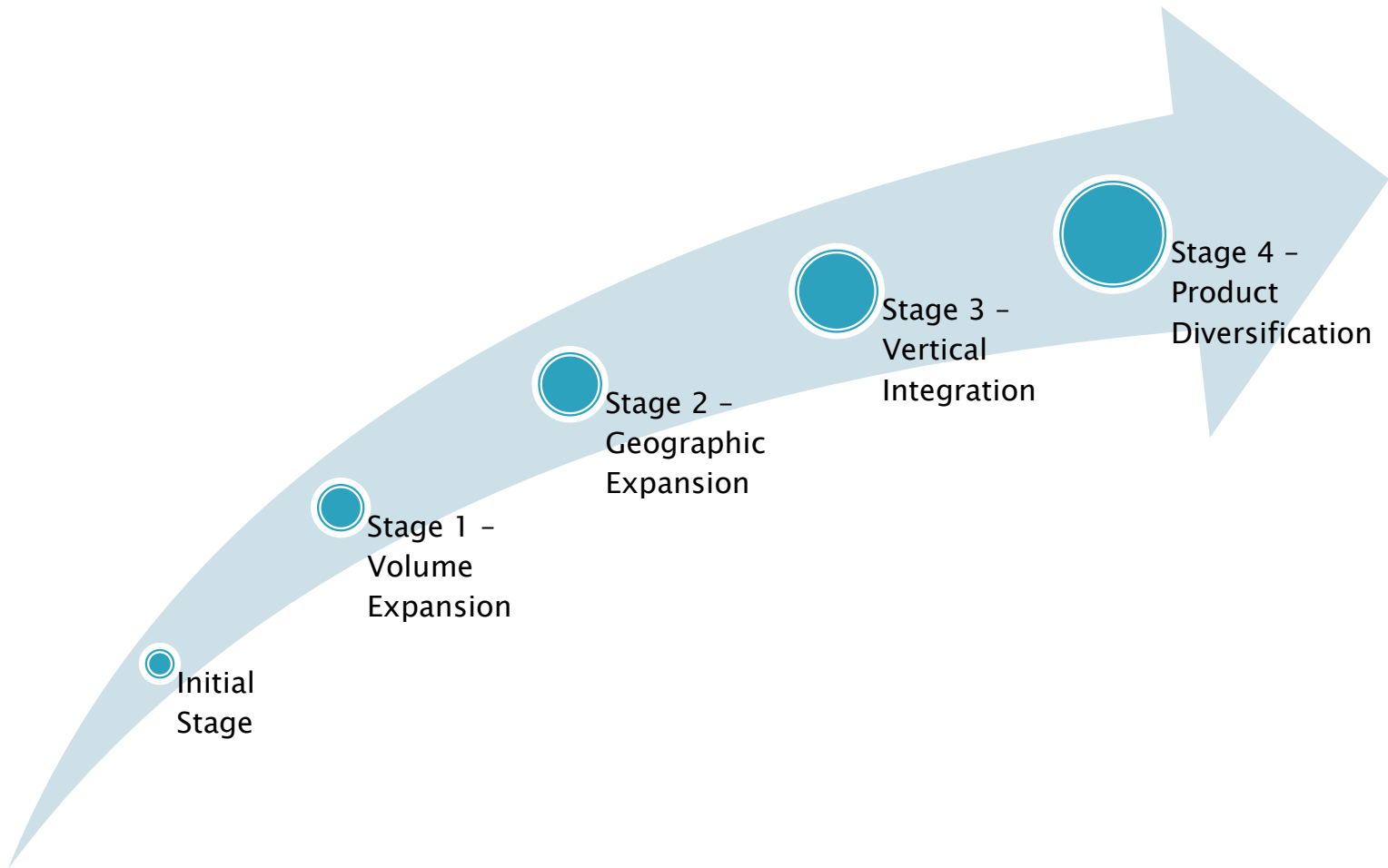
He concluded that changes in corporate strategy preceded and led to changes in an organization's structure



CHANDLER, CONT'D

- ▶ Concluded that organization structures follow the growth strategies of firms.
 - ▶ He also found that growth strategies tended to follow certain **patterns**.
- 

Stages of Growth



GROWTH STRATEGIES I

- ▶ The initial stage typically involves plants, sales offices, or warehouses in a single industry, a single location, and performance of a single function. If successful, they follow a predictable path.

Stage 1

- ▶ The first growth stage is VOLUME EXPANSION, producing selling and distributing more of their product or service to customers.

Stage 2

- ▶ The next stage of growth is GEOGRAPHIC EXPANSION, continuing what it was already doing in new geographical areas, with new field units.

Stage 3

- ▶ The third growth strategy is VERTICAL INTEGRATION, as firms either buy or create other functions.

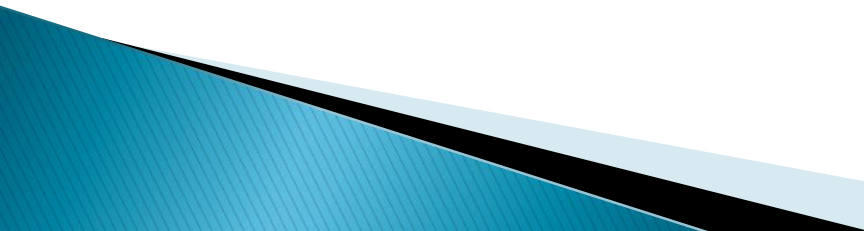
Stage 4

- ▶ The ultimate growth strategy, PRODUCT DIVERSIFICATION, involving the firm in new industries either through merger, acquisition, or creation (product development).

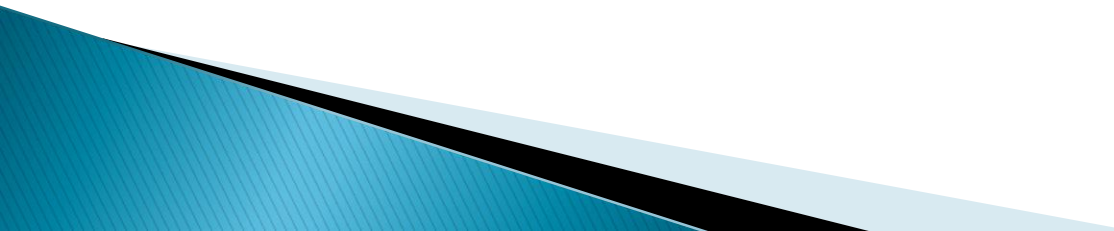
CHANDLER, CONT'D

- ▶ As a firm moves through each stage, it must change its organization structure in successive steps through **System 1 to System 4 (Likert) structural types**.
- ▶ The initial System 1 structure is appropriate because volume expansion of a single product or service in a single industry stresses low unit cost (efficiency) and maximum resource utilization (production), with relatively low concern for response to change and uncertainty.

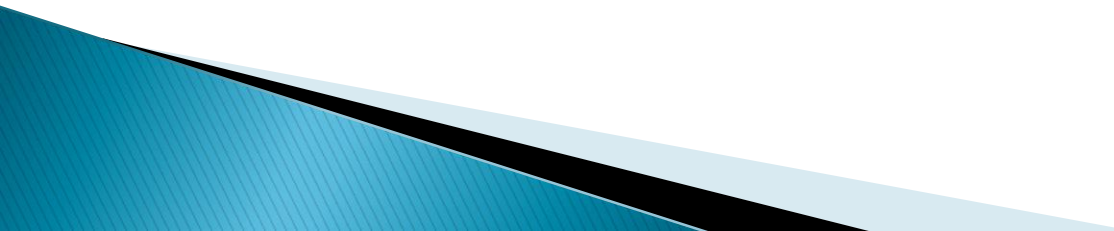
CHANDLER, CONT'D

- ▶ The change to **geographic expansion**, and ultimately, product diversification increases the firm's concern for adaptability and flexibility in the face of diverse and complex environments.
 - ▶ Thus, the organization structures of such firms are characterized by **product-based divisions and departments**, **decentralized authority**, and relatively **wide spans of control**.
- 

LIKERT SYSTEM 1

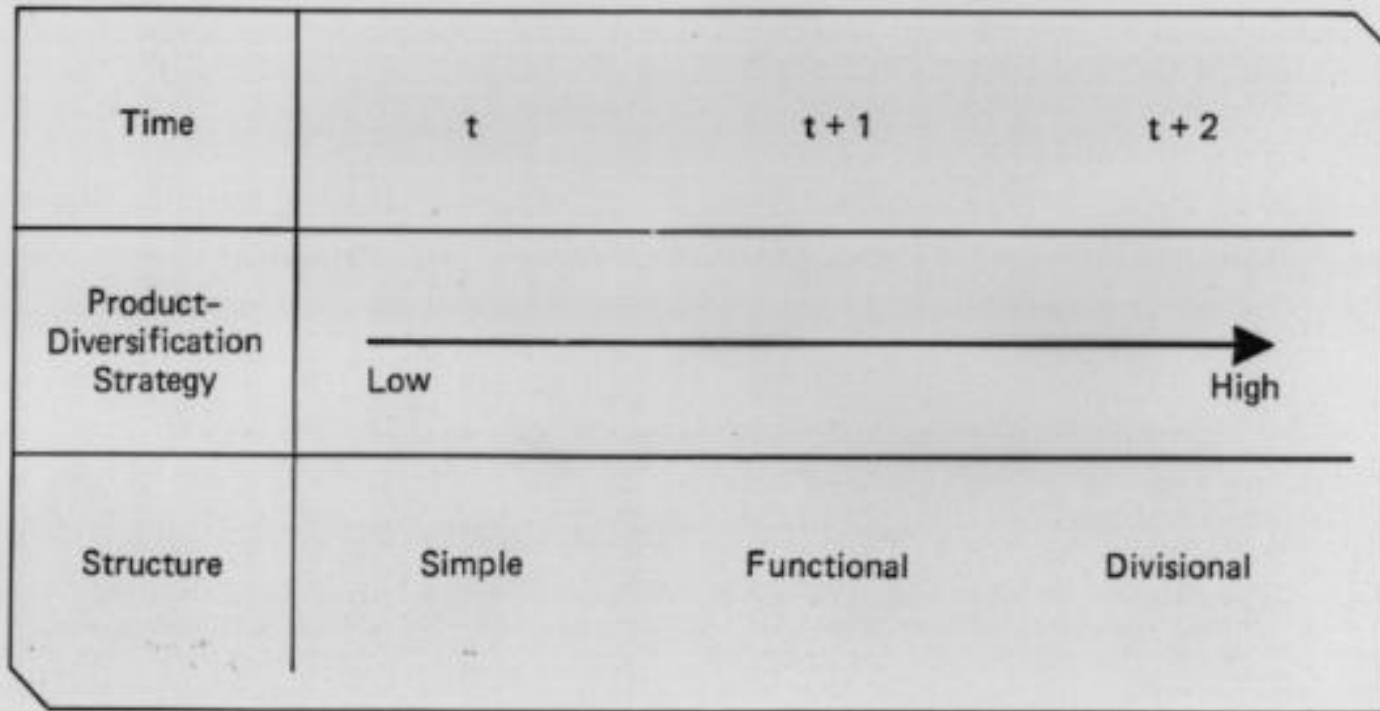
- ▶ Also known as: Bureaucratic, Classical, Formalistic, Mechanistic
 - ▶ Characteristics: high specialization of labor, homogeneous departments, narrow spans of control, centralized authority
- 

LIKERT SYSTEM 4

- ▶ Also known as: Non-bureaucratic, neoclassical, informalistic, organic
 - ▶ Characteristics: low specialization of labor, heterogeneous departments, wide spans of control, decentralized authority
- 

CHANDLER TIME-LINE

Figure 4-2 Chandler's thesis



As the product diversification moves from low to high; the structure moves from simple to divisional.

CHANDLER – PROGRESSION

- ▶ TIME – t
- ▶ **Simple Structure. Centralized. Single Product Line**
- ▶ Simplicity of strategy is compatible with a loose and simple structure.
- ▶ Decisions can be centralized.
- ▶ Is low in both Complexity and Formalization.

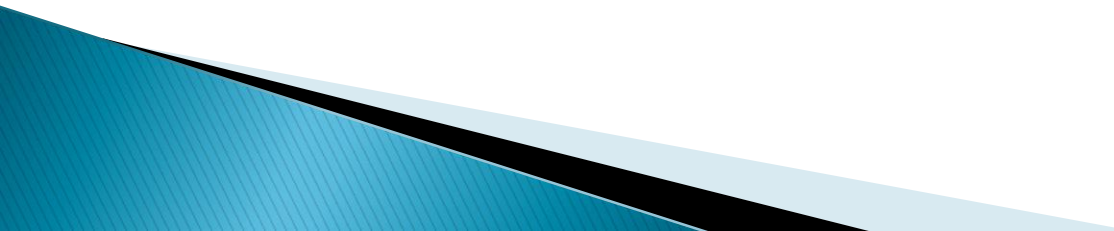
(High Centralization, Low Formalization, Low Complexity)



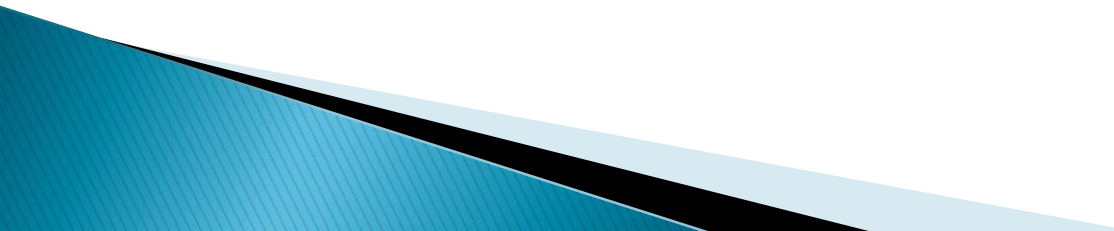
CHANDLER – PROGR. II

- ▶ TIME - t+1
- ▶ As demand grows for products. Companies expand. They increase product lines. Integrate vertically to control sources of supply. Reducing dependency on suppliers. To produce a greater variety of products. They separate into product groups within the organization.

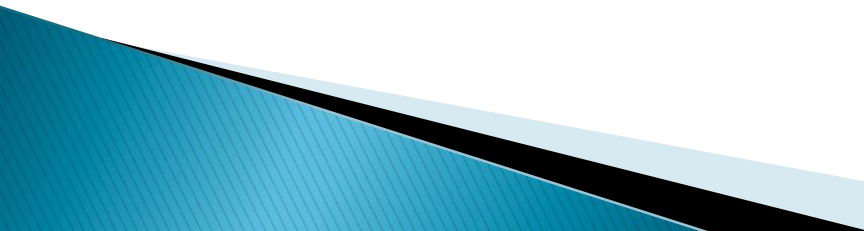
t+1, continued

- ▶ Strategies become more ambitious and elaborate. Expand activities within their same industry. Vertical integration requires more complex coordination due to increased interdependence between organizational units. Accomplished by redesigning the structure to form specialized units based on functions performed.
 - ▶ **(Moderate Centralization, Moderate Formalization, Moderate Complexity)**
- 

CHANDLER – PROGR. III

- ▶ TIME - $t+2$
 - ▶ Growth and diversification give rise to the need for an autonomous multi-divisional structure.
 - ▶ The centralized structure becomes inefficient and impractical for dealing with significantly greater complexity.
- 

t+2, continued

- ▶ A product-diversification strategy requires a structural form that allows for the efficient allocation of resources. Accountability for performance, and coordination between units. This can best be achieved through the creation of a multiple set of independent divisions, each responsible for a specified product line.
 - ▶ (High Complexity, Low Centralization, Moderate Formalization)
- 

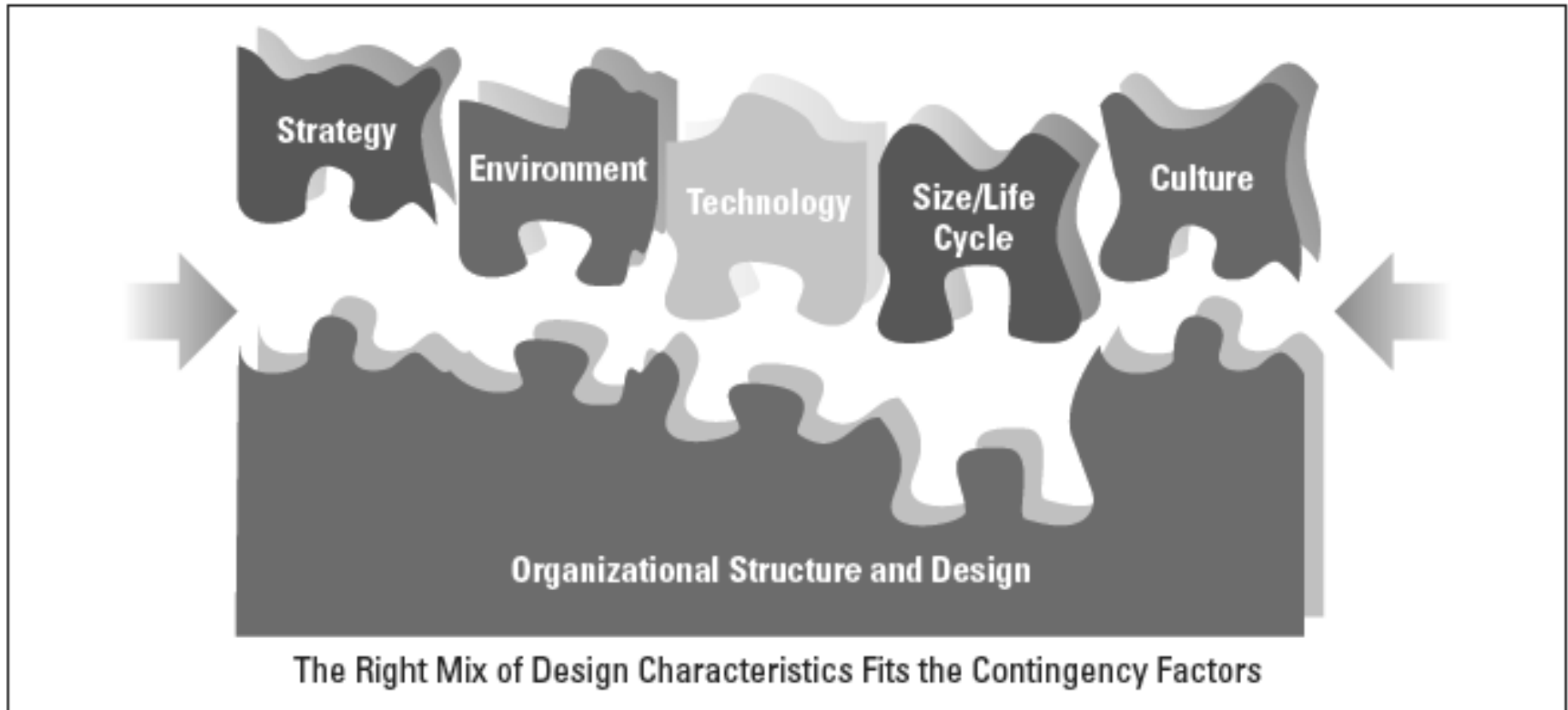
Three Levels of Strategy

- ▶ Strategy is formulated at three organizational levels
 - Functional Level Strategy
 - Is a plan of action to strengthen organization's functional and organizational resources
 - Business Level Strategy
 - Value that organization creates at business level based on its core competencies
 - Corporate Level Strategy
 - To obtain value by sharing resources or transferring functional skills

Summary

- ▶ Theories in Strategy and Organizations
 - Porter's Competitive Strategy
 - Miles and Snow's Strategy Typology
 - Chandler's Thesis – Strategy to Structure
 - Three Level Strategy

Contingency Factors Affecting Organization Design



Contingency Factors affecting OD

- ▶ Environment
 - stable environment: traditional structure
 - Rapidly changing environment: flexible structure
- ▶ Technology
 - Mass production: focus on efficiency
 - eBusiness: informal and focus on flexibility
- ▶ Size
 - Small : informal
 - Large: numerous roles and departments / divisions
- ▶ Culture
 - Value for teamwork, collaboration, creativity and open communication

»» Organizational Effectiveness

Assessing Organizational Effectiveness

Effectiveness takes into consideration a range of variables at both the organizational and departmental levels.

Efficiency relates to the working of the organization and amount of resources used to produce output.

Measuring Effectiveness:

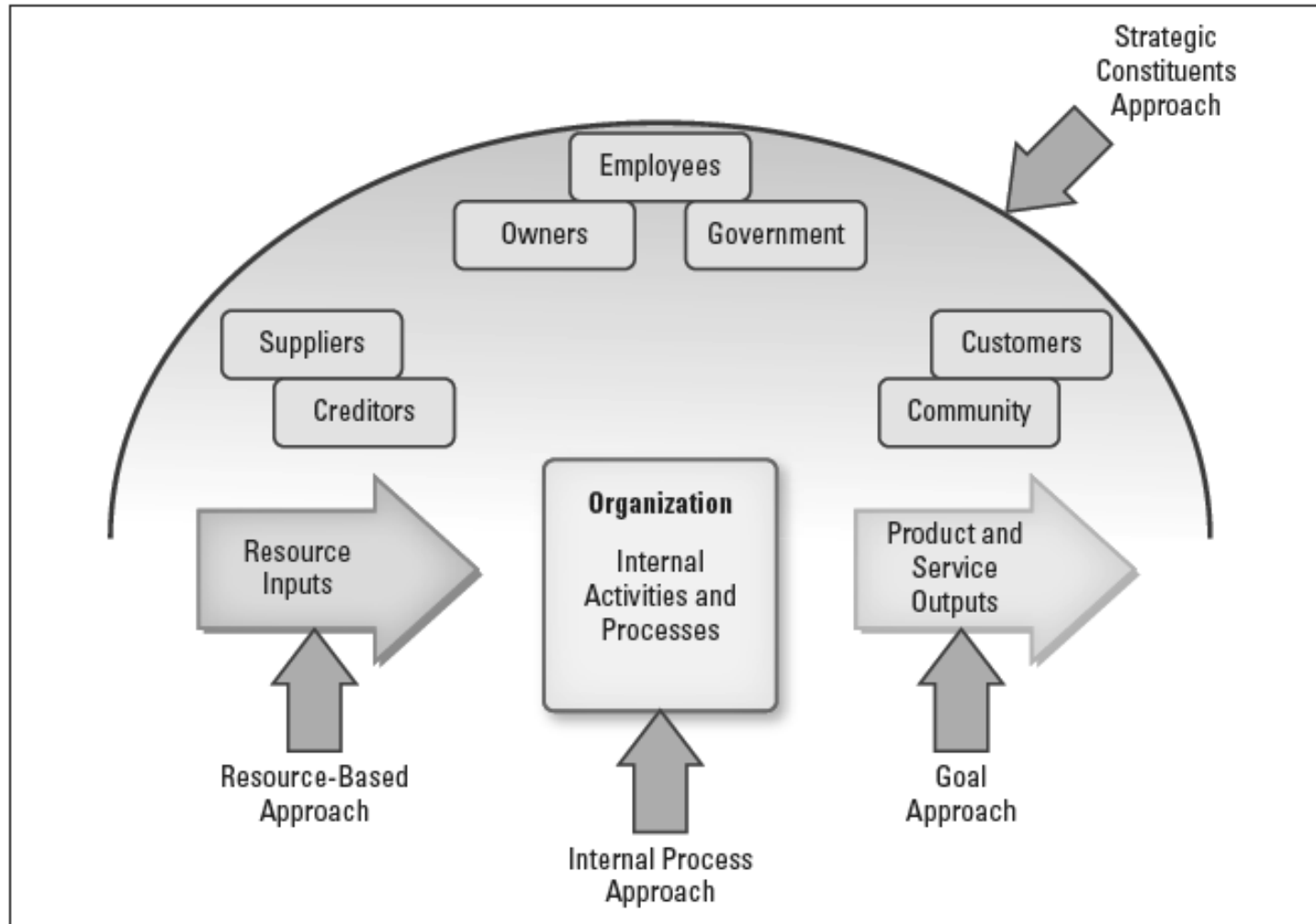
Traditional Approach

- The Goal Approach
- The Resource-Based Approach
- The Internal Process Approach

Integrated Approach

- Balanced score card approach

Approaches to Measuring Organizational Effectiveness



Measuring Effectiveness – Goal Based Approach

- ▶ Goal approach to effectiveness consists of identifying an organization's output goals and assessing how well the organization has attained those goals
- ▶ Ex – Profitability, Market Share, Growth, Social Responsibility

Measuring Effectiveness – Resource Based Indicators

- ▶ Resource based indicators looks at input side of transformation process
- ▶ Ex – Bargaining Position, using intangible assets like knowledge, corporate culture etc, ability to respond to change

Measuring Effectiveness – Internal Process Indicators

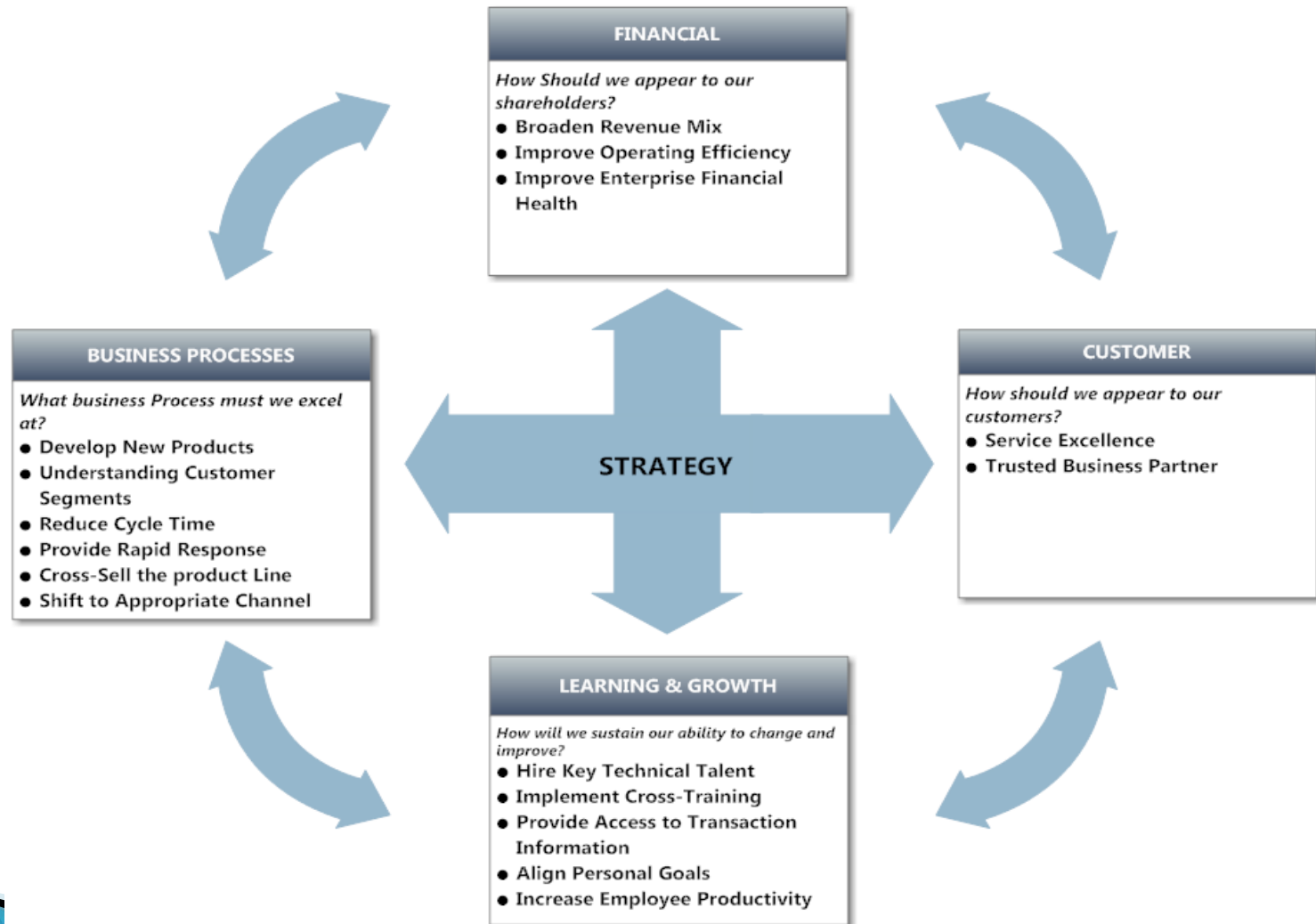
- ▶ Internal Process approach effectiveness is measured as internal organizational health and efficiency
- ▶ Ex – employees are happy, operational efficiency , growth and development of employees, attrition rate

Indicators of Organizational Effectiveness

1. Meeting deadlines; on-time delivery
2. Timely material and equipment acquisition
3. Quality of product or service
4. Customer satisfaction/complaints
5. Market share compared to competitors
6. Employee training and development (number of hours)
7. Staying within budget
8. Shareholder satisfaction
9. Reduction in costs
10. Supply chain delays or improvements
11. Productivity; dollars spent for each unit of output
12. Employee engagement
13. Achieving sales targets
14. Product development cycle time (reduction in cycle time)
15. Number of hours/days/etc. to complete tasks

Source: Based on "Table 1; Initial Items Derived from Interviews," in Cristina B. Gibson, Mary E. Zellmer-Bruhn, and Donald P. Schwab, "Team Effectiveness in Multinational Organizations: Evaluation Across Contexts," *Group & Organizational Management* 28, no. 4 (December 2003), 444–474.

Measuring Effectiveness – Balanced score card Approach



Design Essentials

- ▶ Organization exist for a purpose
- ▶ Strategic intent includes competitive advantage and core competence
- ▶ Strategies may include many techniques
- ▶ There are models to aid in the development of strategy
- ▶ Organizational effectiveness must be assessed
- ▶ No approach is suitable for every organization

»» Excellence

Types of Organizational Excellence

- ▶ **Competitive Excellence**
 - Best performance in a competitive field
- ▶ **Rejuvenator Excellence**
 - Sick organizations dramatically improve performance
- ▶ **Institutionalized Excellence**
 - Sustained high performance
- ▶ **Creative Excellence**
 - Uniqueness and innovativeness
- ▶ **Missionary Excellence**
 - Social change oriented
- ▶ **Versatile**
 - Ability to meet the expectations of all the significant stakeholders or the organization