

Chapter 2: Strategy, Organizational Design, and Effectiveness

Exhibit 2.1

CHAPTER OVERVIEW

Organizations exist to attain goals and top managers give direction to organizations. This chapter explores strategic direction in organizations in terms of the types of goals and strategies that top management develops, as well as two frameworks for determining strategic action. Several approaches are then explored for measuring organizational effectiveness.

CHAPTER OUTLINE

A LOOK INSIDE

Tim Hortons

Tim Hortons is the quintessential Canadian company, founded by the hockey player, Tim Horton. It has grown rapidly in its 40+ years from 1 store to 3500 in Canada and the U.S. in 2009. Its strategy has been to centre its brand on its coffee which provides an anchor for the company while it constantly revises its product mix. Tim Hortons has about 62% market share in the Canadian coffee segment. Top managers are responsible for establishing goals and strategies that enable the company to be competitive, i.e., gradual expansion into adjacent areas, retaining its Canadian identity, and maintaining consistency. They are also exploring some international opportunities. Recently Tim Hortons announced plans to close its Afghan outlet as Canada winds down its presence in Afghanistan. For more information on Tim Hortons, please turn to the integrated cases at the end of this text.

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The 'You & Design' questionnaire done as a group activity will allow students to discover their strengths regarding strategy formulation & implementation.

The Role of Strategic Direction in Organizational Design

The primary responsibility of top management is to determine an organization's goals, strategy, and design, therein adapting the organization to a changing environment. Direction setting begins with an assessment of opportunities and threats in the environment and an evaluation of internal strengths and weaknesses. Then the company can determine its mission, goals and strategies. Organizational design reflects the way goals and strategies are implemented. This is the role of organization theory. Consider how organization design is affected by the choice of goals and strategy. New goals and strategy are often selected based upon environmental needs, and then top management attempts to redesign the organization to achieve those ends. Performance measurements feed back into the internal environment, so that past performance of the organization is

assessed by top management in setting new goals and strategies for the future. Choices that top management make about goals, strategy and organizational design have a huge impact on organizational effectiveness.

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. Purpose refers to *why* you do what you do, not what you do or how you do it but why you do it. Purpose has been shown to positively impact employee engagement and commitment to an organization thereby impacting organizational effectiveness.

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.

Operative Goals

Operative goals refer to the ends sought through operating procedures and describe specific measurable outcomes in the short run. These goals concern overall performance, boundary spanning, and maintenance, adaptation, and production activities.

- Overall performance goals may be expressed in terms of profitability, delivery of service, growth, or volume.
- Resource goals pertain to the acquisition of needed material and financial resources.
- Market goals relate to the market share or market standing desired. For example, Lego is re-evaluating its goals to regain its market share.
- Employee development goals pertain to the training, promotion, safety, and growth.
- Innovation and change goals pertain to internal flexibility and readiness to adapt to unexpected changes in the environment.
- Productivity goals concern the amount of output achieved from available resources.

<p>Focused differentiation strategy</p> <p>http://www.fourseasons.com</p> <p><i>*Note: Workbook Activity to be used for this section.</i></p> <p>Exhibit 2.3</p>	<p>LEADING BY DESIGN Four Seasons</p>
	<p>Four Seasons, a luxury Canadian hotel chain, believes in doing things differently from the rest of the industry. Izzy Sharp, founder and CEO of Four Seasons, believes that staff can only provide exemplary service if they are well supported, encouraged and led by managers committed to them. So the Four Seasons focuses its policies and practices on building positive relationships with staff members who in turn provide superior customer service. Their results point to success with this strategy: their employee turnover rate is 25% whereas the industry average is close to 158%, their stock has traded higher than most similar hotels and they have been listed as one of the “100 Best companies to work for in America”. For the Four Seasons’ management, their human resource policies are not about copying best practices, but are a business decision and integral part of their strategy, to increase profits.</p> <p>The Importance of Goals The mission or official goals provide legitimacy to stakeholders and overall direction for the company. In contrast, operative goals provide employee direction and motivation, decision guidelines, and criteria of performance. An increasing number of companies are now using triple- bottom-line accounting - a system which assesses their environmental and social performance as well as their financial performance.</p> <p>A Framework for Selecting Strategy and Design</p> <p>A strategy is a plan for interacting with the competitive environment to achieve organizational goals. Goals define where the organization wants to go and strategies define how the organization will get there.</p> <p>Porter’s Competitive Strategies Michael Porter introduced a framework describing four 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. Low-cost leadership strategy involves techniques for excelling at cost reduction and efficiency, with broad competitive scope. Differentiation strategy strives to create and market unique products by innovative product characteristics and advertising. Focus strategies concentrate on a narrow market or buyer group. The company tries to achieve either a focused low-cost or a focused differentiation advantage within a narrowly defined market.</p>

<p>Focused low cost leadership strategy</p>	<div data-bbox="363 226 1511 310" style="background-color: #e0e0e0; text-align: center; padding: 5px;"> <p>IN PRACTICE WestJet</p> </div> <div data-bbox="363 310 1511 556"> <p>WestJet has succeeded in a turbulent environment through careful attention to planned, controlled, and incremental growth. It has challenged Air Canada’s domination of the Canadian airline market by quickly identifying strategies, markets and technologies that are profitable and abandoning those that aren’t. West jet also uses new fuel-efficient aircraft as part of its tight cost control focus and employee empowerment and profit-sharing to increase customer service levels and reduce operating costs.</p> </div> <div data-bbox="363 594 1511 1018"> <p>Miles and Snow’s Strategy Typology</p> <p>Raymond Miles and Charles Snow assume that managers create strategies congruent with the external environment. Organizations strive to fit internal organization characteristics and strategy to the external environment. The prospector strategy involves innovation, taking risks, seeking out new opportunities and growth. The defender strategy involves retrenchment, focusing on stability and seeking to keep current customers without innovation or growth. The analyzer strategy lies between the prospector and defender by efficiently maintaining a stable business for current product lines, while innovating on the periphery. The reactor approach is really just responding in an <i>ad hoc</i> manner to environmental threats and opportunities, without a real long-range plan.</p> </div> <div data-bbox="363 1031 1511 1150" style="background-color: #e0e0e0; text-align: center; padding: 5px;"> <p>BOOK MARK 2.0 <i>What Really Works: The 4 + 2 Formula for Sustained Business Success</i> by William F. Joyce, Nitin Nohria, and Bruce Roberson</p> </div> <div data-bbox="363 1150 1511 1348"> <p>The authors contend that there are certain reliable indicators of enduring organizational success. This book analyzes the data captured over five years from 160 companies representing 40 different industries. The findings indicate that there is a direct connection between high financial performance and sustained excellence in six key practices.</p> </div>
<p>Exhibit 2.4</p>	<p>How Strategies Affect Organizational Design</p> <p>Design must support the firm’s competitive approach. For example, if the organization uses the low-cost leadership or defender strategy, the design should be focused on efficiency, whereas if the organization uses the differentiation or prospector strategy, the design calls for a learning organizational structure with strong horizontal coordination mechanisms to increase collaboration and teamwork.</p>
<p>Exhibit 2.5</p>	<p>Other Factors Affecting Organizational Design</p> <p>In addition to strategy, other factors impact organizational design. Contingency factors such as environmental stability, workflow technology, size and life cycle, and organizational culture must <i>fit</i> as well.</p>

Exhibit 2.6

Assessing Organizational Effectiveness

It is important to differentiate organizational *effectiveness* from *efficiency*. Effectiveness is the degree to which an organization realizes its multiple goals. *Efficiency* refers to the resources used to produce outputs (ratio of inputs to outputs). Effectiveness is often difficult to measure in organizations, especially those that are large, diverse, fragmented and those that have multiple goals and measures of effectiveness like not-for profit organizations.

Contingency Effectiveness Approaches

Contingency effectiveness approaches are based on an examination of specific parts of the organization that are considered to be the most important to measure, in contrast to balanced effectiveness approaches that integrate several parts of the organization in an effort to measure effectiveness.

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 of system resource effectiveness include dimensions such as bargaining position, ability to correctly interpret properties of the environment, maintenance of internal day-to-day activities, and ability to respond to environmental changes. A shortcoming can be overemphasis on acquisition of resources rather than on their utilization.

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 strong corporate culture, team spirit, trustful communication, decision making near sources of information, undistorted communication, managerial rewards for performance, and interaction between the organization and its parts.

Goal Approach

The goal approach measures effectiveness by evaluating the extent to which operative goals are achieved. It is more productive to measure effectiveness using operative goals than using official goals which are more abstract and difficult to measure. The goal approach is used because output goals can be readily measured, after issues of multiple goals and subjective indicators of goal attainment are resolved.

Managing multiple and conflicting goals is necessary when different managers champion different goals, or when it is necessary to serve different environmental demands. Therefore, effectiveness has to be measured by several factors and often cannot be assessed by a single indicator.

<http://www.theglobeandmail.com/globe-investor/investment-ideas/features/eye-on-equities/analyst-blasts-loblaw-for-it-upgrade-delay/article2245160/>

Exhibit 2.8

IN PRACTICE

Loblaw

In 2005, Loblaw's margins had fallen to 4.7 percent. This for a company which had previously enjoyed relatively high margins in an industry known for fierce competition and low profit margins. It was clearly a time to revisit strategy. In late 2006, Galen G. Weston was faced with unhappy customers and investors, and heavily financed real estate. Weston announced a new plan that included price-cutting, increased marketing, improved staffing and a commitment to innovation. In November 2008, sales were up by 4.4 percent from the previous year while profits remained flat. In 2010, the renewal plan included large infrastructure and information technology investments which continued to negatively impact profits. However, Weston remains optimistic and committed to this strategy in the belief that it would ultimately revive Loblaw's fortunes.

An Integrated Effectiveness Model

The competing values approach, developed by Quinn and Rohrbaugh, recognizes that managers may emphasize different indicators of performance and tries to balance a concern with various parts of the organization rather than focusing on one part. Two values can be used to categorize four models of effectiveness.

Organizational **focus** is whether issues internal or external to the firm are valued. Organization **structure** is the emphasis on either flexibility or stability. The four resulting areas of management emphasis reflect the two values: the *open systems emphasis* combines an external focus and flexible structure, with management's primary goals being resource acquisition and growth; the *rational goal emphasis* focuses on stable structure and external environment with management's primary goals being productivity, efficiency, and profit; the *internal process emphasis* reflects the values of internal focus and stability, with management's primary goal being to maintain the status quo; the *human relations emphasis* combines internal focus and flexible structure with management's primary goal being employee development.

New Directions

There are many 'big' questions that strategy researchers try to answer such as (1) why so many organizations look similar and why they are alike, and (2) what are the effects social-political institutions on organizations? There are several blogs listed on pp.75 of the text that provide more information on this field.

LECTURE ENHANCEMENT:

Stakeholder or Constituency Approach

The stakeholder or constituency approach to determining goals and effectiveness is based on the organization identifying the stakeholders of the organization and their respective measures for determining the organization's effectiveness (See Chapter 1). Each group has different criteria, or goals, which it feels that organization should be addressing. Once the various criteria or goals are defined, the organization must determine how to balance conflicting demands and prioritize which goals to address. One method is to determine the power of each constituent group and the relative importance of the effectiveness criteria of that group. Remember that the stakeholder groups may have power over the organization by virtue of ability to provide or deny critical resources.

The relative importance of the effectiveness criteria is the degree to which the constituent group feels the goals are important to them. By mapping both the power for the stakeholder group and importance of effectiveness criteria, the organization can analyze its stakeholder environment. Have students determine an organization about which they can collect information from at least a small sampling of several groups of stakeholders.

1. List all major stakeholders of the organization.
2. Determine the amount of power each has with respect to the organization, preferably by interviewing the top management team.
3. Find out from key stakeholders what effectiveness criteria are more important; then determine for a particular effectiveness criterion (e.g., market share, customer service), its importance to each stakeholder group.
4. Place stakeholder group in appropriate place on model.

Analysis of Stakeholder Power & Importance

High Power of Stakeholder Group Over Organization

1. High Power Low importance	2. High Power High Importance
3. Low Power Low Importance	4. Low Power High Importance

Discussion Questions

1. Discuss the role of top management in setting organizational direction.

ANSWER: The primary responsibility of top management is to determine an organization's goals, strategy, and design. Top management must assess the opportunities and threats in the environment and the internal strengths and weaknesses of the organization. Based on this assessment, the duty of top management is then to formulate the overall mission and goals of the organization. The design of the organization should be based on the mission and goals. The perspective of top management is needed in this process, especially since managers can interpret the environment differently and develop different goals. This interpretation can have a dramatic impact on organization success.

2. How might an organization's goals for employee development be related to its goals for innovation and change? To goals for productivity? Can you discuss ways these types of goals might conflict in an organization?

ANSWER: Employee development may be seen as a prerequisite for innovation or productivity. Goals for innovation and change may spark different approaches by different employees, leading to conflict. Similarly, implementation for productivity may be approached so differently by different employees that it would lead to conflict. Such conflict, if in the form of constructive disagreement, can be healthy for determination of the best path.

3. What is a goal for the class for which you are reading this text? Who established this goal? Discuss how the goal affects your direction and motivation.

ANSWER: Students may volunteer that a personal goal is to pass the class with a grade of "C" or better in order to fulfill degree requirements. Challenge students to evaluate how such a goal could be reformulated in order to offer motivation that would elevate effort to measurable but realistic objective. Ask students to state the likely goals the instructor has for the class, and how those goals would affect their direction and motivation. There is no "right" answer to this question, but make sure students have the message that goals can, in part, determine behaviour.

4. What is the difference between a goal and strategy as defined in the text? Identify both a goal and a strategy for a campus or community organization with which you are involved.

ANSWER: Operative goals identify the ends sought by the organization concerning overall performance, boundary spanning, maintenance, adaptation, and production activities. The official goal is sometimes referred to as the mission or formally stated definition of the business outcome the organization is trying to achieve – its reason for existence. In contrast, a strategy is the organization's plan for achieving its goals. The goal of Beta Gamma Sigma might be to increase the number of paying members by 15% in two semesters, while a strategy for achieving that goal might be aggressive communication to business students about Beta Gamma Sigma's purpose.

5. Discuss the similarities and differences in the strategies described in Porter's competitive strategies and Miles and Snow's typology.

ANSWER: Similarities include that Porter's differentiation strategy and Miles and Snow's prospector strategy both call for learning orientations with a flexible, decentralized structure. Both have strong capability in research, and values employee creativity, risk-taking and innovation. Additional similarities are that Porter's low-cost leadership strategy and Miles and Snow's defender strategy have an efficiency orientation with centralized authority and tight cost control. Differences are that Miles and Snow's analyzer strategy moves in a new direction from Porter's strategies by balancing the other two main approaches (prospector and defender) into one strategy, while Porter has no "combination strategy" that balances the differentiation and low-cost leadership approaches. Furthermore, Miles and Snow have one category, the reactor, which has no clear approach whatsoever, which is not an option in Porter's approaches.

6. Do you believe mission statements and official goal statements provide an organization with genuine legitimacy in the external environment? Discuss.

ANSWER: One important function of a mission statement is to state the reason for the existence of the organization which provides outsiders with a sense of the organization's purpose. Official goals identify the purpose and legitimize the organization for employees, clients, government and other important external groups. Official goals typically are abstract and therefore run the risk of being perceived by some outsiders as "apple pie" statements that sound good but do little to shape the actual organization. Official goals are in harmony with the mission and provide a rationale or reason for the organization to exist. Many students comment that such statements offer genuine legitimacy only to the extent that they actually go beyond "public relations" to guide decision making. Therefore, the genuine legitimacy provided may come more from the overall implementation of the mission along with the organization's goals and strategies than from the piece of paper on which the mission is written for outsiders to read.

7. Suppose you have been asked to evaluate the effectiveness of the police department in a medium-sized community. Where would you begin, and how would you proceed? What effectiveness approach would you prefer?

ANSWER: This question does not have a correct answer. It is designed to force students to think about the different approaches to effectiveness, to encourage them to apply more than one measure, and to try to apply them. Students will realize how difficult it is to use the goal approach or system resource approach alone. One solution to this question is to follow a procedure to identify indicator goals, system resources and internal process indicators. The measures can then be formulated into a combined approach to effectiveness. Students may also argue for the constituency approach since the police department is a social organization. The satisfaction of employees, city government, community members, minorities, and other groups, may be a good indicator of police department effectiveness; each of the stakeholders identified should be asked for indicators important to them, and then they should be asked to assess the department on the relevant indicator.

8. What are the advantages and disadvantages of the resource-based approach versus the goal approach for measuring organizational effectiveness?

ANSWER: The advantage of the resource-based approach is that it can be used to evaluate effectiveness when organizations pursue different kinds of goals, if they are using similar resources. Organizations can be compared on the ability to acquire scarce and valued resources needed to provide products and services that will eventually enable them to realize their goals. The resource-based approach considered the organization in relationship to the external environment. The advantage of the goal approach is that it examines what the organization is trying to do, which in some respects is the preferred criterion of effectiveness. The goal approach becomes problematic when the effectiveness has to be measured for multiple goals, or when organizations are compared that pursue different goals, or when the only indicators are subjective. In these cases an accurate assessment may be difficult. Sometimes a combination of the system resource and goal approach is best. Both inputs and outputs can be evaluated. The two approaches can lead to a reasonably accurate measure of effectiveness.

9. What are the similarities and differences between assessing effectiveness on the basis of competing values versus the stakeholder approach described in Chapter 1? Explain.

ANSWER: The similarity is that both approaches incorporate inputs, internal processes, and outputs into determining goals and effectiveness. These approaches acknowledge that organizations do many things and serve various needs, both internal and external to the organization. The differences reflect the focus for effectiveness. The constituency approach is concerned with all groups that have a stake in the organization. The constituency approach takes society's perspective and does not give any special recognition to owners or managers in trying to establish effectiveness. The competing values approach takes the view of managers and owners, but realizes that choices must be made in terms of acknowledging what is important for the organization (i.e., internal or external issues, stability or flexibility in structure). When one set of values is chosen, this orientation becomes the criterion of effectiveness for the organization.

10. A noted organization theorist once said, "Organizational effectiveness can be whatever top management defines it to be." Discuss.

ANSWER: This question can facilitate discussion of where goals come from and top management's role in the process. Generally speaking, students will agree with this statement. Managers define the goals of the organization and they define the extent to which the organization is performing well. These factors are not fixed or given from the environment. One of the important roles of management is to define goals and effectiveness, and these factors are then taken by other people at lower levels within the organization. Some students may disagree. Students may argue that society's view is paramount, and the organization should do what is best for the larger culture. This point of view reflects a constituency criterion, and can also be accepted as legitimate. Many managers working within organizations, however, would not accept this approach to effectiveness as superior to their own definition. Some students who disagree with the given statement may feel that managers often have too narrow a view of effectiveness, and that much as the students who had not yet read this chapter, managers may have thought of effectiveness as little more than goal attainment.

WORKBOOK: IDENTIFYING COMPANY GOALS AND STRATEGIES

The Workbook activity presents an opportunity to contrast different firms' goals and strategies. There is benefit in having several students research the same companies because there will be variation in the goals they select as being most important, and they may come to different conclusions on the strategies used. Furthermore, you will be better able to build on class consensus in subsequent class discussions.

Companies selected for the Internet search might include:

- three firms in the transportation industry such as Cummins, Harley-Davidson, and Toyota
- three retailers such as The Bay, Wal-Mart, and Simons
- three organizations in the chapter such as American Apparel, NASA, and the TTC
- the firms cited in this chapter's In Practice examples of WestJet, Loblaw, and the Look Inside example of Tim Hortons

A transparency made from the Power Point slide provided for this activity can be used for recording consensus on the three organizations selected for research.

CASE FOR ANALYSIS: JONES SODA

Ask the students for their immediate reaction to the case. Then, ask the students to work in small groups or in their project teams to address the following three questions.

1. What strategy is Jones Soda using?

ANSWER: As the case says, it is a story of determination and fighting through challenges that other organizations would not have tackled. It also involves a strategy of being close to the customer and managing the Jones' brand passionately and vigilantly. It appears that they are following an analyzer approach.

2. Is this strategy sustainable? Why or why not?

ANSWER: This strategy is sustainable as long as there is room to grow in their sector. As Peter Van Stolk says, they are playing in the minor leagues, and it will be a long time before they get big enough for one of the big beverage companies to view them as a threat. Van Stolk's strategy is to listen to his customer and stay flexible and open to change. He wants to grow geographically not by volume, to boost brand equity and as long as he continues to build relationships with his customers, his strategy will be sustainable.

3. Are there ethical concerns here that need to be addressed?

ANSWER: The concerns about the sugar content in sodas and the obesity epidemic in North America may be an ethical consideration. Certainly pushing children to drink sugary drinks may not be considered ethical but Van Stolk's response is his sodas are bottled in 12 oz. bottles, not 2 litre bottles. His soda should be considered a treat not a thirst quencher, therefore he has no concern about targeting what he calls the aspirational demographic for his product – 12 to 24 year olds. Certainly there may be some ethical concerns with his online advisory board of children, but again he dismisses those concerns by saying that he is connecting with his customers and giving them a voice.

CASE FOR ANALYSIS: FOLDABLE SHOE MAKER BEATS THE ODDS

1. What strategy is Ms. Coleman pursuing?

ANSWER: In terms of Porter's Competitive Strategies, Ms. Coleman appears to be pursuing a *Focused Low-Cost* strategy. She is focusing on women who wear high heels and are looking for a comfortable alternative. In addition, she was pursuing a low-cost advantage as she was looking to manufacture offshore (e.g., China) thereby lowering her production costs to keep her product competitive. One would assume that barriers to entry in this domain were pretty low (not really specialized technology, etc.), so eventually consumers would look for the "cheapest at best quality" option. In terms of Miles and Snow's typology, Ms. Coleman was following a Prospector strategy as she was innovating, taking risks and seeking out new opportunities to grow her business. Also, by building and cultivating relationships with her suppliers and manufacturers in China, she understood the importance of these relationships to her business.

2. What sort of organizational design will support her strategy? How?

ANSWER: In terms of organizational design, Ms. Coleman has to consider that since low cost and efficiency are paramount, she needs an organizational design that supports that strategy. By outsourcing her manufacturing, she can keep costs low and overhead to a minimum. Her best option would be to keep the design and development, and the marketing in-house and to outsource the rest of the functions including finding a distribution network.

There are two elements to her organization – the design/innovation side and the production side. For the former, she needs to have an entrepreneurial, learning orientation – absorbing as much information as possible, learning from others (e.g., Arlene Dickinson), being adaptable and operating as an open system. As an open system, she should be open to feedback from the users (what works well, what might be problematic with the product, reading style and fashion trade magazines for styles. She must be aware of opportunities and threats as barriers to entry in this market are low. She must also operate as an open system because she needs to communicate closely with her partners on the manufacturing side of her organization. On the production side, the organization that she partners with needs to operate with efficiencies to keep the costs down. Her production partner needs to have tight cost controls, lots of standardization and cost controls in place.

WORKSHOP: COMPETING VALUES AND ORGANIZATIONAL EFFECTIVENESS

This Workshop activity will help to bring alive the meaning behind the Competing Values approach to organizational effectiveness. Ask students to imagine that a company wants to assess how it is achieving two goals in each of the quadrants. What would be measured? (Enter under "performance gauge" on table.) How would those goals be measured? (Enter in next column on table.) Where would the company get the information needed to conduct the measurement? (Enter under "source of data" on table.)

You can assign this exercise a week before, so that the teams have some time to collect the data and to prepare the analysis for presentation. Look to see (1) if the students selected goals that demonstrate an understanding of each quadrant, (2) if there's a logical fit between the performance gauge, measurement

approach and recommended data sources, and (3) if the students demonstrate a clear understanding of effectiveness (as distinct from efficiency).

It lends itself to being a graded assignment or a great integrating question for an open-book or take-home midterm exam.

