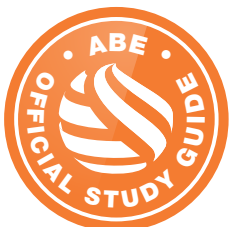


Your road to success

**LEVEL 6
ORGANISATIONAL
DESIGN,
DEVELOPMENT AND
PERFORMANCE**



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Using your study guide

Welcome to the study guide for **Level 6 Organisational Design, Development and Performance**, designed to support those completing their ABE Level 6 Diploma.

Below is an overview of the elements of learning and related key capabilities (taken from the published syllabus).

Element of Learning	Key capabilities
Element 1 – Organisational design	<p>Critical understanding of the basis for organisational design and why it is important to successful business organisations</p> <p>Knowledge of tools used to manage the design process</p> <p>Knowledge of different organisational structures</p> <p><i>Critical thinking, organisational design, processes</i></p>
Element 2 – External and internal factors and their impact on the organisation	<p>Ability to analyse the internal and external environment to identify different factors and the impact they have on the organisation and why those impacts occur</p> <p><i>Internal and external analysis, critical thinking, environmental scanning and stakeholder mapping, management styles</i></p>
Element 3 – Organisational development	<p>Critical understanding of the theoretical basis for organisational development and an ability to apply theory to practical situations</p> <p>Understanding of the organisational development process</p> <p><i>Critical thinking, principles of organisational development, stakeholder management</i></p>
Element 4 – Defining successful performance of the organisation and managing change	<p>Critical understanding of the concept of success as a basis for achieving success in reality</p> <p>Ability to identify and implement organisational performance indicators and use techniques such as balanced scorecard and target setting</p> <p>Ability to manage change and resistance to change, understanding the different theoretical models of change</p> <p><i>Critical thinking, organisational performance, target setting, use of tools and models, change management</i></p>
Element 5 – Implementing successful organisational development strategies	<p>The ability to lead on organisational development activities, taking a strategic role</p> <p><i>Strategic leadership, strategy development and implementation, objective setting, continuous improvement, communications, stakeholder buy-in, evaluating strategy impact</i></p>

This study guide follows the order of the syllabus, which is the basis for your studies. Each chapter starts by listing the syllabus learning outcomes covered and the assessment criteria.

L6 descriptor

Knowledge descriptor (the holder...)	Skills descriptor (the holder can...)
<ul style="list-style-type: none">• Has advanced practical, conceptual or technological knowledge and understanding of a subject or field of work to create ways forward in contexts where there are many interacting factors.• Understands different perspectives, approaches or schools of thought and the theories that underpin them.• Can critically analyse, interpret and evaluate complex information, concepts and ideas.	<ul style="list-style-type: none">• Determine, refine, adapt and use appropriate methods and advanced cognitive and practical skills to address problems that have limited definition and involve many interacting factors.• Use and, where appropriate, design relevant research and development to inform actions.• Evaluate actions, methods and results and their implications.

The study guide includes a number of features to enhance your studies:



'Over to you': activities for you to complete, using the space provided.



Case studies: realistic business scenarios to reinforce and test your understanding of what you have read.



'Revision on the go': use your phone camera to capture these key pieces of learning, then save them on your phone to use as revision notes.



'Need to know': key pieces of information that are highlighted in the text.



'Examples': illustrating points made in the text to show how it works in practice.

Tables, graphs and charts: to bring data to life.

Reading list: identifying resources for further study, including Emerald articles (which will be available in your online student resources).

Source/quotation information to cast further light on the subject from industry sources.

Highlighted words throughout denoting **glossary terms** located at the end of the study guide.

Note

Website addresses current as at November 2017.

Introduction

An organisation is a group of people, working together to achieve specific goals. The way that an organisation is designed and how it develops to address the challenges it faces determine whether or not the organisation will be successful. In this study guide, the focus is on understanding the different ways that organisations are designed, the processes of organisational development and the link between these and organisational performance.

On completion of this study guide you will be able to analyse and evaluate the theoretical basis of organisational design, and to decide on the appropriate design for different organisations. You will be able to reflect on the impact of the design on individual employees.

You will be able to analyse and predict the need to make interventions to develop organisations and to critically reflect on the outcome of an intervention resulting in change. You will understand the process of identifying problems that have occurred in the design and know how to solve those problems; you will be equipped with the skills required to manage change processes.

Furthermore, you will be able to synthesise the design and development of an organisation with the overall performance outcomes. In doing this, you will learn the definition of success in an organisation and reflect on any barriers that occur in achieving that success.

Chapter 1

Organisational Design

Introduction

To understand how an organisation becomes successful, we first have to understand the design of organisations. This chapter looks at the theory behind organisational design, and models and tools that can be used to explore it.

Learning outcome

On completing this chapter, you will be able to:

- 1 **Critically evaluate the concept of organisational design to evaluate the performance of the organisation**

Assessment criteria

- 1 **Critically evaluate the concept of organisational design to evaluate the performance of the organisation**
 - 1.1 Analyse the theoretical basis of organisational design
 - 1.2 Compare and contrast models and tools used to manage the organisational design process
 - 1.3 Critically evaluate the different structures used in an organisation

Level 6 Organisational Design, Development and Performance

1.1 The theoretical basis of organisational design

Put simply, an organisation is a group of people working together to achieve a common goal. When we talk about organisations, we might also think of the buildings that the organisation operates in, the logo of the organisation, and the products and services that the organisation provides. These all help to distinguish one organisation from another, but without the people, there is no organisation.

Organisations are also defined by the different strategies, processes and systems that they use.

Organisational design is the process of identifying the best structure of an organisation to allow the organisation to achieve its goal.

Strategy

Strategy is defined by Johnson et al. (2011)¹ as the long-term direction of an organisation.

Strategy operates at a number of different levels:

- **Corporate strategy:** This is the overall scope of the organisation. It involves determining what products and services are going to be offered, which markets and geographical areas the organisation is going to operate in, and if possible acquisitions and mergers might occur with other organisations.
- **Business strategy:** In a small organisation this will be the same as the corporate strategy. However, in a larger organisation this will be the focus of separate units within the organisation. How should they develop and innovate, and what is their place in the overall strategy of the business?
- **Operational strategy:** This is the lower level of strategy, looking at the way that the organisation is going to operate on a day-to-day basis. What is the process for decision-making, and what decisions need to be made about day-to-day operations?

! NEED TO KNOW

Strategy

Strategy is defined by Johnson et al. as the long-term direction of an organisation. Strategy operates at a number of different levels: corporate, business and operational.



¹ Johnson, G., Whittington, R. and Scholes, K. (2011), *Exploring Strategy: Text and Cases*, 9th edition. Harlow: FT Prentice Hall



OVER TO YOU

Activity 1: Write a strategy

What is the strategy of your organisation, or an organisation with which you are familiar?
Try to summarise the strategy in one sentence for each of the following:

- Corporate strategy:

- Business strategy:

- Operational strategy:

The strategy of an organisation is expressed through their:

- **Mission statement:** The statement of what the organisation wants to achieve. It expresses the overall purpose of the organisation.
- **Vision:** The goals of the organisation and what it wants to achieve long term.
- **Objectives:** The strategy broken down into manageable actions. The objectives set out what it is that the organisation is aiming to do.



OVER TO YOU

Activity 2: Mission statement

Write the mission statement of your chosen organisation. Write in an engaging way that would enthuse employees to be part of achieving that mission.

Systems and processes

An organisation can be viewed as a **system**. It has various inputs, it does something with those inputs, and then it produces an output. For example, in a manufacturing organisation the raw materials are the inputs, the manufacturing process transforms those inputs, and the outputs are the goods that the organisation produces.

It is the systems and processes, then, that define how an organisation operates strategically. Some processes are formal, such as the process of approving expenditure or approving a new marketing campaign. Some processes are informal, such as a project team agreeing to work in a certain way.

Systems and processes also vary considerably across organisations. For example, some organisations have very bureaucratic systems, which require several levels of approval to get things done. Other organisations operate much more informally, devolving more responsibility to employees so that they can make their own decisions.

The strategy, systems and processes of an organisation are all affected by the way that the organisation is designed. So, let us look at some of the theory underpinning the different ways that organisations are designed.

Design theory – specifically scientific management, systems theory and complexity theory

Scientific management

Frederick Winslow Taylor (1856–1915) was a great pioneer of **scientific management theory**.

He worked in a factory and identified that there was considerable chaos in the way that people worked. The workers came from different backgrounds and different traditions, and worked in the ways that they wanted to work. In *The Principles of Scientific Management* (1911)², Taylor suggested that effective organisations need control.

In developing this idea of control he argued that the typical worker is lazy. He identified a number of flaws in the ways that the organisation was structured. For example, there was considerable pressure from colleagues to underperform and workers typically overestimated the amount of time that it would take to complete work which meant that they had more time for breaks.



² Taylor, F. W. (1911), *The Principles of Scientific Management*. New York: Norton

 OVER TO YOU

Activity 3: Lazy workers?

Do you think that Taylor was fair? Are workers fundamentally lazy and looking for ways to work fewer hours? Or do you think that he was wrong? Explain the reasons for your answer.

On the basis of his observations, Taylor argued that there would always be just one best way to complete a job. He put forward the approach of scientific management, which has four key principles:

- 1 **Work is broken down into small, repetitive actions.** Each of these small actions is then analysed scientifically. Taylor did much of this using a time and motion study – timing each individual part of the job and noting the way that the different parts of jobs added together to complete the whole operation. He also identified ways that the job could be redesigned to improve efficiency.
- 2 **Workers are selected for the role which they do most effectively.** Taylor suggested that this selection should be scientifically based, so that those with the best skills for a job were allocated to it and were then trained to reach optimum efficiency.
- 3 **Work is divided between management and workers.** Management are given the task of designing and planning the work, and the workers do the work. The workers do not get involved in the design and planning.
- 4 **Management and the workforce co-operate.** The purpose of the co-operation is to get the work done.

 NEED TO KNOW

Scientific management theory

Taylor argued that there is always one best way to complete a job, and hence he developed the approach of scientific management, which has four key principles:

- 1 Work is broken down into small, repetitive actions.
- 2 Workers are selected for the role which they do most effectively.
- 3 Work is divided between management and workers.
- 4 Management and the workforce co-operate.



It can certainly be argued that there is some element of scientific management in all workplaces today. However, the scientific management approach is criticised for not allowing the creativity of employees to be used. It sees employees as individuals who do as they are told, without adding any value to the job. That is a waste, because it is usually the employee working on the job who has the best insight into what works and does not work, and what could be improved.

📄 CASE STUDY: McDONALD'S

A way of working across the world

Fast food giant McDonald's is present in 119 different countries, and their way of working is similar in each country. They have adopted scientific management techniques in the way that they have designed their work. The way that the machines and equipment are laid out is the same in every restaurant in every country; it has been carefully measured to ensure optimum performance. The layout of the ingredients is also the same everywhere, and has been carefully designed to ensure that the food is made as quickly and efficiently as possible.



Employees are rewarded in various ways, from verbal praise to employee-of-the-month schemes. However, there is little room for them to use any creativity in the way that they work, in any country in the world.

Systems theory

A number of theorists have suggested that an organisation is a system. Daft (1998)³ suggests that an organisation is a system with a number of different elements interacting on it. Some of these inputs come from the external environment, and some come from within the organisation.

At the centre of the system are the employees doing the work. There must be a way that the employees can continue to work effectively, regardless of what is happening externally to the organisation.

Thompson (1967)⁴ suggested that there are two types of system – closed and open. An **open system** is one that is open to the external environment, and hence the organisation is less stable and more prone to change. Many would argue that it is this type of organisation that is most successful, because it embraces new opportunities and is ready to change. Indeed, if we think about organisations which are operating in fast-moving environments (such as internet technology) we can see how not changing would be a significant problem for the organisation.

The **closed system** is one that tries not to be affected by the external environment. Here we can link back to the work of Taylor. The scientific management approach presumes that there is an ability to control what is happening in the flow of work, and that is not possible in an open system.

! NEED TO KNOW

Systems theory

There are two types of system – closed and open. An open system is open to the external environment, leading to an organisation that is less stable and more prone to change.

A closed system tries not to be affected by the external environment.



³ Daft, R.L. (1998), *Organisation Theory and Design*, 6th edition. Cincinnati, OH: South-Western College Publishing

⁴ Thompson, J.D. (1967), *Organisations in Action*. New York: McGraw Hill



OVER TO YOU

Activity 4: Closed or open system?

Go back to the organisation that you were thinking about earlier. Is it an open or a closed system? Explain your answer.

Complexity theory

Building on the idea of an open system, we have **complexity theory**. To understand this we need to start by understanding **chaos theory**.

Chaos theory sees systems as ordered, but also unpredictable. The theory is often linked to a question posed by Lorenz (1972)⁵. He asked:

“Does the flap of a butterfly’s wings in Brazil set off a tornado in Texas?”

⁵ Lorenz, E. (1972), “Does the flap of a butterfly’s wings in Brazil set off a tornado in Texas?” Speech before the American Academy for the Advancement of Science, December 1972

The question identifies that a very minor change in a system (in this case a natural ecosystem) can have a series of potential knock-on effects, which can even result in a change to weather patterns. Lorenz argued, therefore, that the “butterfly effect” demonstrates chaos theory.

In social systems, such as organisations, chaos theory has been developed into complexity theory. Complexity theory has grown from research in natural sciences into

systems where there is non-linearity and uncertainty. Complexity theory identifies that there are still rules which develop, even when there is some uncertainty. It has been developed to explain how organisations operate in an uncertain environment. Organisations are adaptive, and even in complex situations they will develop “rules” that govern the way that they behave.



OVER TO YOU

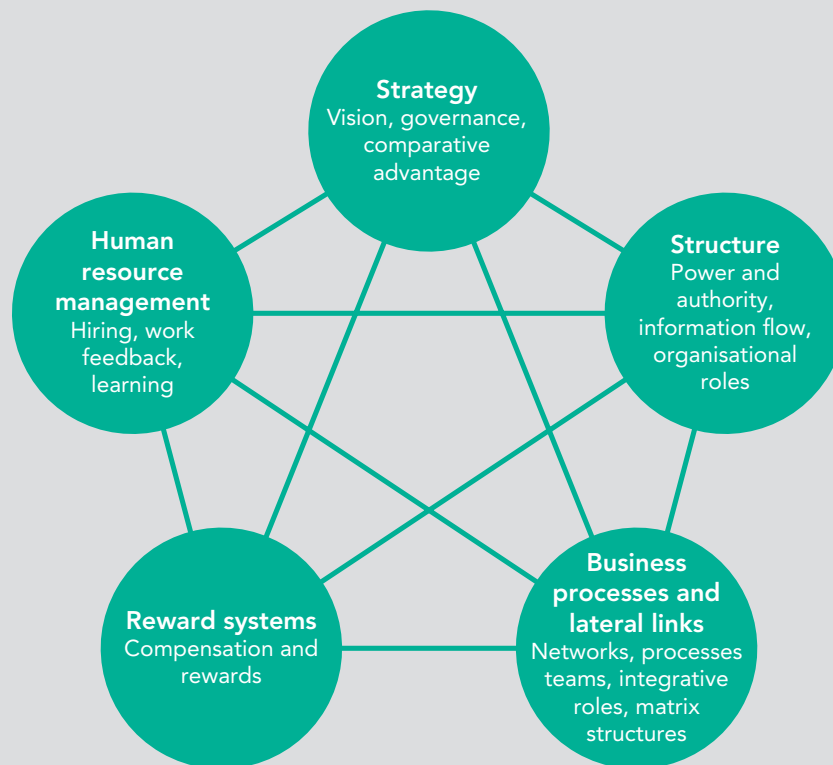
Activity 5: The unpredictable

Think of at least two unpredictable events that have happened in organisations that you are aware of, and explain the impact that those events had on the organisations.

1.2 Models used to manage the organisational design process

Theorists have developed a number of different models to help us understand the way that organisations should be designed. Let us look at some of those.

Galbraith's Star Model



Source: Adapted from Galbraith (1973)

Figure 1: Galbraith's Star Model



! NEED TO KNOW

Galbraith's Star Model

Galbraith said that there are five areas that need to be the focus of organisational decision-making when designing an organisation. They are: strategy, structure, business processes and lateral links, and reward systems and human resource management.



In 1973, Jay Galbraith, an American consultant and academic, put forward the "Star Model"⁶. He suggested that the five areas in this model are the five areas that need to be the focus of organisational decision-making when designing an organisation.

⁶ Galbraith, J, (1973), *Designing Complex Organisations*. Addison-Wesley, Longman Publishing Co.

The five areas are:

- 1 Strategy:** This encompasses the goals, objectives, **values** and mission of the organisation. It explains what the organisation plans to do and how it is going to do this. It is, therefore, the basis for selecting an appropriate organisational structure.
- 2 Structure:** In looking at structure, Galbraith is focusing on where the decision-making power is in an organisation. He suggests that there is a need to look at the following when thinking about where the decision-making power lies:
 - specialisation – the type and number of job specialities needed to carry out the work;
 - shape – the number of employees in each department and the extent of their control at each level in the hierarchy of an organisation;
 - distribution of power – is the organisation centralised or decentralised? In a centralised organisation, the decision-making stays within the higher tiers, such as the board of management or head office; in a decentralised organisation, decision-making authority is transferred to lower levels of the organisation, such as branches and departments;
 - departmentalisation – what departments are needed in the organisation, and what is their function?
- 3 Business processes and lateral links:** This looks at the way that information is spread and how decision-making takes place across the organisation's structure. For example, this could be vertically through the organisation for a budgeting process (i.e. departments higher up in the organisation allocate the resources to the lower-level departments), or horizontally for relationships between people at the same level but in different departments within the organisation.
- 4 Reward systems:** This suggests that there is a need to ensure that the goals of individual employees are in line with the objectives of the organisation, and this can be achieved through rewarding employees for activities that link to the organisation's objectives.
- 5 Human resource management:** The final component is the people in the organisation, and how they should be recruited, promoted, rotated and trained and developed.



OVER TO YOU

Activity 6: The location of decision-making

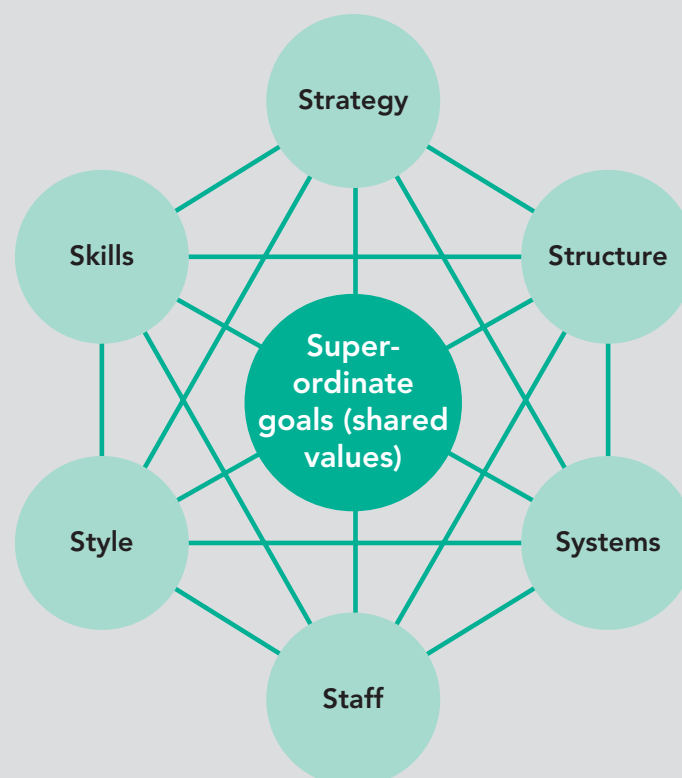
In an organisation with which you are familiar, identify where the decision-making power lies. Address each of the four bullet points listed above in point 2 (Structure).

Galbraith suggests that successful organisational design requires the components to be addressed in the following order:

- 1 Strategy
- 2 Structure
- 3 Key processes
- 4 Key people
- 5 Roles and responsibilities
- 6 Information systems
- 7 Performance measures and rewards
- 8 Training and development
- 9 Career paths

The McKinsey 7S model

The McKinsey 7S model was developed in the early 1980s by two consultants, Tom Peters and Robert Waterman, who worked for the management consulting firm McKinsey & Company in New York. They argued that there are seven elements of an organisation that need to be aligned if an organisation is going to be successful (see Figure 2).



Source: Adapted from Waterman and Peters (1980)

Figure 2: The McKinsey 7S model



! NEED TO KNOW

The McKinsey 7S model

This model argues that there are seven elements of an organisation that need to be aligned if the organisation is to be successful. These are:

- Strategy
- Structure
- Systems
- Staff
- Style
- Skills
- Superordinate goals (shared values)



They divided the elements into “hard” and “soft”. The **hard elements** are those that are easier to identify or define. The **soft elements** are less tangible, and vary much more according to the **culture** of the organisation.

The seven elements are:

Element	Definition
Strategy	The plan that is used to identify what the organisation is planning to achieve and to build competitive advantage
Structure	Who reports to whom, and the way that the organisation is structured
Systems	The way that the employees work on a daily basis to get the job done
Shared values	Also known as superordinate goals, this is placed at the centre of the model, and is the culture and the general ethos of the organisation
Style	This specifically refers to the style of leadership in the organisation
Staff	The employees in the organisation and what they are capable of achieving
Skills	The competencies and skills of the employees working in the organisation

Table 1: Seven elements of the McKinsey 7S model



✎ OVER TO YOU

Activity 7: The McKinsey 7S model

Briefly describe the way an organisation you know is structured by defining their approach under each of the 7S elements.

Strategy:

Structure:

Systems:

Superordinate goals (shared values):

Style:

Staff:

Skills:

This model can be used to ensure that all aspects of the organisation are taken into consideration, both when designing the organisation and when planning change. Some questions which can be asked in consideration of this model are:

- Do the shared values express what the organisation is about? Do they fit with the structure, strategy and systems of the organisation?
- Do the “hard” elements support each other? Do they define what we want the organisation to be like?
- Do the “soft” elements support the hard elements? Do they support each other, and if not, what needs to change?

CASE STUDY: AFRICAN TRADING PORT, SOUTH AFRICA

Analysing skills to support expansion

African Trading Port had around 800 employees and was looking to expand. As part of this expansion plan, a review of the **organisation structure** took place. The review found that the structure of the organisation needed to fit its strategy, and that there was a need to ensure that the skill gaps were filled.

Existing skills were analysed using a number of techniques, and the skills gaps were identified. As a result, focus was placed on skill development and recruiting people with the necessary skills. This allowed the organisation to expand successfully.



Burke-Litwin causal model

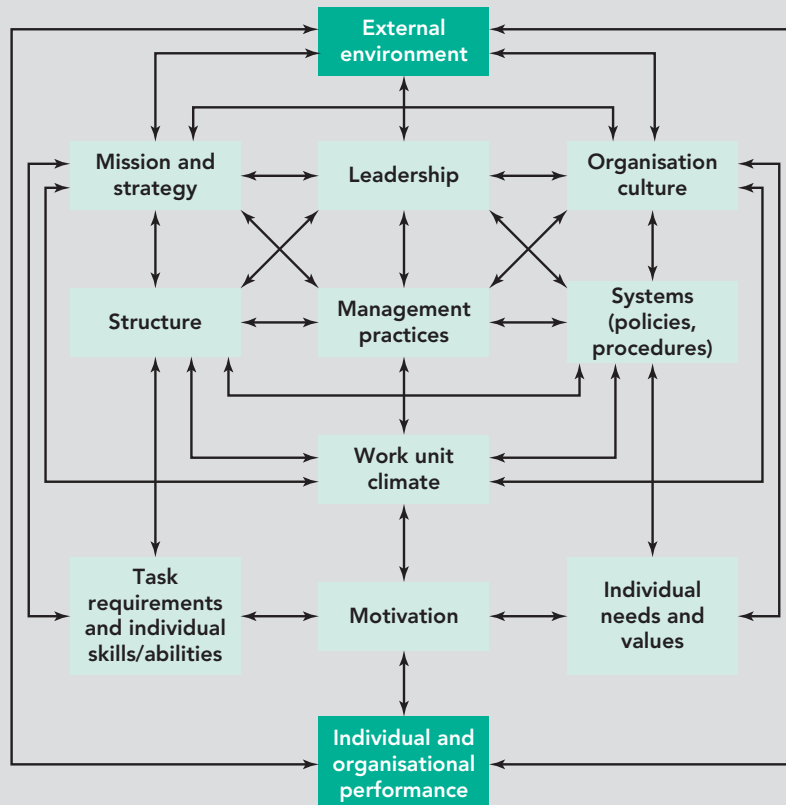
The Burke-Litwin causal model (1992)⁷ is particularly relevant to organisational change. It argues that changing one aspect of an organisation inevitably affects others.

OVER TO YOU

Activity 8: The impact of change?

Identify one change that has happened in your organisation, or an organisation with which you are familiar. What impact did the change in one area of the organisation have on other parts of the organisation?

The model also shows the importance of the factors that affect change, with the top of the diagram showing the factors that have most impact:



Source: Adapted from Burke and Litwin (1992)

Figure 3: Burke-Litwin causal model



⁷ Burke, W.W. and Litwin, G.H. (1992), "A causal model of organisation performance and change", *Journal of Management*, Vol. 18, Issue 3, pp. 523–545

Table 2 shows definitions of the factors:

External environment	All that is going on outside the organisation which impacts on it
Mission and strategy	The goals and direction of the organisation
Leadership	The style and direction given by the senior people in the organisation
Organisation culture	How the organisation does things; their values and approaches
Structure	The way that the organisation is put together – it could be hierarchical, for example
Management practices	The way that the management run the business; their rules and approaches
Systems	The policies and procedures of the organisation
Work unit climate	The way of working in individual parts of the organisation
Task requirements and individual skills/abilities	What the individual employee offers to the organisation; what they can do
Motivation	What makes the individuals work hard, and be determined to succeed
Individual needs and values	What is wanted by the individual employees
Individual and organisational performance	The output – what the organisation produces

Table 2: Factors of the Burke-Litwin causal model



! NEED TO KNOW

Burke-Litwin causal model

This model argues that affecting or changing one aspect of an organisation inevitably results in another aspect changing.



Management and the workforce co-operate

At the top of the Burke-Litwin causal model is the external environment. The model assumes that the majority of changes are stimulated by what is happening externally. If we look further at the model we can see that issues such as individual and organisational performance and motivation are driven by changes, rather than being the drivers of change.

However, factors such as mission, strategy and organisational culture are nearer the top of the model. These might change, and that would affect the way that the organisation operates. Similarly, a change of leader could affect the activities of the organisation.

 OVER TO YOU**Activity 9: The role of the leader**

We will look at the role of the leader in more detail later in this study guide. However, what do you think? Do you think that changing the leader really changes the direction of an organisation?

What these models show us is that a variety of different components impact the design of an organisation. All of these components add together to define the organisation – whether it is the more simple points of Galbraith’s Star Model or the more integrated Burke-Litwin model.

Physical aspects of organisational design – health and safety, wellbeing and environment

There are specific physical and psychological aspects of organisational design.

Health and safety

Employees should be able to go to work and not be injured or made unwell by the work that they are doing. There is extensive legislation in many countries covering aspects of health and safety – for example, the comprehensive 1974 Health and Safety at Work Act in the UK.

Designing an organisation with consideration for health and safety involves:

- **Design of the workplace:** If employees are working in an area where vehicles are being operated (maybe in a warehouse setting), the workplace must be designed so that employees and vehicles are separated and can both operate safely.
The work involved also needs consideration; for example, repetitive work that might put a lot of strain on particular parts of the employees’ bodies, or working in extreme temperatures. All of these issues need to be considered to design the work, and hence the organisational activities, in a way that has minimal negative impact on employees.
- **Hours of work:** Another aspect that has an impact on the health of employees is the hours of work. Here we need to go back to the demands on the organisation. If the organisation is required to operate 24 hours a day, 7 days a week, the jobs should be designed so that employees are getting adequate rest.
- **Assessment and reduction/elimination of risks:** The underpinning requirement of health and safety legislation is to identify risks, and then to attempt to reduce or eliminate those risks. Care should be taken to design tasks in a way that minimises the risk to individual employees, as well to the wider organisation.

OVER TO YOU

Activity 10: Health and safety

What is the biggest health and safety risk in your organisation (if you are working) or a building that you frequent regularly? Could that be reduced by designing the work/activity in a different way?

Wellbeing

Wellbeing concerns how the work affects the mental health and happiness of the employee, and how it impacts on their wider life. Does the work cause employees to experience unacceptable levels of stress? If so, how can the work be redesigned to reduce this? Work should be designed so that any negative impact on mental wellbeing is kept to a minimum.

CASE STUDY: STARBUCKS IN CHINA

Paying the rent

In 2016, China had an aggressive expansion plan of opening 500–600 new branches of Starbucks throughout the country. It needed to recruit a lot of staff, and one way to attract good employees was to pay their rent. Starbucks decided to pay a proportion of the rents paid by 10,000 employees to help attract and retain good staff. This was all part of ensuring employee wellbeing.



Environment

Organisations face increasing pressure to think about the impact that their design has on the wider environment. This might involve manufacturing processes and how they could be designed in a way to minimise their negative impact, or the interaction of the organisation with the wider community.

Psychological aspects of organisational design – engagement, skill, communication and employee relationships

If we look back at the three models for organisational design which have been presented in this chapter, we see that all of them focus on people at some point. Human resource management is one of the five points of Galbraith's Star Model; staff is one of the soft elements of the McKinsey 7S model; and individual skills, abilities, needs, values and performance are factors listed towards the bottom of the Burke-Litwin model. An organisation is a group of people, and hence the design of the organisation dictates how those people are going to work.

Hence, we need to think about:

- **Engagement – how do we engage employees?** **Engagement** is a step beyond involving employees. Engagement is when employees are committed to the organisation and really want to do their very best for the organisation. Engaged employees are motivated to ensure that the organisation is successful.
- **What skills do we want employees to have?** It is the skills and abilities of employees that determine the capability of the organisation. Organisations need to define what they want to be able to achieve and ensure that their employees have those skills.
- **How do we communicate with employees?** Communication is a key element of engagement because employees need to understand what the organisation is trying to achieve if they are going to be committed to it.
- **What relationships do we have with employees?** Positive employment relationships mean that employees are happier. However, there is a complex web of relationships – between employees and their line manager, their senior manager, their peers and their subordinates. All of these relationships add together to determine if the employee is happy at work. The way that we communicate and relate to employees is partly related to the **organisational structure**.



OVER TO YOU

Activity 11: Engagement

Do you think that the way that an organisation is designed affects the engagement of the employees? In what way might the organisational design affect engagement?

1.3 Organisational structures

Organisations have structures which explain internal hierarchies, as well as how tasks are allocated and communication is managed. An organisational structure diagram shows who is senior and who is junior in the business. We can also tell whether the organisation is quite bureaucratic or quite relaxed in structure. Figure 4 shows a hierarchical organisational structure.

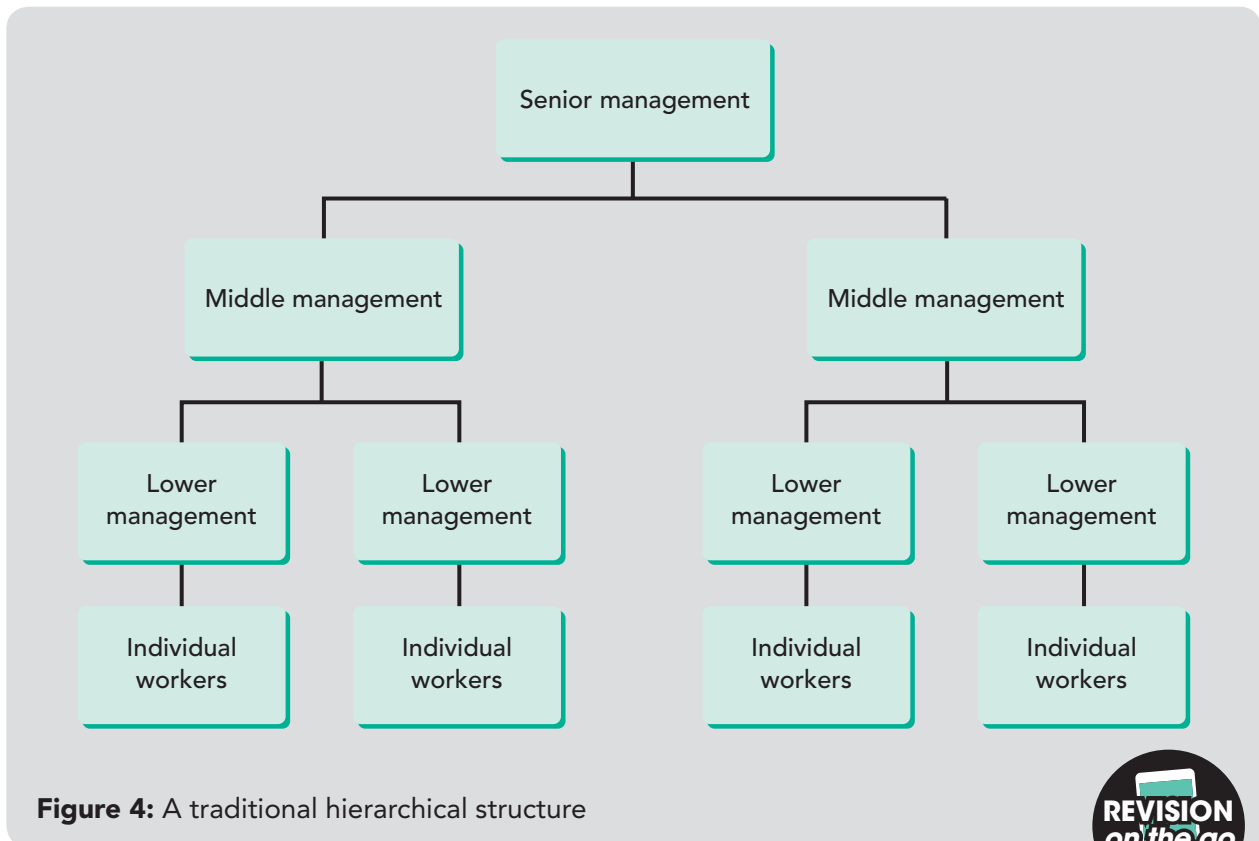


Figure 4: A traditional hierarchical structure



OVER TO YOU

Activity 12: Organisation structure

If you are employed currently, how is your organisation designed? What does the design tell you about the way that the organisation is managed? If you are not employed currently, respond by referring to a previous employer or your college.

Formal or informal?

Organisations have a **formal structure**. This is the structure that is set out in an organisational structure diagram, and shows us who is senior to who, and how the different functions or departments interrelate.

We use this when looking into an organisation from the outside. For example, have you ever been frustrated when phoning a call centre, and felt that you were not getting the response that you wanted? In this situation, you might ask to speak to the operator's supervisor. You are doing this because you presume that the further up the hierarchy you go, the more power and knowledge the person will have.

However, organisations also have **informal structures**. These informal structures often form around social groups, or project groups within the organisation. This is how a lot of work gets done within an organisation. There is an informal mechanism for getting help, getting approval for expenditure, and getting the go-ahead to move something forward. Informal mechanisms are often used as much as formal mechanisms within an organisation.

External customers are usually more driven by an organisation's formal structure because they are not aware of the informal structure. However, internal customers are often more focused on the informal structure because they believe that is the way to ensure that work gets done quickly and effectively.

Hierarchical or flat?

The number of layers of management is an important aspect of designing an organisation. An organisation with several layers of management is referred to as a **hierarchical structure**, whereas an organisation with few layers of management is referred to as a **flat structure**.

Many organisations take steps to reduce the number of layers in the organisation. It is costly to have many layers of management, and it also reduces the level of trust in employees at lower levels of the organisation. Arguably, if there is trust, then the employees should not need excessive layers of supervision.

Some organisations have reacted even more strongly to hierarchical structures and have tried to do away with them completely. For example, the American technology company W.L. Gore claims that it has no hierarchies in the organisation. All employees are referred to as "associates" and there are no lengthy reporting structures. Employees are trusted to get on with their work, and can also choose what projects to work on. Reducing the level of hierarchy has increased the individual autonomy of the employees⁸.

CASE STUDY: W.L. GORE

Operating without a hierarchy

W.L. Gore is an American based company which makes, amongst other things, the Gore-Tex fabric which is used in many outdoor clothing products. It is a hugely successful company.

W.L. Gore approaches organisational design in a rather unique way. All of the employees are referred to as "associates" and they do not have more specific job titles. The purpose of this is to remove hierarchies and demarcation between employees.



⁸ Roberts, D. (2013), *At W.L. Gore, 57 Years of Authentic Culture* [online]. Retrieved from: <http://fortune.com/2015/03/05/w-l-gore-culture/> [Accessed on: 6 September 2017]

Employees can choose what team they work in. If there is something that they are particularly interested in doing, then that is what they work on. If they have a good idea then they can form a team to work on that idea and to develop it further.

W.L. Gore believe that having hierarchies means that individuals are not able to contribute effectively. Hence, they have tried to remove those hierarchies and as a result improve the way that communication and innovation happens in the organisation.

OVER TO YOU

Activity 13: Hierarchical or flat?

What do you see as the benefits and problems associated with a flat organisation? Given your analysis, do you think that having a flat organisation is a good idea or not?

How to structure an organisation

There are several commonly used organisational structures.

Divisional

This is a way of structuring an organisation around the way that it operates. For example, the divisions could be separate parts of the business offering different products and services, such as a bank having divisions of corporate banking, business banking and personal banking.

Alternatively, the divisions could be geographical businesses such as the south of the UK, north of the UK, Europe, Africa, Asia, and the rest of the world.

For example, Figure 5 shows an early organisation chart from NASA:

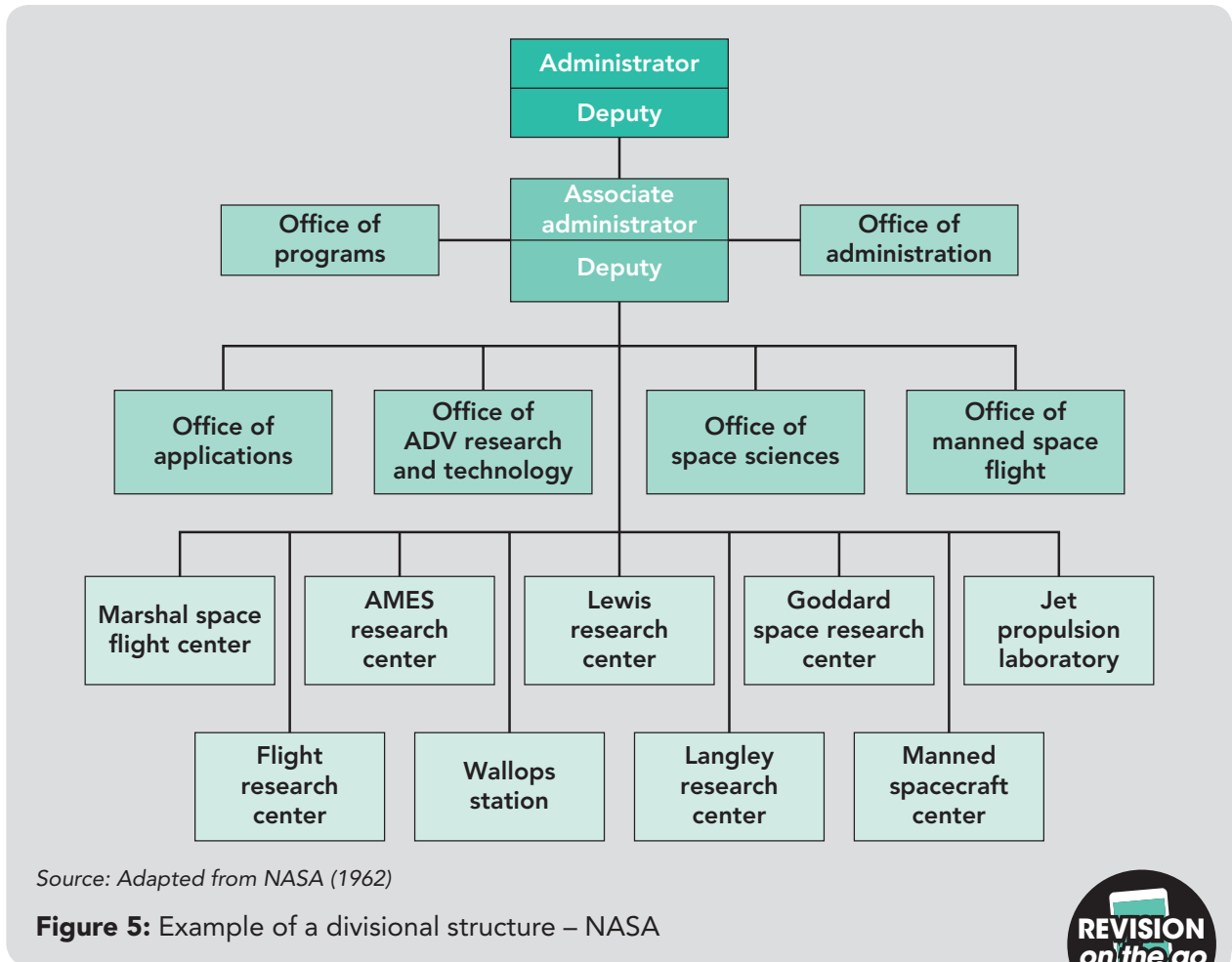


Figure 5: Example of a divisional structure – NASA



Within NASA, there are separate research centres conducting separate activities – and in each specific centre or office, all the relevant experts are gathered together.

The purpose of the **divisional structure** is to bring together expert staff working in one area of the business. Not only are there operatives who work on specific tasks, but there are also dedicated support functions, so each division has its own HR, marketing and finance divisions.

OVER TO YOU

Activity 14: Divisional structure

Different structures work best in different organisations. What type of organisation do you think works best with a divisional structure?

The benefits of a divisional structure are:

- experts are gathered together;
- there is a synergy of effort and commitment to the specific part of the organisation.

The disadvantages are:

- different divisions might end up competing against each other for resources and, overall, the organisation might be damaged because the focus is not on the organisation as a whole but on the individual divisions;
- it can be very discouraging if you are working for a division which is not seen as the heart of the organisation. More skilled and ambitious employees may gravitate towards jobs in more prominent divisions, which will further weaken divisions which might already be weak.

Functional

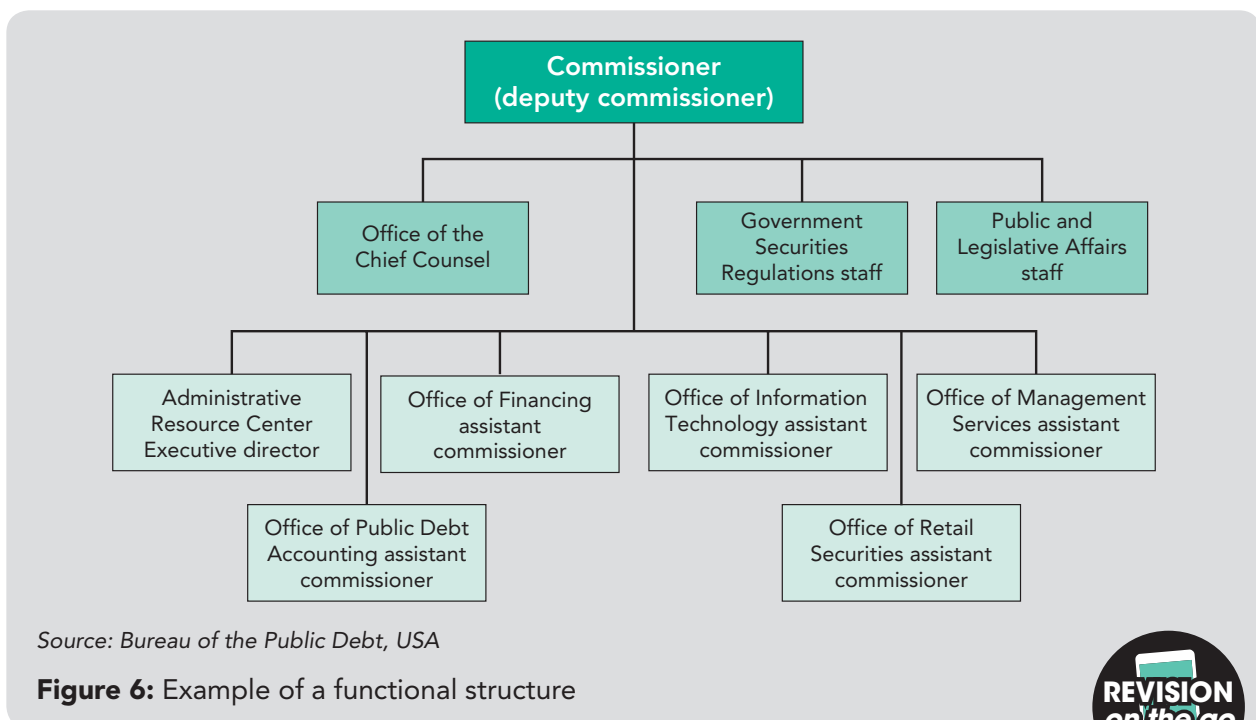
A **functional structure** groups employees together according to the type of work that they do (i.e. the marketing department, HR department, finance department, etc.).

OVER TO YOU

Activity 15: Functional structure

What types of organisation work best with a functional structure?

Figure 6 shows what a functional structure typically looks like.



In this factory example, we can see that employees are grouped according to their roles. The benefits of a functional structure are:

- if the employees are working with others who have expertise in their area, they have more opportunity to learn from each other;
- there is a clear career progression – to move up the levels within the function.

Disadvantages are:

- there can be a “silo” mentality, which is when each function sees itself as most important, and does not focus on the good of the whole organisation;
- it minimises the knowledge of the employee, and does not encourage career development that includes a broad understanding of the organisation.

Matrix structures

A matrix structure is commonly used in a project-based organisation. In this structure, employees are based in their functional groups, but they are also assigned to work on a project when it is required. When they are working on a project they are, in effect, reporting to two managers – to the project manager and the functional manager.



OVER TO YOU

Activity 16: Matrix structure

Would you be comfortable working in a matrix structure? Why/why not?

Figure 7 shows what a matrix structure typically looks like.

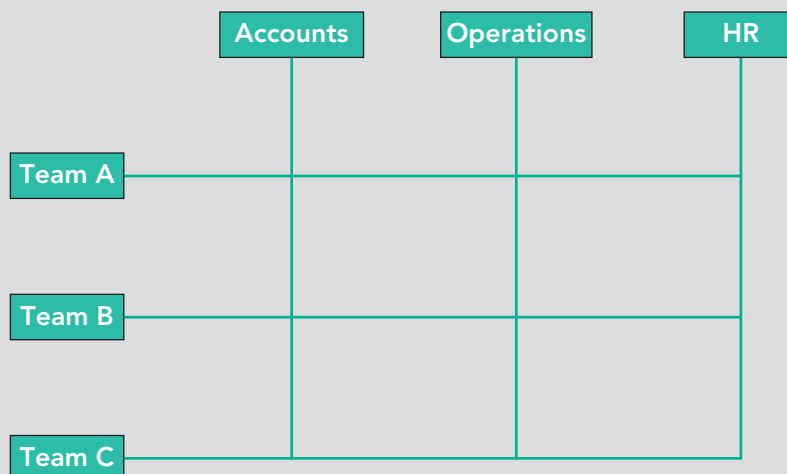


Figure 7: Example of a matrix structure



Figure 7 shows three departments (accounts, operations and HR) and three teams. The employees have their “base” in their function, and then are “loaned” out to the team when they need input from someone from accounts, operations or HR.

The benefits of a matrix structure are:

- there is an opportunity to benefit from expert input, while employees still contribute to a multi-disciplinary group;
- it is cost effective because people are only assigned to a project when there is work to be done.

Disadvantages are:

- if the employee is reporting to two managers they can get pulled in two different directions at once;
- employees can lack a sense of identity with one work group, which can be unsettling.

! NEED TO KNOW

Organisation structures

A divisional structure is one which is based around the different products or services an organisation produces or the geographical area where people work.

A functional structure is one which is based around the type of work that people do.

A matrix structure is one where people are grouped according to the type of work that they do, but they are also placed to work in project teams as needed.



Network structure

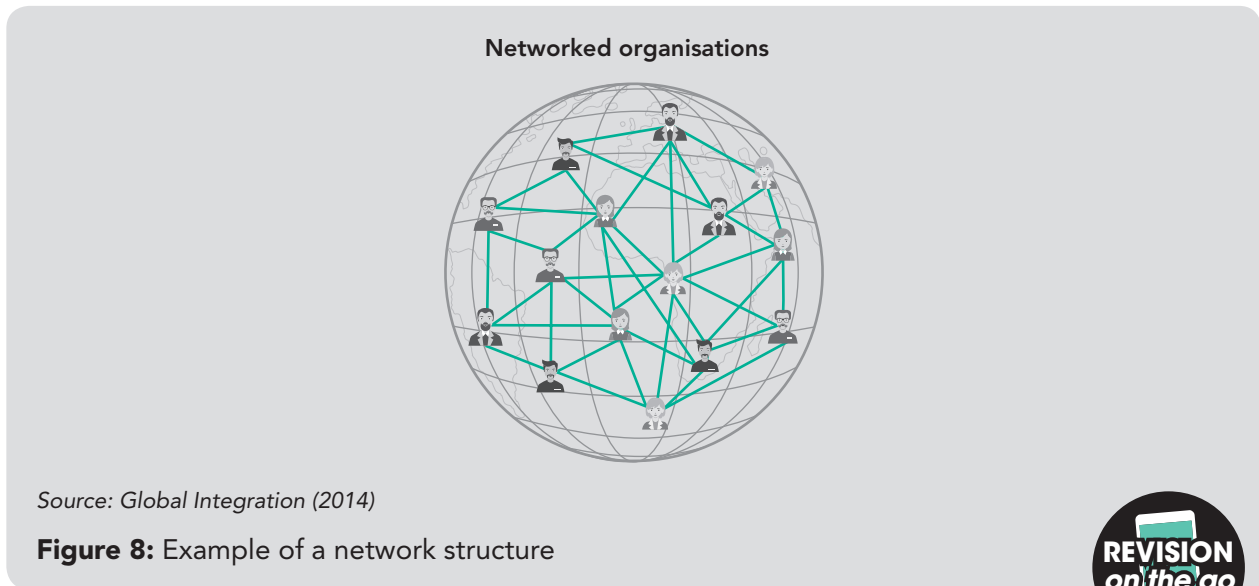
A **network structure** is a much less formal structure than the three structures we have looked at so far. The fundamental idea is that authority and responsibility are decentralised, and that there are then relationships between different groups in the organisation; the structure is flat rather than hierarchical, and the relationships are informal rather than formal.

✎ OVER TO YOU

Activity 17: Network structure

What are the risks of having informal relationships in an organisation? How would you overcome those risks?

The structure is often said to look rather like a spider's web as shown in Figure 8.



The benefits of a network structure are:

- there is less hierarchy, therefore it should be easier and quicker to get decisions made;
- there is more trust and communication between people, which leads to a more successful working life.

Disadvantages are:

- it can be confusing – although it is useful to have less demarcation, it can be difficult to know who can make a decision;
- individuals who want direction can struggle with the structure; it is not clear who can tell them what to do.

Cluster organisations

A **cluster organisation** revolves around teamwork; a group of people (typically five to eight people) work together. They are hired into an organisation as a team to do a particular task. The cluster then carries out the work as a team. It is self-governing, and it selects its members itself, and also fires people that it does not want to be part of the cluster.

Typical examples of cluster organisations are film crews and specialist medical units. There is not one person who is particularly able to do what is wanted, rather there is a need to bring in the combined skills of the cluster to carry out a task.



OVER TO YOU

Activity 18: Cluster organisations

If a team does not work effectively together, does that mean that a cluster structure cannot be used? How could this be addressed?



The benefits of a cluster organisation are:

- it can be very stimulating to work in this environment because there is constant learning and sharing of ideas;
- it allows a group to work in a very specialist area, and to be able to provide a full service through combining different skills.

Disadvantages are:

- the organisation has to have all the cluster or none of the cluster – which can be expensive when hiring;
- it presumes that the team works together effectively, and that is not always so. A cluster can become ineffective if all members are not contributing effectively.

Virtual organisations

A **virtual organisation** is a group of independently situated individuals or groups who are connected through the use of technology.

Given the increased use of technology, it is not surprising that virtual organisations have become a more common approach to working life. A virtual organisation has a number of detached individuals or parts of an organisation that need some form of technology to connect. Typically, a virtual organisation is one that is separated by geography (often a multi-national team) but has come together to work on a particular project or activity.

Ahuja and Carley (1998)⁹ explored the development of virtual organisations and their approach was very similar to that of traditional organisations. A virtual organisation still tends to have hierarchical levels; it has agreed ways of reciprocating with each other (which is partly determined by the hierarchy) and the organisation often has a centralised function which manages the way that it works.

So, although virtual organisations are often heralded as the future of the way that we will work, in reality they do not require the organisation to do anything different apart from use technology to communicate rather than face-to-face interactions.

Of course, it could be argued that this is taking a very simplistic view of the way that organisations operate. If we go back to the comparison between the formal and the informal structure, we can see that the formal structure is still in operation; it could be argued that the informal structure is not as present in a virtual organisation. This could make virtual organisations more bureaucratic and less flexible in the way that they operate. The reliance on technology could restrict the development of the more informal relationships that allow work to be completed quickly and effectively.

⁹ Ahuja, M.K. and Carley, K.M. (1998), "Network structure in virtual organisations", *Organisation Science*, Vol. 10, Issue 6, pp. 740–57



OVER TO YOU

Activity 19: Virtual organisation

Can a virtual organisation ever work as effectively as when employees work together in the same physical location? Why/why not?

READING LIST

- Cichocki, P. and Irwin, C. (2014), *Organisation Design: A Guide to Building Effective Organisations*, 2nd edition. London: Kogan Page
- Daft, R. (2015), *Organisation Theory and Design*, 12th edition. Cengage Learning
- Duerr, M. (2004), "The contemplative organization", *Journal of Organizational Change Management*, Vol. 17, Issue 1, pp. 43–61. (This article will be available in your online student resources.)
- Feuer, R. and Chaharbaghi, K. (1995), "Strategy development: past, present and future", *Management Decision*, Vol. 3, Issue 6, pp. 11–21. (This article will be available in your online student resources.)
- Johnson, D.M. (2004), "Adaptation of organizational change models to the implementation of quality standard requirements", *International Journal of Quality and Reliability Management*, Vol. 21, Issue 2, pp. 154–174. (This article will be available in your online student resources.)
- Lin, L.H. and Lu, I.Y. (2005), "Adoption of virtual organization by Taiwanese electronics firms: An empirical study of organization structure innovation", *Journal of Organizational Change Management*, Vol. 18, Issue 2, pp. 184–200. (This article will be available in your online student resources.)
- Stewart, J. and Rodgers, P. (eds) (2012), *Developing People and Organisations*. CIPD Publishing
- Wrigley, C., Bucolo, S. and Straker, K. (2016), "Designing new business models: blue sky thinking and testing", *Journal of Business Strategy*, Vol. 37, Issue 5, pp. 22–31. (This article will be available in your online student resources.)

Summary

Organisations vary. Some are hierarchical, some are flat. Some are structured in divisions, some based on functions. To ensure that an organisation is appropriately designed, we need to think about the purpose of the organisation and what it aims to achieve; we need to define its strategy, mission and vision to select a design fit for the organisation's purpose.

Chapter 2

The Impact of External and Internal Factors on the Organisation

Introduction

Although it is important to understand the way that the organisation is designed, that is not the only aspect of the organisation which can affect its performance and, ultimately, its **success**. External and internal factors shape the organisation and can cause it to change. It is essential, therefore, to examine the nature of these factors.

In this chapter, we will start by looking at the external factors, and then move on to look at internal factors.

Learning outcome

On completing this chapter you will be able to:

2 Analyse the impact of external and internal factors on organisational performance

Assessment criteria

2 Analyse the impact of external and internal factors on organisational performance

- 2.1 Analyse the impact of external factors on the success of the organisation
- 2.2 Analyse the impact of internal factors on the success of the organisation
- 2.3 Analyse the influence of external and internal factors on the design of the organisation

Level 6 Organisational Design, Development and Performance

2.1 The impact of external factors on the success of the organisation

Understanding the external environment

Analysing the external environment is a useful way to identify different factors that need to be considered when determining a business strategy. **Environmental scanning** is the process of highlighting areas where action needs to be taken.

This process works through a number of steps:

- 1 Analyse the environment.** This can be carried out using a **PESTLE analysis** (see below), and requires the organisation to think about the factors that are impacting on it.
- 2 Gather information about the external environment.** The PESTLE analysis identifies issues that are potential problems, but it does not involve gathering data. For example, a social trend of changing population demographics could be identified, but how is it changing? Is the population growing or declining? If there is an ageing population, what is the reality? How large is the demographic of people over 80 years old, compared to ten years ago? This part of the process involves gathering accurate and specific data.
- 3 Gather information about competitors.** The next step looks beyond the organisation. What are competitors doing? How are they responding to the challenges that have been identified? What are they struggling with, and what are they doing well? Are there any weak areas in which the organisation could capitalise?
- 4 Internal scan of the organisation.** Once the organisation understands what is happening externally, it can come back to examine itself internally. What are its strengths and weaknesses? What is the organisation doing now, and what does it plan to do in five or ten years' time?
- 5 Decide on what actions to take.** Finally, there is a need to consider all the information that has been gathered in the environmental scan and to decide what action, if any, needs to be taken.

There are three types of environmental scanning:

- **Ad hoc scanning:** This is infrequent scanning which is typically carried out in response to some form of crisis.
- **Regular scanning:** A scan is carried out regularly each year, often as part of the budget planning process.
- **Continuous scanning:** This is an ongoing process where the organisation is continuously looking at and analysing what is happening internally and externally.

! NEED TO KNOW

Environmental scanning

Environmental scanning analyses the external environment, and also determines what actions should be taken. There are three types of environmental scanning:

- Ad hoc – carried out in response to a crisis
- Regular – carried out regularly each year
- Continuous – an ongoing process of scanning.



✎ OVER TO YOU

Activity 1: Environmental scanning

Does your organisation (or, if you are not currently employed, an organisation with which you are familiar) use any environmental scanning? If not, can you think of a situation where it would be useful? What is that situation?

📄 CASE STUDY: TELECON

Entering the mobile phone market in Myanmar

Telecon is a large telecommunications company. In 2015 it started the analysis of a possible entry into the mobile phone market in Myanmar. In 2012 it was estimated that 6% of the population of Myanmar had a mobile phone, and less than 1% had access to the internet.

When deciding whether to enter the market, Telecon started with the process of environmental scanning. They carried out an analysis of the environment, and social and economic factors which might determine whether their entry into the market would be successful.

They won the contract to enter the market, and have an aim of 90% of the population having mobile phone coverage by the end of 2019. By taking a careful and logical approach to the analysis of entering the market, Telecon believe that they have put together a sustainable strategy which will enable them to achieve their goals.



PESTLE analysis

One of the common approaches to carrying out an analysis of the external factors impacting on an organisation is to carry out a PESTLE analysis. A PESTLE analysis looks at the factors under six different headings, as shown in Table 1.

Factor	Impact on the success of the organisation
Political	The focus of the political party running the country will determine the priorities for legislation and investment.
Economic	The state of the economy in which the organisation is operating will determine the extent to which it is possible to seek investment.
Social	Social factors affect what customers want from the organisation, and there is a need to meet those demands.
Technological	Technological developments affect the way that customers want to communicate with an organisation.
Legal	There is a requirement to be compliant with company legislation. Non-compliance can lead to fines or the business needing to stop trading.
Environmental	An organisation that damages the environment loses the support of customers and other key stakeholders .

Table 1: PESTLE analysis



It is also worth noting that some people refer to a PEST analysis and some refer to a **STEEPLE analysis**. A PEST analysis focuses on just the first four of the criteria listed above.

A STEEPLE analysis considers the following factors:

- Social
- Technological
- Economic
- Environmental
- Political
- Legal
- Ethical

It is very similar to the PESTLE analysis but lists “ethical” as a separate issue. This is a sign of the growing importance of ethical issues for organisations, and the reaction that both employees and customers have when an organisation is not operating ethically.

These analyses are carried out by looking at the factors that are impacting the organisation under each of the headings. There is then the opportunity to think about those factors and determine whether there are actions that the organisation needs to take.

 OVER TO YOU

Activity 2: PESTLE factors

Identify one point that you see as most important for your organisation (or one with which you are familiar) under each of the PESTLE headings.

Political:

Economic:

Social:

Technological:

Legal:

Environmental:

Of course, it is not possible to say what factors will be identified, because this will depend on the organisation. However, some common factors are:

Political factors

- government policies on labour mobility and barriers to trade and the movement of goods and services;
- government policies on emigration/immigration and policies to attract targeted workers from abroad (e.g. health service workers);
- the power of regulatory bodies;
- the influence of government as a large customer of many organisations;
- international issues (e.g. war, terrorist activity);
- government policies to encourage competitiveness and innovation (e.g. investment policies in education and skills);
- the strength of lobby groups and their impact on government;
- local politics which might affect issues such as planning permission for new buildings or extensions to existing properties.

Economic factors

- the rate of economic growth in the organisation's markets;
- rates of price and wage inflation;
- levels of unemployment;
- levels of taxation;
- levels of interest rates;
- exchange rates against other currencies.

Social and cultural factors

- changes in population structure and demographics (e.g. an ageing population);
- changes in living standards;
- changes in moral attitudes and values;
- changes in income and wealth distribution;
- the level of crime;
- changing family structures (e.g. more single parent families, more mothers working).

Technological factors

- changes in the ways in which goods are made;
- changes in the ways that services are provided;
- the emergence of new products;
- the influence of IT/ICT on employee roles and tasks;
- the growth of virtual organisations and a weakening of organisational boundaries;
- changing approaches to communication (e.g. email and texting);
- changes to the structure and culture of work;
- more of a working-from-home culture;
- easier knowledge transferral and greater control systems for multi-nationals.

Legal factors

- new legislation;
- changes in legislation relating to employment;
- health and safety legislation;
- environmental protection laws and the strength of enforcement;
- laws relating to specific business sectors.

Environmental factors

- the influence of pollution (e.g. in the air, water, etc.);
- the influence of pressure groups organising environmental protests (e.g. against new motorways, new airports, etc.);
- issues relating to food processing (e.g. concerns about genetically modified food);
- resource scarcity leading to political problems (e.g. oil);
- droughts, floods and other natural disasters.

! NEED TO KNOW

PESTLE

The PESTLE factors are:

- Political
- Economic
- Social
- Technological
- Legal
- Environmental



✎ OVER TO YOU

Activity 3: Review of PESTLE factors

Before working through the list of suggested PESTLE factors, you thought of one point under each heading that you saw as being most important. Go back to Activity 2 and review what you wrote. Do you want to change that now that you have thought of a wide range of factors?

Porter's Five Forces

The PESTLE analysis is a useful way of looking broadly at the external environment. However, Porter (1985)¹⁰ suggested that there is also a need to take a more focused look at the external environment of the specific sector in which the organisation is operating. He suggested that there are five forces impacting on the industry:

- 1 The threat of **new entrants**
- 2 The power of **buyers**
- 3 The power of **suppliers**
- 4 The power of **substitutes**
- 5 The intensity of rivalry among existing forms

¹⁰ Porter, M.E. (1985), *Competitive Advantage*. New York: The Free Press

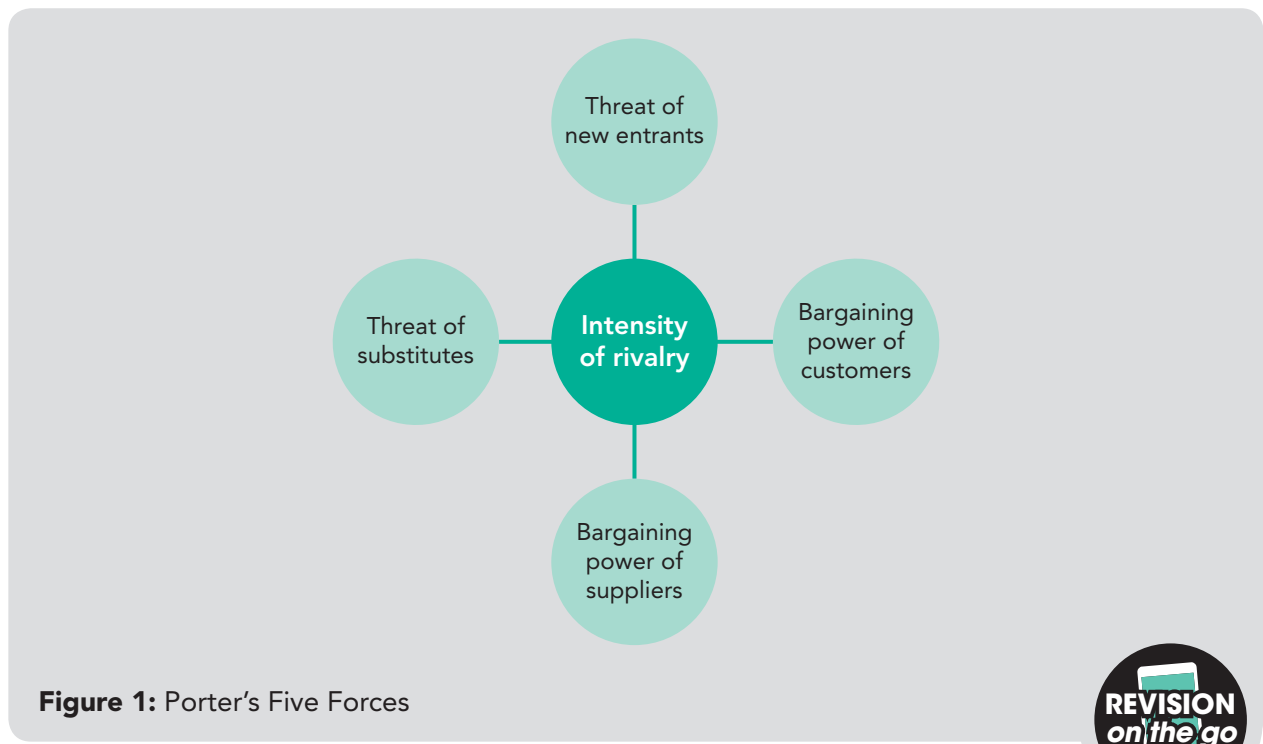


Figure 1: Porter’s Five Forces



Each of the five forces is itself determined by a number of different factors. When the five forces are completely analysed, this determines how attractive the industry is to organisations within it, and to those who might wish to enter it.

Let us look at each of the five forces in more detail:

Forces	Definition
New entrants	New entrants into a market give customers more choice, and hence prices tend to get pushed down. An organisation needs to be aware of new entrants, what they are offering and whether they are changing the nature of the competition.
Substitutes	Substitutes give customers the chance to achieve the same outcome, but in a different way. However, a lot of alternative providers of the same product/service leads to commodification of the market place and price wars ensue. To avoid competing on price, organisations must differentiate themselves from others. If they are competing on price, they need to concentrate on cost efficiencies and effective processes.
Buyers	To grow a business it is necessary to sell more to existing customers, or to find new customers. Finding new customers (new buyers) is important, therefore, and also necessary in order to ensure that they are not taking their business to other companies.
Suppliers	Businesses need to buy materials or products or services from other businesses. If new suppliers enter the market this can mean that there is more choice, which can affect price. In addition, it could improve what is offered as suppliers compete with each other.

Forces	Definition
Rivalry amongst competitors	Organisations need to understand their competitors. What are they doing? Are they successful? What are they planning to do? Are they more or less successful than our organisation?

Table 2: Porter's Five Forces

REVISION
on the go

! NEED TO KNOW

Porter's Five Forces

Porter's Five Forces is a model that looks at the external environment in which the organisation is operating. The five forces are:

- 1 entrants
- 2 substitutes
- 3 buyers
- 4 suppliers
- 5 rivalry amongst competitors

REVISION
on the go

✎ OVER TO YOU

Activity 4: Porter's Five Forces

Think back over your experiences of changes in organisations. Can you think of a time when it would have been really useful to carry out an analysis using Porter's Five Forces?

Stakeholder mapping

Another aspect of the organisation which needs to be considered is the attitudes and expectations of the stakeholders in the organisation. These are any individuals or groups who have some dependency on the organisation.

Johnson et al. (2011)¹¹ define stakeholders as:

“Those individuals or groups who depend on the organisation to fulfil their own goals and on whom, in turn, the organisation depends.”

They then go on to divide stakeholders into four groups:

Type of stakeholder	Definition
Economic	Economic stakeholders include supplier, competitors, distributors and shareholders. This group can influence decisions that have a financial impact on the organisation.
Social/political	Social/political stakeholders include policy-makers, regulators and government agencies.
Technological	These stakeholders influence the development of new technologies and the introduction of industry standards. They include standards agencies and adopters of competitive technologies.
Community	These are the stakeholders who are influenced by the actions of the organisation, for example the local community who might be affected by the activities of the organisation.

Source: Johnson et al. (2011)

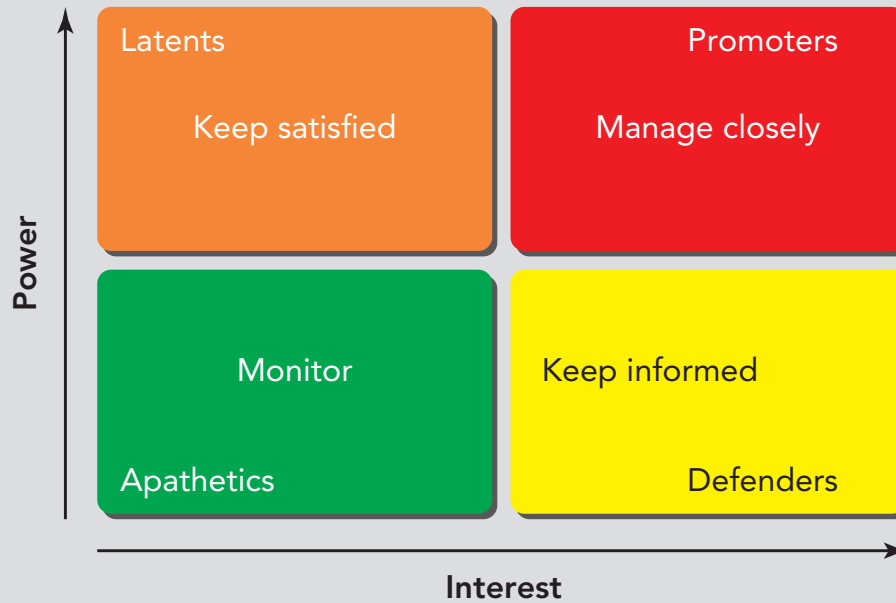
Table 3: Stakeholder groups



Although Johnson et al. do not define employees as a separate stakeholder group, some would argue that they should be recognised as their own group. They have an interest in the organisation, because their personal job security and income is impacted by its activities.

Some stakeholders have more interest in, and impact on, the organisation than others. This can be explored using stakeholder mapping. This classifies stakeholders according to the interest that they have in the organisation and the level of power that they have over the organisation, as shown in Figure 2.

¹¹ Johnson, G., Scholes, K. and Whittington, R. (2011), *Exploring Corporate Strategy*, 9th edition. London: Pearson Education Ltd



Source: Adapted from Johnson (2011)

Figure 2: Johnson's stakeholder mapping



We can see that this matrix divides employees into four groups:

- **Monitor:** This group has low power and low interest. They just need to be monitored, to see if they have any input from time to time, but there should be the minimum amount of effort in them because of their low level of impact.
- **Keep informed:** This group has a high level of interest, but little power. They should be kept informed because they are interested, but as they have little power they should not require excessive effort.
- **Keep satisfied:** This group has a lot of power, but are not very interested. They need to be kept satisfied, because they do have the power to influence things, but they do not need a lot of information because they are not really interested to explore it.
- **Manage closely:** This group is made up of the important stakeholders. They have a lot of interest and a lot of power. The organisation needs to work closely with these because they will have the most influence.

! NEED TO KNOW

Stakeholder mapping

Johnson et al. created a stakeholder mapping model which divides stakeholders into four groups:

- Monitor – low power and low interest
- Keep informed – low power and high interest
- Keep satisfied – high power and low interest
- Engage closely – high power and high interest



 OVER TO YOU
Activity 5: Stakeholders

Who are the influential stakeholders in your organisation or an organisation with which you are familiar? What impact do that have? Where would you plot them on the stakeholder mapping grid?

 CASE STUDY: SINO GOLD'S JINFENG MINE
Stakeholder mapping

The Jinfeng Mine is a joint operation between the Australian and Chinese governments. It started production in 2007. When the initial planning for the mine was starting, the mine engaged with the five remote communities living nearby. To understand the impact that the mine would have, over 100 interviews were carried out with community members and government officials.



By listening to the concerns of local people, an “issues of concerns” list was developed. This was used for the basis of a community development programme, which aimed to develop positive links between the mine and the community.

The impact of external factors on decisions made about organisational design

There is no point carrying out any of this analysis if it is not used to make decisions about organisational design. However, it is also important that an organisation does not make a lot of decisions that keep changing the organisation’s direction.

The need for organisations to be adaptable to respond to external factors

External factors will change, and so the organisation needs to be able to respond to those changes by being adaptable. Teece (2007)¹² has suggested that an organisation needs to have dynamic capabilities.

¹² Teece, D. (2007), “Explicating dynamic capabilities: the nature and micro-foundations of sustainable enterprise performance”, *Strategic Management Journal*, Vol. 28, pp. 1319–50

 OVER TO YOU

Activity 6: Changing external factors

Think about the country or the sector in which you work. What external factors have changed most in recent times? What has been the impact of those changes?

To understand dynamic capabilities we first need to understand **strategic capabilities**. These are the capabilities of an organisation that contribute to its long-term survival and competitive advantage. Johnson et al. (2011) suggest that strategic capabilities have elements of both resources and competencies, as shown in Table 4.

Resources: what we have		Competencies: What we do well
Machines, buildings, raw materials, products, patents, data bases, computer systems	Physical	Ways of achieving use of plant, efficiency, productivity, flexibility, marketing
Balance sheet, cash flow, suppliers of funds	Financial	Ability to raise funds and manage cash flows, debtors, creditors, etc.
Managers, employees, partners, suppliers, customers	Human	How people gain and use experience, skills, knowledge, build relationships, motivate others and innovate

Source: Johnson et al. (2011)

Table 4: Strategic capabilities



The organisation needs to have these strategic capabilities to survive.

However, to be able to change and develop, the organisation also needs to have dynamic capabilities. Teece argues that just having strategic capability is insufficient for superior performance. All that these capabilities will do is to ensure that the organisation continues and survives.

He identifies three generic types of dynamic capabilities:

- 1 Sensing opportunities and threats
- 2 Seizing opportunities
- 3 Re-configuring the capabilities of an organisation

To be able to change and to respond to the external environment, the organisation must have these capabilities.

2.2 The impact of internal factors on the success of the organisation

SWOT analysis

So far, we have been looking at the need of the organisation to respond to the external environment. We now need to look at the internal factors affecting the organisation. This is typically analysed using a **SWOT analysis**.

SWOT stands for:

Strengths – the aspects of the organisation that mean that it does well	Weaknesses – the aspects of the organisation that make it less competitive and less resilient
Opportunities – the chances that the organisation has to improve and develop	Threats – the dangers that the organisation faces, such as a product that is no longer wanted, or new competitors

Table 5: SWOT



A SWOT analysis helps us to look at the internal strengths and weaknesses within the organisation and the external threats and opportunities facing the organisation.

As with a PESTLE analysis, it is important to gather a range of ideas about these factors, and some form of brainstorming activity with a range of organisation stakeholders is a good way of exploring what should appear on a SWOT analysis.



OVER TO YOU

Activity 7: SWOT analysis

Think about an organisation with which you are familiar and identify what you would put as the main influence under each of the four headings of the SWOT analysis.



As before, it is not possible to predict what will appear on an organisation's SWOT analysis, because it is so specific to the organisation. However, some typical issues which affect organisations are:

Strengths	<ul style="list-style-type: none"> • Large market share • Well-known brand • Operating in a range of markets • Highly skilled workforce • Highly experienced management • Strong leadership • Steady annual growth
Weaknesses	<ul style="list-style-type: none"> • Small market share • Poorly recognised brand • Only operating in one market • Low-skilled workforce • New management with little experience • Weak leadership • Steady annual decline
Opportunities	<ul style="list-style-type: none"> • New markets opening • International market opening up • Changing demands from customers • New product ready for market soon • Changing social attitudes make product/service particularly desirable • Gap in the market has been identified
Threats	<ul style="list-style-type: none"> • Declining markets • New competitors on the scene • Competitors offering goods/services at reduced prices • Customers demonstrating a lack of loyalty • Niche market with no new outlets identified • High employee turnover

Table 6: Typical SWOT issues



! NEED TO KNOW

SWOT analysis

A SWOT analysis looks at the internal factors of an organisation under four headings:

- | | |
|--------------|-----------------|
| 1 Strengths | 3 Opportunities |
| 2 Weaknesses | 4 Threats |



A **prioritised SWOT analysis** does more than just list the different factors. It then looks at what is having the most impact on the business, and what are the most prevalent strengths and weaknesses. Here, each factor that has been identified on the SWOT analysis can be weighted – maybe from 1 to 5. By doing this a picture is drawn up of what is having most impact in the organisation.

✎ OVER TO YOU

Activity 8: Review SWOT analysis

Now go back to the four items that you highlighted as part of your SWOT analysis in Activity 7. Would you change anything having worked through the suggestions here?

📄 CASE STUDY: ZARA

SWOT analysis for entering the North African market

Zara is a successful clothes and accessories retailer. It has headquarters in Spain, although it does have operations throughout the world. It has identified that it has little presence in Africa, with operations only in South Africa, Algeria, Egypt, Tunisia and Morocco.

To understand its potential to expand into more African markets, particularly in North Africa, it carried out a SWOT analysis. From this analysis it identified that its biggest weakness is the centralised distribution centre. If there are any problems at that centre, the whole process of getting products into shops breaks down. It has noted that many other retailers have a number of decentralised distribution centres to overcome this problem.

Another weakness that it has identified is that it follows fashion, rather than creates it. This means that it is difficult to argue that it has any unique offering, and that means that it suffers greatly from the actions of competitors because they can soon offer the same product as Zara.

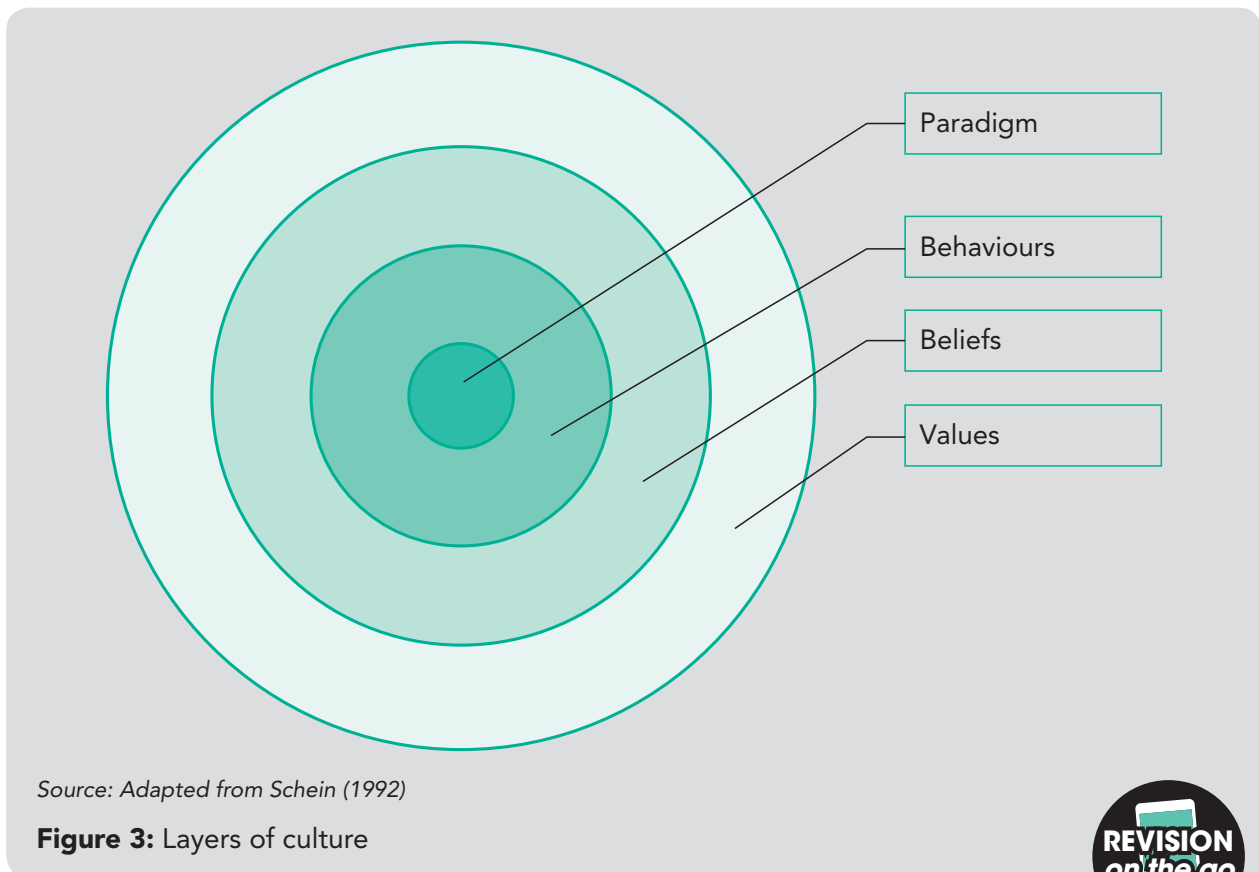
These are two areas where the organisation has decided to invest more money and activity.



Culture

All organisations have a culture. It could be summarised as the “way we do things around here”. Some organisations have a very strong culture, which is immediately identifiable, whereas others have a less defined culture.

When looking at an organisation, and its ability to respond to the environment around it, it is important to understand the culture. The organisation needs to consider whether it has the desire and ability to change, or whether the culture is one of stability. Schein (1992)¹³ suggested that there are four layers of culture, as shown in Figure 3:



These layers are defined as follows:

- **Values:** This is what matters to the organisation, and the principles or standards by which its actions will be judged. Often this is quite easy to identify because it is recorded in the organisation’s mission statement.
- **Beliefs:** This is closely linked to the values, with the beliefs focusing on what is held to be true in the organisation. So, the beliefs of an organisation will determine how it approaches a specific moral or ethical issue.
- **Behaviours:** This is what the organisation does and the way that it conducts itself. The culture of an organisation affects its behaviours and routines, and what it does on a regular basis.
- **Taken-for-granted assumptions:** This is the core of the culture. It is often referred to as the organisational paradigm, and it is the core of what the organisation does. It is what is assumed to be known by everyone; it is about knowledge in the organisation which it is believed everyone

¹³ Schein, E.H. (1985), *Organizational Culture and Leadership: A Dynamic View*. San Francisco: Jossey-Bass

knows and therefore does not need repeating. No-one questions it, and it is the way that the organisation always behaves.

📄 CASE STUDY: INNOCENT DRINKS

Inclusive approach

Innocent Drinks was an organisation that started in the UK by a group of friends who liked making fruit smoothies. Initially they sold their products at music festivals, but they grew into a well-known brand.

To understand their culture we can look at the work that they have been doing internationally. One good example of this is working with mango growers in India. They were concerned about the impact that climate change might have on the fruit that they use in their smoothies. They identified that the farmers in India were already experiencing some difficulties due to climate change and they have worked with them to identify new farming methods to help improve the farming of mangoes, and improve the income for the farmers.



The values of Innocent Drinks are very clearly linked to sustainable processes, and to sharing some of their success with others (they put aside 10% of their profits for charity).

This affects their beliefs. They believe in the importance of treating their suppliers well, and they demonstrate this in the way that they have approached the problems of climate change. They have not just pressured their suppliers to improve, they have worked with their suppliers to achieve improvement.

These values and beliefs affect the way that the organisation operates. If you go to their website you can see a focus on sustainability, and on an inclusive approach to success.

This is the very core of the culture. The organisation behaves in a way that is inclusive and respectful of others, and that comes through very clearly throughout their marketing.

! NEED TO KNOW

Layers of culture

Schein suggested that there are four layers of culture:

- Values – what matters to the organisation
- Beliefs – the way that the values are applied
- Behaviours – what the organisation does
- Taken-for-granted assumptions – the core of the organisation





OVER TO YOU

Activity 9: Organisation culture

Describe the culture of an organisation that you know in one sentence. Now look at the four layers of culture and see if you are describing all of these aspects of culture in your summary.



OVER TO YOU

Activity 10: Organisational paradigm

The organisational paradigm is core to the organisation. How would you define that for the organisation that you are thinking about?

Handy's model of culture

Another theorist who has looked at models of culture is Handy (1989)¹⁴. He suggested that there are four different models:

Models	Definitions
Power culture	This is a culture where the power is centralised and authoritarian. The managers have a strong grip on power and the employees must adhere to what the managers dictate. The structure can mean that the organisation can respond quickly, because it has clear processes for all that it does. As the organisation grows, the power at the centre of the organisation becomes weaker, as the organisation often splits into sub-divisions.
Role culture	This is a culture which is based on hierarchies. The senior managers make decisions, and the employees do their roles within their functional units. The level of authority that one person has is based on their position within the hierarchy. This culture thrives in a predictable environment, but struggles when there is a need to adapt to change.
Task culture	Here the main focus is on getting the job done. Teams form to complete projects, and then they disband. The expertise is central, and control is through the way that people and resources are allocated to projects.
Personal culture	Here the approach is one of consensus management – decisions are reached through seeking opinions and agreement from a range of people. There is individual freedom, and a lack of formal hierarchy.

Source: Handy (1989)

Table 7: Handy's model of culture



! NEED TO KNOW

Handy's model

Handy suggested that there are four models of culture:

- Power culture – centralised and authoritarian
- Role culture – based on hierarchies
- Task culture – focus on getting the job done
- Personal culture – consensus management



These three different models of culture show us a few common themes:

- Cultures do vary in different organisations.
- There are a number of different indicators of culture.
- Different cultures will mean that organisations react in different ways to the external environment.

¹⁴ Handy, C. (1989), *Understanding Organizations*. Harmondsworth: Penguin

It might help to think of the culture of the organisation as its soul, and the design and structure of the organisation as its body. The values and beliefs of the organisation and all that really matters to it will influence what it does and how it does it. The design needs to enable the organisation to do what it does as effectively as possible, and hence we see how there is a relationship between the culture and the design of the organisation.

2.3 Evaluate the influence of external and internal factors on the design of the organisation

When we looked at Handy's model of culture we referred to the role of management. The manager, or leader, of an organisation has a significant impact on the way that the organisation operates. If the leader of the organisation is dictatorial and does not allow for much debate or discussion, then the organisation is likely to have less innovation. One person can never be as innovative as a group of people.

However, an organisation that has less direction and less control might be slower to respond, due to the time being taken for the employees to discuss and debate the best way forward.

When designing the organisation there is a requirement to ensure that there is no conflict between the way that the organisation is designed and the style of the leader. For example, if there is a very hierarchical organisation structure, but a leader who does not operate by giving orders, there will be problems with giving the organisation direction.

It is important, therefore, to consider the leadership style of the senior management in the organisation.



OVER TO YOU

Activity 11: Leaders

Choose any organisation that interests you. How central do you think the leader is to the success of that organisation?

Leadership styles

Lippitt and White (1959, reviewing the work of Kurt Lewin from 1939)¹⁵ suggested that there are three styles of leadership:

Leadership style	Definition
Democratic leader	This leader discusses approaches to an issue with the employees and comes to an agreement with them as to how the issue should be addressed. Employees are allowed a voice, and their view is actively sought.
Autocratic leader	This type of leader takes charge. They make the decisions and do not discuss options with employees. They decide the direction that the organisation is going to take.
Laissez-faire leader	This type of leader takes a passive role. They allow the group complete freedom to make decisions in the way that they want. Indeed, it could be argued that this is not really leadership at all.

Source: Lippitt and White (1959)

Table 8: Styles of leadership



! NEED TO KNOW

Three styles of leadership

Lippitt and White suggest three styles of leadership:

- Democratic – discusses issues with employees
- Autocratic – tells employees
- Laissez-faire – taking a passive role



Transactional and transformational leadership

Another approach to understanding leadership comes from the work of Burns (1978)¹⁶. He identified the difference between transactional and transformational leadership.

Transactional leadership is based on a “give and take” tactical approach to leadership, i.e. “If you do X, then I will do Y”. It gets results, but without enthusiasm. Employees do as requested in return for reward, or a lack of punishment, but without any real involvement in what is happening.

Transformational leadership is based on inspiring employees. The leader explains the direction and the vision of where the organisation is going, but does not dictate how this will be achieved.

¹⁵ Lippitt, R. and White, R. (1959), “An experimental study of leadership and group life”, in E. Maccoby, T.M. Newcomb and E.L. Hartley (eds.) *Readings In Social Psychology*, 3rd edition. London: Methuen

¹⁶ Burns, J.M. (1978), *Leadership*. New York: Harper and Row

! NEED TO KNOW

Transactional and transformational leadership

Transactional leadership gets results but without much enthusiasm from employees.

Transformational leadership works by inspiring employees.



These ideas were developed by Bass (1985, 1996)¹⁷. A summary of the differences between the two styles, as described by Bass is given in Naylor (2004)¹⁸:

Transactional leader "Do what is required"		Transformational leader "Go the extra mile"	
Contingent rewards	Manages exchange of rewards for effective performance	Charisma	Offers vision and sense of mission; instils pride, trust and respect
Management by exception (active)	Seeks out deviations from rules and standards; takes corrective action	Inspiration	Spreads high expectations using clear messages to focus attention
Management by exception (passive)	Takes corrective action only when deviations brought to leader's attention	Intellectual stimulation	Advocates use of intelligence, rationality and problem-solving skills
Laissez-faire	Avoids responsibility and dodges making decisions	Individual consideration	Acts as coach and adviser; treats each person as an individual

Source: Bass (1985, 1996) cited in Naylor (2004)

Table 9: Transformational and transactional leadership



OVER TO YOU

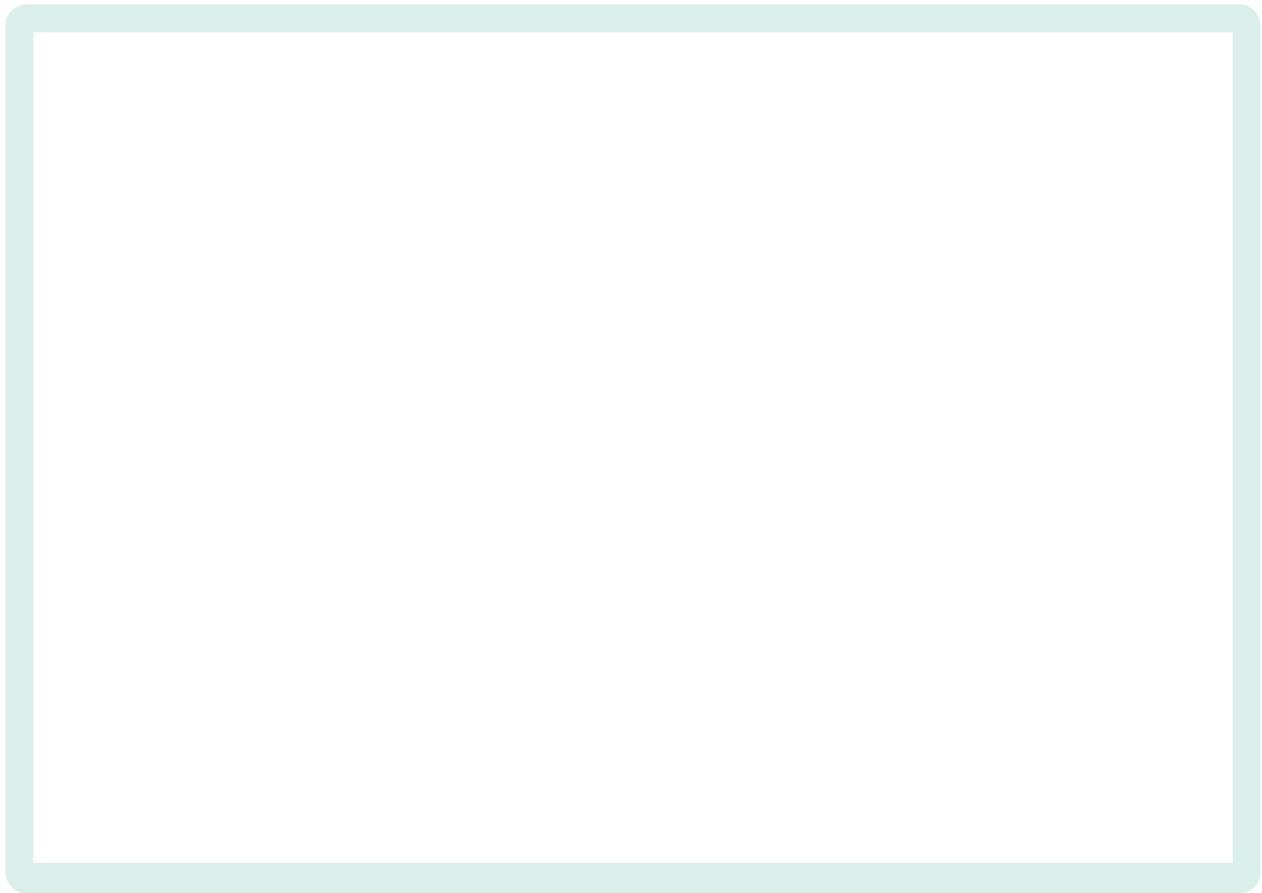
Activity 12: Transactional or transformational?

Think back to the leader that you identified earlier in Activity 11. Does that leader have a transactional or transformational style?

¹⁷ Bass, B.M. (1985), *Leadership and Performance Beyond Expectations*. New York: Free Press

Bass, B.M. (1996), *A New Paradigm Of Leadership: An Inquiry Into Transformational Leadership*. Alexandria, VA: US Army Research Institute for the Behavioural and Social Sciences

¹⁸ Naylor, J. (2004), *Management*, 2nd edition. FT Prentice Hall



What we see is that different leaders have different styles. There is no one right or wrong approach to leadership; indeed, there can be different styles that are appropriate for different organisations or at different times in an organisation. For example, an organisation that is experiencing crisis might need an autocratic leader to give direction and to make decisions quickly. An organisation that requires innovation and creativity might require a laissez-faire leader.

The leadership style dictates the design of the organisation. If the approach is to have a laissez-faire leader, it is unlikely that there will be a hierarchical organisational structure.

The link between HR policies and procedures and successful organisational design

It is also important to note that there is a link between the way that people are treated in the organisation and the design of the organisation. For example:

Recruitment

A key policy in any organisation is recruitment. For the organisation to be successful, it needs to be designed such that there are the right people in the right place at the right time. This can be achieved through sophisticated recruitment processes that attract the right people into the organisation.

The term “employer of choice” has been developed to identify that there are some organisations which people would love to work for, and other organisations that people would prefer to avoid. Although an individual might have to take a job with an organisation that is not their preference, there will always be a tendency to migrate towards the very best organisations.

In the recruitment process, an organisation wants to be an employer of choice. This will mean that the most talented people apply for jobs in the organisation. This requires the organisation to have a strong profile, and to have a reputation for treating people well.

As well as attracting people to the organisation, the organisation has to have effective selection processes. The recruitment and selection process is not easy. There is a limited time to get sufficient insight into someone's talents and abilities to decide if they should be part of the organisation. Ensuring that those involved in selection are adequately trained, and ensuring that there are effective recruitment processes in place is, therefore, key.

Learning and development

In addition to attracting the best people into the organisation, there is a requirement to continue to invest in them once they have joined the organisation. An organisation will not be successful if the skills and knowledge amongst the employees is dated and no longer of any relevance to what the organisation is doing.

Hence, there is a requirement to have effective learning and development policies which ensure that employees are receiving the training that they need at the point that they need it. It is important to ensure that there is ongoing investment in people, because if skills become too dated it can be very difficult to get the employee back to a stage at which they know sufficient skills to be competitive in the organisation.

This links back to organisational design in two main ways. Firstly, there is a need to ensure that the skills which are being developed in the organisation are really needed. Secondly, investing in an employee can make them more engaged and committed to the organisation.

Reward

Reward is a broad area, and this does not just mean getting the levels of pay right in the organisation. There is a requirement to use reward intelligently so that employees are motivated to contribute to the organisation, and also to ensure that they are motivated to do what the organisation wants.

This can mean adjusting reward policies on a regular basis, so that they are directed at the outputs and behaviours that the organisation is valuing at that particular time. For example, if there was a need to improve customer service in an organisation, then this could be achieved through putting in place bonuses that relate to customer service. However, if the emphasis is on sales, and employees are rewarded for selling regardless of how they treat the customer, this is the behaviour that employees will exhibit.

Reward also needs to be competitive, so that employees want to stay with the organisation. It is a way of showing employees that they are valued in the organisation. If employees are to be part of the development of an organisation, then they might be required to do extra work, or to develop new skills, and it might be necessary to reward them to motivate this.

Again, this links with organisational design and the need to have engaged employees. If the employees are more engaged, the organisation will be more successful.

READING LIST

- Barratt-Pugh, L., Bahn, S. and Gakere, E. (2013), "Managers as change agents: Implications for human resource managers engaging with culture change", *Journal of Organizational Change Management*, Vol. 26, Issue 4, pp. 748–764. (This article will be available in your online student resources.)
- Cheung, M.F.Y. and Wong, C.S. (2011), "Transformational leadership, leader support, and employee creativity", *Leadership and Organization Development Journal*, Vol. 32, Issue 7, pp. 656–672. (This article will be available in your online student resources.)
- CIPD (2017), *Organisation Design* [online]. Retrieved from: <https://www.cipd.co.uk/knowledge/strategy/organisational-development/design-factsheet> [Accessed on: 6 September 2017]
- Schwering, R.E. (2003), "Focusing leadership through force field analysis: new variations on a venerable planning tool", *Leadership and Organization Development Journal*, Vol. 24, Issue 7, pp. 361–370. (This article will be available in your online student resources.)
- Ulrich, D., Allen, J., Smallwood, N., Brickbank, W. and Younger, J. (2009), "Building culture from the outside in", *Strategic HR Review*, Vol. 8, Issue 6, pp. 20–27. (This article will be available in your online student resources.)

Summary

An organisation does not operate in isolation. It is affected by the external factors that surround it. In addition, the organisation determines some of its own fate, by the way that it responds to the internal factors that are part of the way that it operates.

Organisations can also be affected by culture and by leaders. What we see is that organisations are not separate from everything else that is going on around them. We need to respond to those factors and incorporate them in our planning for the organisation.

Chapter 3

Organisational Development

Introduction

Organisations need to change to survive. However, reactive change that results from an unplanned response to changes in the environment does not lead to structured **organisational development**. In this chapter, we look at the theory underpinning effective organisational development.

Learning outcome

On completing this chapter you will be able to:

- 3 Critically evaluate the theoretical and practical basis of organisational development to allow development of appropriate strategies

Assessment criteria

- 3 Critically evaluate the theoretical and practical basis of organisational development to allow development of appropriate strategies
 - 3.1 Evaluate the theoretical basis of organisational development
 - 3.2 Analyse the process of organisational development
 - 3.3 Appraise the role of the employee in effective organisational development

Level 6 Organisational Design, Development and Performance

3.1 Evaluate the theoretical basis of organisational development

Organisational development

Organisational development (OD) is a systematic approach to change based on behavioural and social science. It is about an organisation making the changes that are required to be successful and to grow and become more competitive, healthier and more robust.

When we think about organisational development we have to remember how we have defined an organisation: it is a group of people who are working together towards a common goal. Therefore, when we are thinking about the need to develop and change the organisation, we are actually saying that there is a need to develop and change the organisation through people.

Various commentators have defined OD in different ways. French and Bell (1973)¹⁹ offer the following:

“*Organisational development is a long-range effort to improve an organisation’s problem solving and renewal processes, particularly, through a more effective and collaborative management of organisation culture with special emphasis on the culture of formal work teams with the assistance of a change agent or catalyst and the use of the theory and technology of applied behaviour science, including action research.*”

! NEED TO KNOW

Organisational development

Organisational development (OD) is a planned and systematic approach to enabling sustained organisational performance through the involvement of its people.

It is a systematic approach and is planned rather than reactive change.



¹⁹ French, W.L. and Bell, C. (1973), *Organization Development: Behavioral Science Interventions for Organization Improvement*. Englewood Cliffs, N.J.: Prentice-Hall

Other definitions take a similar approach of emphasising the systematic element of the process, and also of it being organisation orientated. Looking at different definitions, we see some common themes:

- OD applies to the whole organisation. It is a process of changing the way that an organisation operates, or the structure of an organisation. It is something significant.
- OD is knowledge orientated. There is the need to have a strong foundation of knowledge so that the organisation can further develop in future.
- OD is planned change. It is based on the gathering of information and is thought out in advance. It is not something that is reactive or ad hoc.
- OD requires a change to be embedded in the organisation.



OVER TO YOU

Activity 1: Understanding organisational change

Think about the process of change. Is this something that you find positive or negative? What has made you have this attitude? Is it the excitement of change, or do you think that it is the way that change has been managed?

Behavioural science

Organisational development first became an issue debated by theorists at the end of the Second World War. Many organisations needed to reorganise and rebuild following the war, and there started to be a focus on the way that the behaviour of employees impacts on the success of the organisation.

An important member of this movement was Kurt Lewin (1890–1947), who developed the approach known as “action research”. Action research is an approach to problem solving based on analysis. It uses this analysis of data and research to understand what is happening in the organisation. From this, the analysis is used to predict what is going to happen in the future.

Action research, as the name suggests, is more than the reflective knowledge that is often used. It is based on the foundations of gathering data, analysing and challenging data. The result of this intense analysis is actions which are well informed, and which can be justified.

Lewin, and other academics, found that structuring work so that employees work in small groups leads to positive attitudes, improved performance and greater commitment.

A number of academics, such as Tannenbaum (1961)²⁰, were involved in developing the use of **T groups** in organisations. These resembled therapy groups, but with the emphasis on the T standing for “training” rather than “therapy”. The T groups worked on the belief that behavioural issues in an organisation relate to the individual’s perceptions, assumptions and feelings about events. If these issues can be discussed and altered, using **sensitivity training** (making people more aware of their own prejudices and the impact that they have on others), then the negative aspects of behaviour can be altered.

T groups were used widely in the 1960s as well, with them being run by consultants and used as a way of directing managers to use more open and trusting behaviour. The use of approaches such as T groups has declined, with many arguing that it made OD too “touchy and feely” rather than focused on a thorough and robust understanding and analysis of the organisation.

However, this does not mean that understanding and motivating employees is no longer important. There is a need to understand how and why people behave as they do. There is no question that this is important; the question is more how this information is used.

Behavioural science is a way of helping us to understand people. It is a form of psychology that was initially developed by theorists such as Pavlov (1927)²¹. It is presumed that individuals can be motivated by linking the behaviour with a reward or a punishment. If the individual exhibits the desired behaviour then they receive a reward, and if they do not exhibit the desired behaviour, or they do something that is not wanted, they receive a punishment.

This is the basis for the approach of using bonuses. If employees perform in the way that is wanted then they get a bonus. If they do not behave as required, or they do not behave sufficiently in the way that is required, they do not receive the bonus (which is deemed to be a punishment).

When developing an organisation, this approach can be used to encourage the behaviours that are wanted for the organisation to be successful. However, we have to take care with using this approach. Consider the financial crisis that started in 2008. One of the key reasons that this occurred was the mis-selling of sub-prime mortgages. Those involved in these sales had been motivated to sell the products, often with the reward of large bonuses for doing so. They ignored the risks and the potential damage to the organisation, because their focus was on doing the behaviour that was being rewarded. Ultimately, this led to international chaos.

! NEED TO KNOW

Behavioural science

Behavioural science suggests that we are motivated by rewards and punishments.



Social learning theory

One approach to understanding why people behave in the way that they do was the **social learning theory** developed by Bandura et al. (1961)²². They suggested that people learn by observation, and then exhibit the learned behaviours.

20 Tannenbaum, A.S., Schmidt, W.H. (1973), “How to Choose a Leadership Pattern”, *Harvard Business Review Reprint*, Vol. 36, May/June, pp. 4–12

21 Pavlov, I.P. and Anrep, G.V. (1927), *Conditioned Reflexes: An Investigation of The Physiological Activity of The Cerebral Cortex*. London: Oxford University Press

22 Bandura, A., Ross, D. and Ross, S.A. (1961), “Transmission of aggression through imitation of aggressive models”, *Journal of Abnormal and Social Psychology*, Vol. 66, Issue 1, pp. 3–11

Their research was carried out with young children who were split into two groups. One group was not exposed to any violence, but the other saw adults being aggressive. The results showed that individuals who observed violence were more likely to show aggression in their own behaviour.

Although this research was carried out with children, it has been shown that similar results occur amongst adults. Indeed, it goes partway to explaining why problems such as racism occur. If an adult is new to a group and sees racist behaviour being displayed and accepted, then one way of becoming accepted as part of that group is to also exhibit racist behaviour.

Thinking about organisational development, this approach helps us to understand how we can ensure that all employees take on the values of the organisation. If we demonstrate through behaviours that the values are part of the way that the organisation operates, then it is more likely that individuals will mirror their behaviour, and hence will operate in the way that is wanted by the organisation.



OVER TO YOU

Activity 2: Social learning theory

When you are new to a group of people, for example when you start a new job or join a new club, do you ever change your behaviour to fit in? Why/why not? How does that make you feel?



NEED TO KNOW

Social learning theory

Social learning theory suggests that we learn by observing others and copying behaviours that we see as being accepted by others.



CASE STUDY: SOUTH AFRICAN AIRWAYS

Getting the basics right

South African Airways (SAA) is seen to be the leading air travel company in Africa, and has won a number of awards for being the best airline. In 2001 it redesigned its organisation strategy as part of an overall approach of organisational development.



The new strategy was titled “Getting the Basics Right” and was all about the 4Cs – customers, cost, competition and culture. The approach was to motivate employees to achieve strategic targets under these four headings by a process of reward, training and putting in place programmes to teach employees how to provide a better customer experience.

The approach involved a number of activities, including:

- Defining role clusters – this involved defining the competencies that were required for similar roles, and ensuring that there were programmes in place to help people develop those competencies.
- Job titles – these were largely redefined, to help add clarity to what people were expected to do in their roles.
- Job scorecards – these scorecards included metrics that had been identified as being important to demonstrate achievement at the different levels of operation.
- Skills audit – as well as defining what needed to be achieved, an audit was carried out of what the employees were already competent to do.

The benefit of this organisational development programme was an alignment of the workforce so that everyone understood the goals of the organisation and was equipped to help achieve them. There was also a prioritisation of training so that people could see the investment that was being placed in them, as well as there being the benefit of the improvement in the work that was produced.

Organisational development principles – humanistic, democratic, client-centred

The Hawthorne studies

One early influence on the conceptualisation of organisational development was the **Hawthorne studies**, which were carried out by Elton Mayo and others between 1924 and 1932 in the Western Electric Company in Cicero, near Chicago, USA²³. The Hawthorne Works were large, with over 40,000 employees at its peak. It was making electrical products, such as telephones.

At the time, organisations were very much designed on scientific management principles. As we noted in the first section of this study guide, scientific management focused on breaking down work into small components and having employees working on one small component. There was no focus on the individual doing the work, but rather the focus was all on the design of the work.

²³ Mayo, E. (1933), *The Human Problems of an Industrial Civilisation*. MacMillan: New York

The initial Hawthorne studies concerned finding the most effective level of lighting that resulted in maximum employee output. The researchers worked in one area of the company, and altered the levels of lighting.

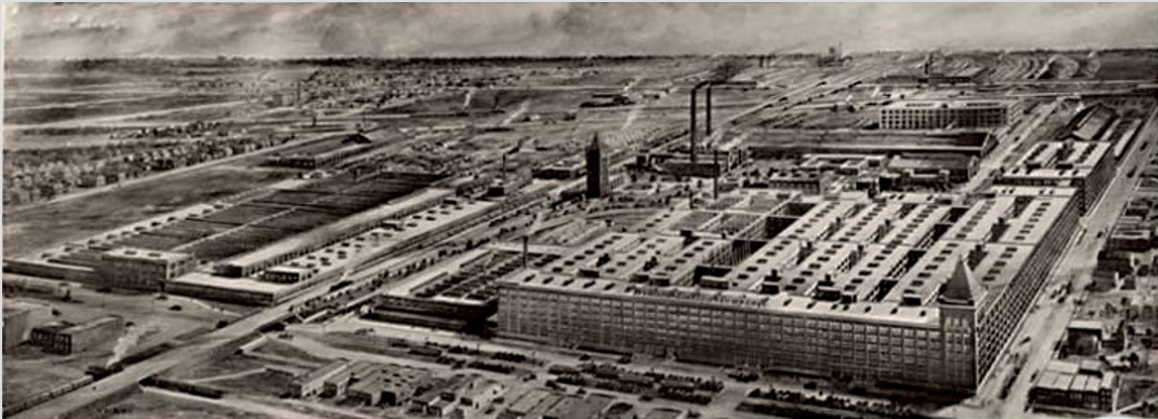


Figure 1: The Hawthorne Works where the studies took place



They were surprised to find that there was no direct correlation between the levels of light and employee output as they had predicted. Instead, the output went up and down in a rather unpredictable manner in response to the level of light being altered.

Given this, the researchers then questioned whether lighting was really important, and they moved their focus to look at levels of fatigue. Fatigue was already an issue that had raised comment, due to workers in munitions factories during the First World War working seven-day weeks, with just one day off a month, and often falling asleep at their work.

To explore this issue, the researchers took a group of six women who were making telephone circuits. They were put in a special unit so that their work could be studied. They made the work unit friendly, co-operative and as natural as possible, although the work was very boring and repetitive.

They then set about identifying the ideal balance between rest periods and output. However, what they found was that output continued to rise regardless of how many rest periods were given, or how long the rests were. They measured a number of physical characteristics of the women such as blood pressure, and found that had no predictor on output.

However, they did notice the output appeared to be linked to the way that the women were allowed to work. Unlike previously, they were allowed to talk to each other and they were allowed increased freedom rather than being tightly managed. This more relaxed approach to work increased output.

The researchers then started to focus on the psychological and social factors of work, rather than the physical factors. It was from this research that the approach to work called the Human Relations approach developed. The researchers found that the social side of work and meeting the needs of the employees was more indicative of future output and performance than the physical design of work.

The Hawthorne studies were a huge piece of research, and if you are interested you can read more about them. However, what we need to learn from them here is the shift in the way that

organisations were considered. Rather than seeing organisations as a series of physical activities (jobs), the Human Relations approach moved to see them as people-based.

From an OD perspective, this means that we need to focus on the people within the organisation to ensure successful OD, and not just changing systems.

! NEED TO KNOW

Human Relations approach

The Human Relations approach developed from the Hawthorne studies. This approach suggests that the social side of work and meeting the needs of employees is more indicative of future output and performance than the physical design of work.



✎ OVER TO YOU

Activity 3: Human Relations approach

In your experience of the organisations where you have worked do you think that people are valued? Think of examples you have seen that suggest that people are valued, as well as examples that suggest a lack of value.

Humanistic principles of organisational development

Developing this further, we can identify the **humanistic principles** of organisational development. Margulies and Raia (1972)²⁴ explained them as being the following:

- providing opportunities for people to function as human beings rather than as resources in the productive process;
- providing opportunities for each organisation member, as well as for the organisation itself, to develop to their full potential;
- seeking to increase the effectiveness of the organisation in terms of all of its goals;
- attempting to create an environment in which it is possible to find exciting and challenging work;

²⁴ Margulies, N. and Raia, A. (1972), *Organizational Development: Values, Process, and Technology*. New York: McGraw-Hill

- providing opportunities for people in organisations to influence the way in which they relate to work, the organisation, and the environment;
- treating each human being as a person with a complex set of needs, all of which are important to their work and their life.

What these principles show us is that organisational development is seen as being something that is people-centred. To make an organisation more successful, the humanistic principle assumes that there will be a need to develop the people.

! NEED TO KNOW

Humanistic principles

Organisational development is people-centred. To make the organisation more successful there will be a need to develop the people in the organisation.



Democratic principles of organisational development

Another approach is based on **democratic principles**. This focuses on the processes within the organisation, and the need to challenge these for successful organisational development. So, the democratic principles question:

- authoritarian and autocratic approaches – they might stop organisational growth occurring;
- arbitrary management practices – if there is no reason for management practices then it could be argued that they stop the organisational developing;
- dysfunctions of bureaucracies – there must be a purpose for the rules in the organisation. The rules should enhance the activities and not put in place restrictions which are not really needed.

What we see from these two approaches is the difference between focusing on the people and focusing on the processes within the organisation. Arguably, effective organisational development needs to address both, but many commentators argue that the primary focus should be on the people.

! NEED TO KNOW

Democratic principles

The processes within the organisation need to be challenged to ensure effective growth.



✎ OVER TO YOU

Activity 4: Democratic principles

Do you think that change is most successful when the focus is on people, or on the processes of the organisation?

Client-centred principles of organisational development

The final principles that we need to consider are the **client-centred principles**. This reminds us of the purpose of an organisation – it is there to provide goods or services to customers and clients. So, all that it does has to be focused on the end user of what the organisation is providing.

If the organisation is going to stop producing some products, will it still be able to meet the needs of the organisation? If the organisation is going to offer services in a different way, will this be the best option for customers? There is a need to balance the demands of the external stakeholders with the need for the organisation to be financially and operationally successful.

CASE STUDY: LLOYDS BANK PLC

How do people want to bank?

Lloyds Bank is an international banking company that has seen significant changes in the ways that people carry out their banking. Customers are using more online banking, and it is less common to write cheques. People do not need to visit a physical bank branch in the same way that they used to, because they are carrying out their banking differently.

Lloyds Bank needs to be competitive and it wants to save costs. How does it balance the changing needs of customers and its own need to be competitive? One approach has been to change physical bank branches so that they just have machines and two members of staff. Customers are assisted with banking transactions, and if they want to take out a loan they can be connected with staff at a central location using video technology. Doing this recognises the changing needs of the customer, whilst also achieving cost savings.



Motivating people

If people are the focus of organisational development, we need to understand how they operate within the organisation. There is a need, therefore, to understand what motivates people and what prompts them to perform in the way that the organisation requires.

Over the years, various theorists have developed different models to explain what motivates individuals.

Maslow's Hierarchy of Needs

Maslow (1954)²⁵ suggested that individuals have a **Hierarchy of Needs**; the needs at one level need to be met before the employees can move to the next level. If the lower levels are not met then the employee is never fully motivated.

²⁵ Maslow, A. (1954), *Motivation and Personality*. New York: Harper and Row

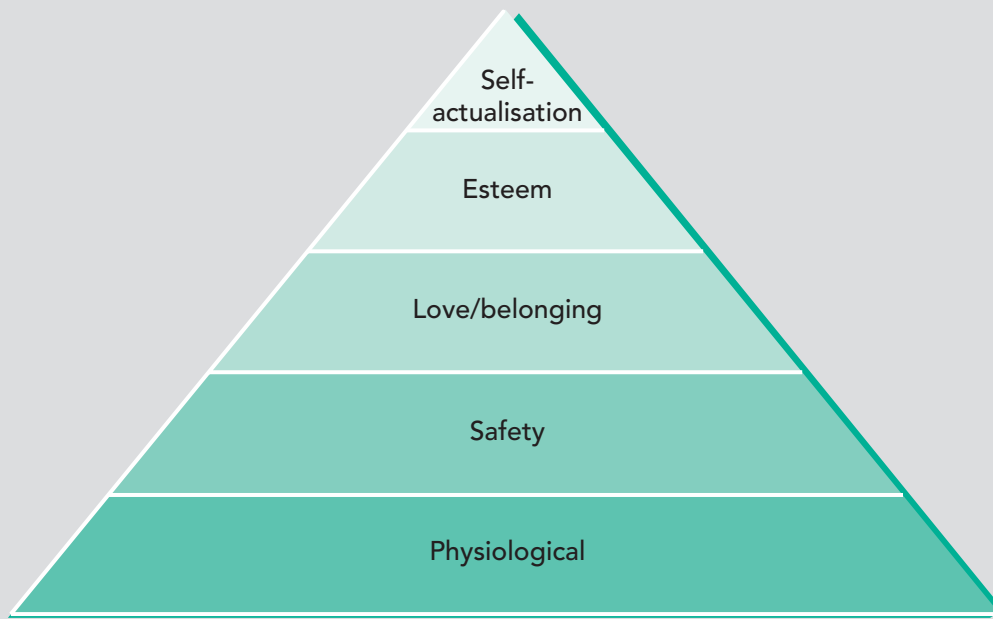


Figure 2: Maslow's Hierarchy of Needs



The levels represent needs as follows:

- Physiological – hunger, thirst, warmth
- Safety – security, protection against danger
- Love/belonging – being accepted, receiving affection
- Esteem – self-esteem and esteem from others
- **Self-actualisation** – personal fulfilment

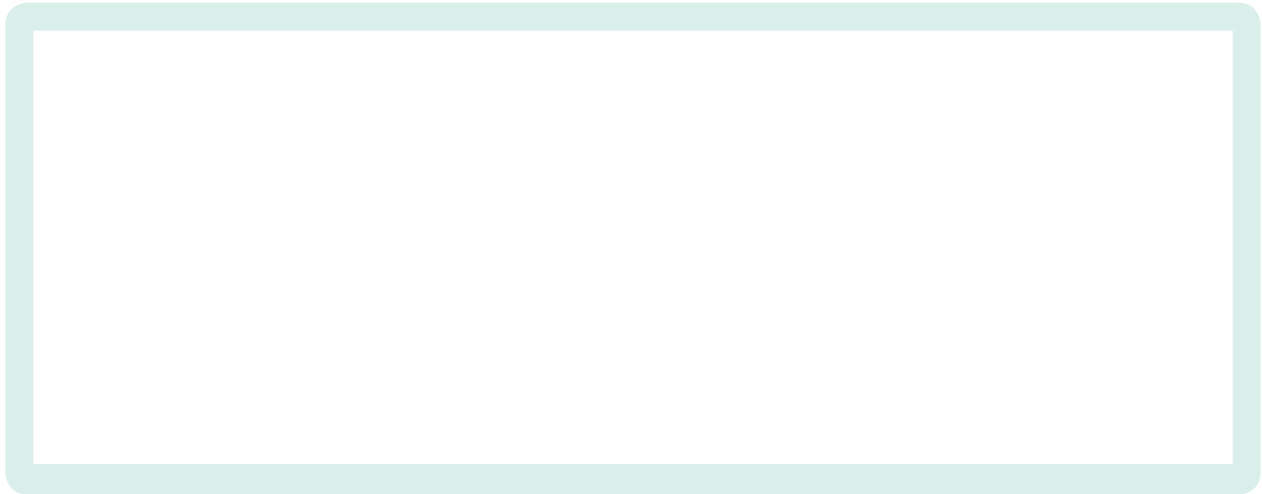
The difficulty with Maslow's theory is that there is no research evidence to support it. It also ignores the fact that many situations that arise motivate employees in a variety of ways. For example, a pay increase could lead to meeting physiological needs, but also increased self-esteem.

Although there are clearly weaknesses in the theory, it is interesting to consider how needs have different levels of importance, and hence meeting them might have different value to people.

OVER TO YOU

Activity 5: Maslow's hierarchy

The Maslow hierarchy has been questioned because of the lack of research evidence. However, do you think it has some merit? Do you think it is possible to reach self-actualisation if the other needs in the model have not been met?



Herzberg's Two-Factor Model

Herzberg (1957)²⁶ suggested that there are two groups of motivational factors. One group leads to satisfaction and the other to dissatisfaction.

The first set of factors he referred to as **hygiene factors**. These can dissatisfy if they are not met, but once they are met they become irrelevant to motivation. For example, they could be things such as supervision, working conditions, status and security.

The other factors are referred to as satisfiers or motivators. They are intrinsic to the job, such as achievement, responsibility and growth, and so as they increase so does motivation.

Again, the research basis for the model is limited. Herzberg just carried out research with engineers and scientists. However, it is useful to note that something that might be really important to someone at one stage can become less important over time.

Adam's Equity Theory

Adams (1965)²⁷ suggested that people are motivated by fairness. If they believe that they are being treated fairly then they will be motivated. This model does rely on the perception of fairness, because employees do not always know how they are being treated in comparison to others – this is particularly relevant with reference to pay.

Vroom's Expectancy Theory

Vroom (1964)²⁸ suggested that motivation is a combination of two factors – **valency** and expectancy. Valency is the desirability that an individual places on a particular outcome. The more the person wants the outcome then the more they will be motivated to achieve it.

Expectancy is the belief that it will happen. So, an individual might be motivated by the possibility of a bonus if it is large enough to be something that is of value to the employee, and they believe that there is a realistic prospect of getting that bonus.

26 Herzberg, F., Mausner, B. and Snyderman, B. (1957), *The Motivation to Work*. New York, Wiley

27 Adams, J. (1965), "Injustice in social exchange", in L. Berkowitz (ed.) *Advances in Experimental Psychology*. New York: Academic Press

28 Vroom, V. (1964), *Work and Motivation*. New York, Wiley

 OVER TO YOU

Activity 6: Vroom's Expectancy Theory

Vroom's theory is often used to explain why some benefits motivate people and others do not. If we do not desire a particular benefit then it will not motivate us (for example, an enhanced pension might not motivate a young person who sees retirement as being decades away). What benefits are offered by your organisation? Do you think that they have the potential to motivate the majority of people? (If you are not employed currently, research the benefits offered by a well-known local employer.)

 CASE STUDY: MOTIVATING TEACHERS

Using performance-related pay to reward teachers

Performance related pay (PRP) is a way of rewarding individuals according to their performance in the job. It is often seen as fair, because the high performers get paid more than the low performers. However, it also has some problems associated with it. Employees might perceive that it is unfair, and it is difficult if employees do not have full control over what happens in their daily work.



Research was carried out in six schools in China which introduced PRP to see if it was achieving the desired motivation. It was found that it had been successful in retaining teachers in rural schools, but the desired positive impacts on performance had not been achieved.

Source: Adapted from Weng, J., Hsieh Y., and Huang W. (2013), "Motivation or demotivation? A case study of schoolteachers' performance related pay system reform in China".

Latham and Locke's Goal Theory

Latham and Locke (1979)²⁹ suggested that motivation is directly related to goals. When goals are set there is a motivation to achieve them, and if the goals are ambitious then people will work more effectively. However, if a goal is so stretching that people do not believe it can be achieved they will be demotivated.

²⁹ Latham, G., and Locke, E.A. (1979), "Goal setting: A motivational technique that works", *Organisational Dynamics*, Autumn Issue, pp. 68–80

! NEED TO KNOW

Motivation

Maslow's Hierarchy of Needs suggests that we need to meet one level of needs before we can move to the next. So, we never achieve the "top level" of self-actualisation if these lower level needs are not met.

Herzberg's Two-Factor Model says that there are two groups of motivational factors. One group causes motivation and the other causes dissatisfaction if they are not met.

Adams' Equity Theory says that we are motivated by fairness.

Vroom's Expectancy Theory says that we are motivated by a combination of the desirability we place on a reward and the extent to which we believe that we will receive the reward.

Latham and Locke's Goal Theory says that we are motivated by having clear goals to achieve.



Systems theory

Right at the start of this study guide we noted that an organisation can be a closed system or an open system.

- A closed system is one that does not respond to the external environment.
- An open system is one that is responsive to what is happening in the external environment.

It is important to remember that most organisations are open systems. Hence, whilst we are thinking about the way that people are motivated, we have to remember that the external environment in which they are operating is likely to be changing. As a result, it is not possible to have one consistent approach to motivation, but there is a need to adapt motivational techniques in response to the external environment.

Systems theory identifies that an organisation is a system with many different parts. Changing one part of the system means that the whole organisation is affected. This is a crucial part of understanding organisational development, because this assumption that a change in one part of the organisation can affect the whole organisation is fundamental to understanding approaches to change.

Systems theory also challenges the assumption that there is one single cause of change with clear effects. It is accepted that causes of change are often multi-faceted and complex, and anything that appears to be cause and effect could actually be consequential.

As well as causes of change being complex it is also important to remember that organisations are complex. They are a web of developments and changes that have happened overtime, and it can be difficult to "unpick" this to plan organised change.

! NEED TO KNOW

Systems

Organisations can be seen to be systems.

A closed system does not respond to the external environment.

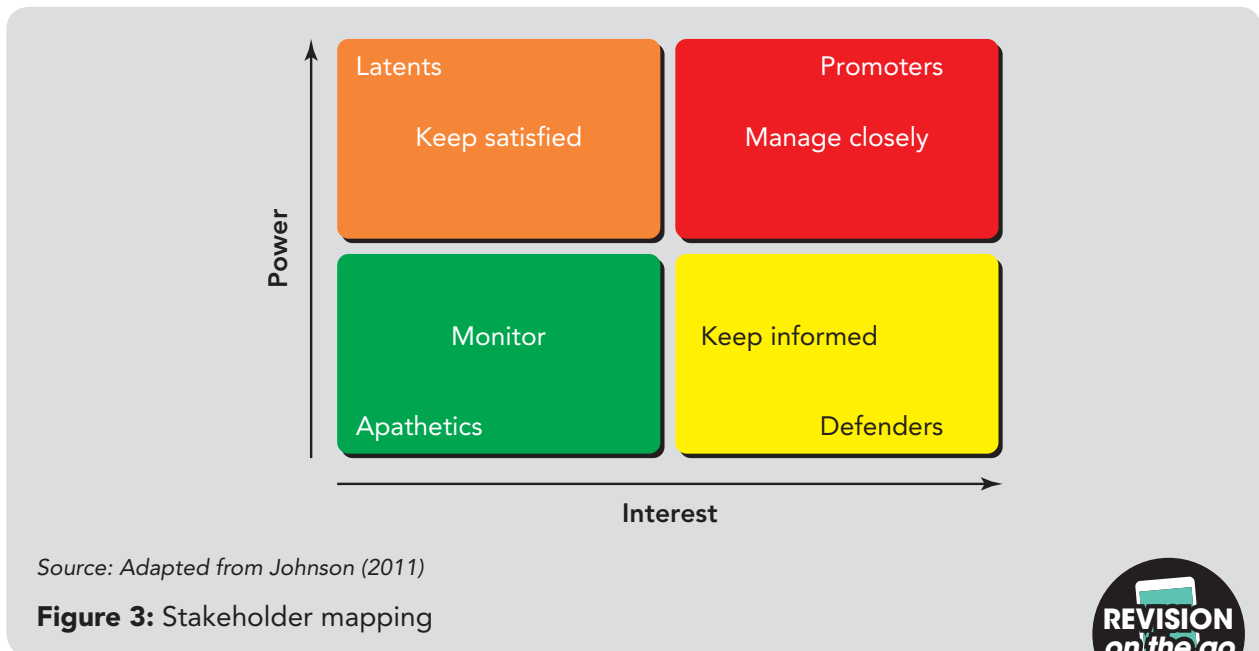
An open system is responsive to what is happening in the external environment.



3.2 Analyse the process of organisational development

The stakeholders in the organisation and their role and intervention in organisational development

In Chapter 2 we looked at the role of stakeholders, and we identified that different stakeholders have different levels of influence in the organisation. To recap, we looked at the following model:



This model also helps us to understand that different stakeholders will have different levels of intervention in organisational development.

OVER TO YOU

Activity 7: Stakeholders

Think about whether stakeholders are of value to an organisation. Identify five different stakeholders and evaluate whether they add any value.

When we looked at the model previously, we suggested that there is a need to engage closely with the group that has a high level of power and a high level of interest in the organisation. This is still valid when thinking about organisational development. When we are thinking about the impact of stakeholders in the organisation, those who have the highest level of power and interest in the organisation are likely to be the managers.

Looking at the role of managers reminds us of the different levels of operation in the organisation. There are senior managers, running the organisation and sitting on the management team. There are departmental managers, line managers and supervisors. All of these are stakeholders in the organisation and they all influence the effectiveness of organisational development.

In an organisation, development is carried out at different levels and communicated down the hierarchy of the organisation.

This brings us back to systems theory again. A change that is happening in one part of the organisation might have an impact on a different part of the organisation. To ensure that all change is taking place smoothly and in accordance with the overall aims of the organisation, there is a need to ensure that all managers, at all levels in the organisation, have a high level of interest in the organisation and have the power to make change happen.

The phases of organisational development

Organisational development is a process comprising four phases. These are:

- 1 Contracting:** The first phase is deciding whether to proceed with the OD intervention. As part of this decision-making process there is a requirement to decide how much finance, time and resources should be developed to the proposed intervention. The decisions will be made through a process of debate and discussion with the stakeholders involved. There will be a need to think about existing resources, whether they are sufficient and whether additional resources can be found.
- 2 Diagnosing:** This is the phase where data is gathered, analysed and presented. The focus is on the issues that need to be addressed. There is a need to identify the cause and effects of any problems that have been identified, and to identify ways in which these issues can be overcome.
- 3 Intervention:** Based on the analysis that has been carried out in the diagnosis stage there is then a requirement to plan an intervention. The type of intervention will depend on the capabilities of the organisation and what it is able to achieve, as well as what it wants to achieve.
- 4 Evaluation:** Finally, we have the evaluation stage. This is a crucial last part of the process, because it asks whether the analysis of the information was correct, whether it was used correctly to plan the intervention and asks what can be learnt from the process. An organisation uses this information to become more robust and successful in future developments.

! NEED TO KNOW

Five steps of organisational development

Different models of OD have different numbers of steps. The five key steps are:

- 1 Strategic planning
- 2 Organisational design and restructuring
- 3 Organisation capability building
- 4 Change management
- 5 Organisational transformation and culture building



3.3 Appraise the role of the employee in effective organisational development

Different roles of employees

Employees have different roles to play in the change process. Some employees will lead the change, some will be able to contribute the ability to analyse and challenge data. An effective organisation has a range of people with different orientations towards team roles.

As we have noted, change can be a regular feature of an organisation or it can be a slow and steady process. As well as taking different roles in the organisation, different employees will be comfortable in different types of organisation. Some thrive on change, and get bored very easily. Some work very effectively and very competently in their area of work, but find change to be frightening and distracting.

Neither is good nor bad. Employees simply have to find the type of organisation where they fit most effectively. Within the different groups of employees, there will also be different roles that employees naturally gravitate towards.



OVER TO YOU

Activity 8: Employee roles

What role do you usually play in a team? Why do you take that role? Is it what you naturally want to do?

Belbin's team types

Belbin (1996)³⁰ identified a number of different team types:

- **Chairperson/co-ordinator:** This person is calm and confident and is likely to be the team leader in most teams. The person is often selected by the team, as s/he demonstrates the skills to take charge.
- **Company worker/implementer:** This person is conservative, predictable and dutiful and gets the job done. The person has the ability to organise others, is self-disciplined and hard working.
- **Shaper:** This person has a lot of drive and energy and is typically outgoing. The person has a need to challenge ideas, and wants to try out new things. This person can be a little difficult to manage, as the person is very keen to argue about most things!
- **Plant:** This person is the ideas person. The individual has imagination, intellect and knowledge. The person is quite individualistic, serious-minded and unorthodox.
- **Resource investigator:** This person comes up with good ideas about how plans can be put into operation. The person is extrovert, enthusiastic, curious and communicative. The person has the ability to explore new ideas and loves a challenge.
- **Monitor/evaluator:** This person is prudent and unemotional. The person can be seen as being a bit negative, but is actually being realistic and thinking about whether it is possible to do as planned. The person has a good sense of judgment and discretion.
- **Teamworker:** This person promotes team spirit and can be very important in ensuring harmony in the team. The person is quite sensitive to others, and socially orientated.
- **Completer/finisher:** This team member is very orderly, conscientious and probably anxious. The person is a perfectionist and likes to ensure that all tasks are completed thoroughly and as planned.

! NEED TO KNOW

Belbin's team types

Belbin identified different team types:

- Chairperson/co-ordinator – takes the role of team leader
- Company worker/implementer – gets the job done
- Shaper – lots of energy and tries new things
- Plant – the ideas person
- Resource investigator – works out how a job will get done
- Monitor/evaluator – thinks about whether it is possible to do as planned
- Teamworker – a good team player
- Completer/finisher – ensures that the job is done thoroughly and as planned



For OD to be successful there needs to be a mix of roles in the team. There needs to be people who are coming up with the new ideas, but there also needs to be people who are ensuring that the ideas get put into practice.

³⁰ Belbin, M.R. (1996), *Team Roles at Work*. London: Butterworth-Heinemann

Competencies required to achieve effective organisational development

In addition to ensuring that there are a range of different roles in the team, it is also important to note that different competencies and abilities are required in the team. These are particularly important in the stages of strategic planning, because there has to be certainty that the relevant information has been gathered and that it has been interpreted correctly.

Important skills are:

- **Finance skills:** Financial performance is important for all businesses, even if they are not-for-profit. All organisations need to operate within their means, and to be able to pay their bills. So, having employees who understand and can interpret financial information is crucial. Specifically in organisational development, financial skills are important to understand areas where organisational financial health can be improved. Understanding revenue drivers, where cost efficiencies are needed and what drives profit, productivity and ROCE (Return on Capital Employed) are all part of the analysis of the financial health of the organisation.
- **IT skills:** IT skills are increasingly important in organisations today. There have to be people who can use IT effectively to process information, and who also have some understanding of how IT can be developed so that it is useful to the organisation. In organisational development, IT skills help with the analysis of data and in communicating the outcomes to the stakeholders of the organisation.
- **Data analysis:** As well as being able to interpret financial information, there is also the need to be able to interpret statistical information, and a range of other organisational data, such as that relating to the behaviour of customers. These skills are essential to an organisation, as they are part of the approach to ensuring that any analysis of data about the organisation is sound.
- **People skills:** There is also a requirement to have effective people skills in the organisation, in order to be able to motivate, engage and facilitate people-led change. In particular, OD can cause conflict and requires some difficult conversations (for example in a restructuring process). Effective people management skills can make this happen more smoothly, ensuring that employees understand what the organisation is trying to achieve, and managing their expectations of their future career in the organisation.

READING LIST

- Badham, R., Garrety, K. and Kirsch, C. (2001), "Humanistic redesign and technological politics in organisations", *Journal of Organizational Change Management*, Vol. 14, Issue 1, pp. 50–63. (This article will be available in your online student resources.)
- CIPD (2013), "OD: taking the business with you?" [online]. Retrieved from: <https://www.cipd.co.uk/podcasts/organisation-development-taking-business-with-you> [Accessed on: 6 September 2017]
- Jones, G.R. (2013), *Organisational Theory, Design And Change*, 7th edition. Pearson Education
- Kultalahti, S. and Viitala, RL (2014), "Sufficient challenges and a weekend ahead – Generation Y describing motivation at work", *Journal of Organizational Change Management*, Vol. 27, Issue 4, pp. 569–582. (This article will be available in your online student resources.)
- Stanford, N. (2014), *Organisation Design: Engaging With Change*, 2nd edition. Routledge

Summary

Organisations are made up of groups of people. So, when we think about the way that an organisation can be developed we are thinking about the way that this group of people can be developed.

To be effective in the way that we approach organisational development, we need to ensure that we understand people. In this chapter we have looked at various theories which give us an insight into how people operate, both as individuals and as a group which we might label an organisation.

Chapter 4

Assessing the Success of an Organisation and Managing Change

Introduction

The purpose and focus of organisational development is to achieve improved performance, and for the organisation to be successful. This can often be linked to the way that change has been managed in the organisation. In this section we define success, and look at the process of managing change.

Learning outcome

On completing this chapter you will be able to:

- 4 Critically assess the success of an organisation by defining acceptable and excellent performance**

Assessment criteria

- 4 Critically assess the success of an organisation by defining acceptable and excellent performance**
 - 4.1 Critically discuss the concept of success in an organisation
 - 4.2 Critically review models of organisational change
 - 4.3 Analyse the link between management of change and successful performance of an organisation

Level 6 Organisational Design, Development and Performance

4.1 Define the concept of success in an organisation

In the last section we looked at the process of organisational development. We identified that there is a need for organisations to develop, and that this will involve a process of change. However, to know if that change has been completed, according to the aims set by the organisation, we need to have some measure of success. What defines the measure of success in an organisation?

OVER TO YOU

Activity 1: What is success?

What do you define as success in an organisation? To help you identify this, think of an organisation that you would classify as successful and one you would classify as unsuccessful and compare the two.

In the private sector success is often focused on financial measures, such as profitability and the share value of the company. However, in the voluntary and not-for-profit sector there is no aim of making a profit. The measures of success here are more focused on making a difference and on providing social support.

As well as trying to develop some measures of success, it is important to note that different parts of the business have different targets to reach. To explain this, let us look at the Boston Consulting Group Matrix.

Boston Consulting Group Matrix

This model groups organisations, or units within organisations, into four different categories as shown in Figure 1:

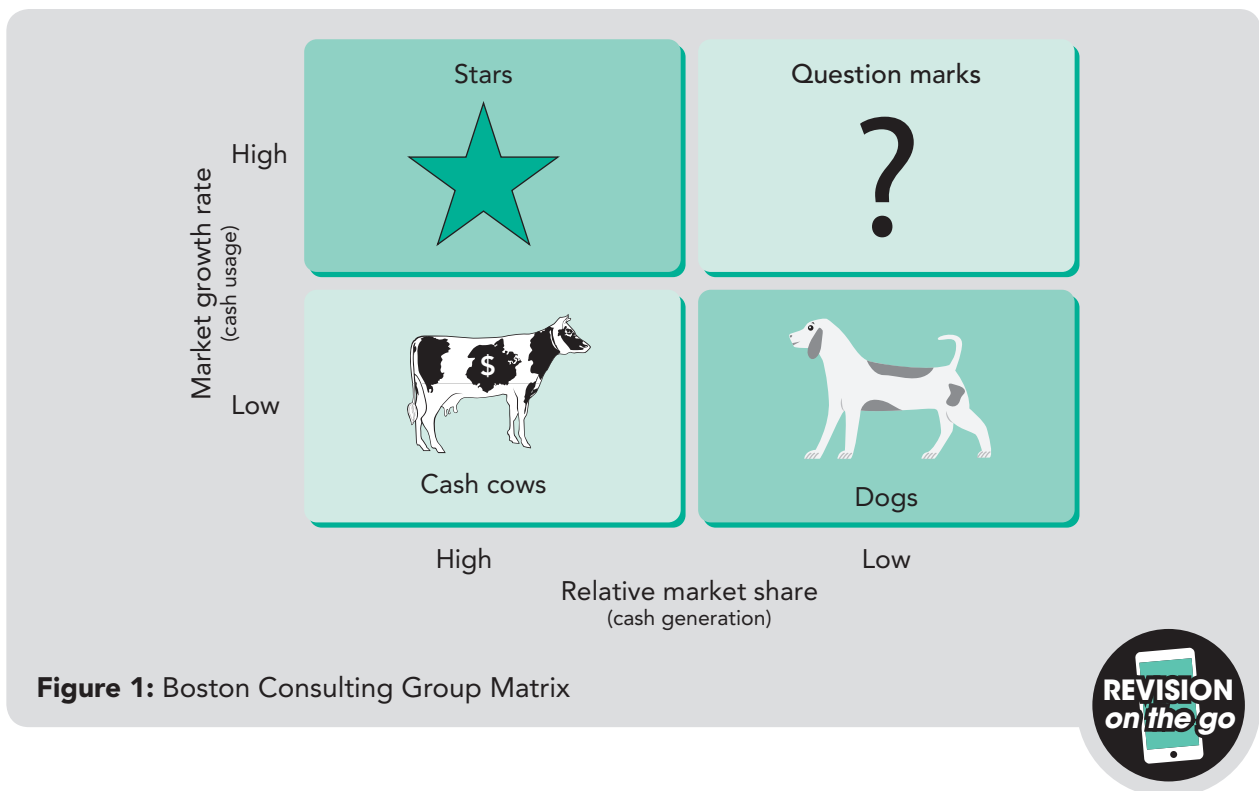


Figure 1: Boston Consulting Group Matrix

The definitions used in the model are:

- **Stars:** These are profitable business units that have a strong position in the market. They have a high market share, and a high rate of growth. The definition of success for these business units will be strong growth and a high performance rate.
- **Cash cows:** These units have a high market share but a low growth rate. Hence, their measure of success is going to be more focused on keeping their current market share, with little expectation that it will increase.
- **Question marks:** These are new ventures that currently have a low market share but a high growth rate. They will quite often have ambitious targets and a high level of expectation. However, there is also a possibility that they will not succeed, as they are in unproven areas.
- **Dogs:** These are failing business units. They have low growth and low market share, and no potential for growth. There might be a strategic decision to keep the business because it does meet a demand, but the targets for success will not involve growth.

📄 CASE STUDY: RWANDA COFFEE MARKET

Applying the Boston Consulting Group Matrix

The Boston Consulting Group Matrix was applied to the Rwandan coffee market to identify areas for expansion. It was identified that the France was the star market for coffee exports, and hence should be retained. Cash cows were the UK, Germany, Russia, Sweden, Switzerland and Belgium. As an important source of foreign currency for the Rwandan market they should also be retained as customers.



The question marks were the Asian market, particularly Japan. This was a growing market, but it was not clear whether it could be turned into stars or cash cows, so this needed more investigation.

The “dogs” were Kenya, Israel, Morocco and China – all markets which had not grown in recent times. Further investigation was needed to decide whether to work at growing these markets, or to pull out from them.

This is an interesting case study, because the full article shows how the organisation gathered the information that was needed to carry out the analysis – a process that we have noted on a number of occasions. You can read the full article at:

http://www.academicjournals.org/article/article1380536147_Mutandwa%20et%20al.pdf

! NEED TO KNOW

Boston Consulting Group Matrix

There are four categories in this matrix:

- Stars: high market share and high rate of growth
- Cash cows: high market share but slow rate of growth
- Question marks: low market share but high rate of growth
- Dogs: low market share and low rate of growth



Key performance indicators

As well as seeing that different parts of the business might need to have different measures of success, there is also a need to see that measures of success will be broad. As we have already noted, it is likely that there will be some financial measures of success. However, there will also be **key performance indicators** (a numerical measure of success), including the following.

Employee turnover

An organisation wants to attract people to work in it, and then to stay in it. The rate of voluntary turnover can indicate whether employees want to be part of the business. If turnover is high it suggests a lack of commitment to the business. However, organisations do not typically want to aim for zero employee turnover, as some turnover is a way of bringing new ideas and innovation into the organisation.

 OVER TO YOU**Activity 2: Employee turnover**

Do you think that employee turnover is a reliable way of determining success in an organisation? Are there factors that might affect turnover which are out of the employer's control?

Absenteeism

Of course, employees do get ill. However, a high level of absenteeism could suggest that employees do not want to be at work, or are not committed to the work. There is some discretion that employees can use in deciding whether to work regardless of illness, and how quickly they return after illness. This can be linked to their level of commitment to the organisation.

Customer satisfaction

An important measure for any organisation is the level of satisfaction expressed by customers or service users. This can be difficult to measure, because it is often just the delighted and dissatisfied customers which respond to a survey. However, it is still a very important measure.

Financial measures

As we have already noted, private sector organisations are likely to have financial targets, whereas public sector and voluntary sector will only have budget-related financial targets. However, it is important to note the financial measures that the private sector organisations will need to consider – those such as profitability, return on investment and cost of sales.

The balanced scorecard

One technique that is widely seen as a successful way of measuring business success is the **balanced scorecard**. This was developed by Kaplan and Norton (1996)³⁰ as a way of using strategic and financial measures to assess the outcome of a chosen strategy. It measures four specific areas of business strategy.

³⁰ Kaplan, R.S. and Norton, D.P. (1996), *The Balanced Scorecard: Translating Strategy into Action*. Harvard Business School Press

The approach of the balanced scorecard arose from an observation that many organisations had two significant deficiencies in the way that they measured their performance against their strategic goals.

Firstly, most organisations look at historical measures. So, they measure how they have performed, typically compared to the previous year. Although this is important, it does not necessarily indicate how they will perform in future and does not measure important issues that are less quantifiable, such as customer loyalty and employee commitment.

Secondly, Kaplan and Norton identified that many organisations do not set clear measures. They have strategic plans, but they have not identified how they will measure whether or not they are successful in achieving those plans.

Kaplan and Norton also identified that many organisations just focus on financial measures, and typically those that are quantitative. Few organisations were looking at both quantitative and qualitative measures. The balanced scorecard covers both quantitative and qualitative measures in four key areas:

Strategy perspective	Example	Example of scorecard measure (referred to as a KPI – key performance indicator)
Financial perspective	Shareholders' view of performance	Return on capital Economic value added Sales growth Cost reduction
Customer perspective	Customer satisfaction	Customer satisfaction Customer retention Acquisition of new customers
Internal perspective	Assess quality of people and processes	Manufacturing cost Job turnover Product quality Stock turnover and inventory management
Future perspective	Examine how an organisation learns and grows	New product development record Research and development core competencies Employee retention Employee profitability

Source: Lynch, R. (2006), *Corporate Strategy*, 4th edition. FT Prentice Hall

Table 1: Balanced scorecard



! NEED TO KNOW

Balanced scorecard

The balanced scorecard has four different perspectives:

- Financial
- Customer
- Internal
- Future



The KPIs (from the final column) are then taken and targets are developed from this.

The process of target-setting

An organisation needs to have targets, but these should be realistic. A useful way of thinking about the process of target-setting is to focus on the **SMART** acronym. This says that targets or objectives should be:

- **Specific:** It must be clear exactly what is to be achieved.
- **Measureable:** There must be some way of determining whether or not the target has been achieved. There must be some defined measure.
- **Achievable:** A target should be ambitious, but should still be achievable. For example, taking the approach of adding on a certain percentage to last year's target is not always realistic. How do we know that the organisation can achieve that target?
- **Realistic:** Is it realistic to achieve the target, given everything else that the organisation is trying to achieve, and given the environment within which the organisation is operating? Here we can think back to the different business units identified in the Boston Consulting Group Matrix. It would not be realistic for units in different categories within the matrix to have the same targets. The targets need to take into account the potential of the business unit.
- **Time-bound:** There needs to be some date by which the targets need to be achieved.

! NEED TO KNOW

SMART targets

Targets should be SMART, which stands for:

- Specific
- Measureable
- Achievable
- Realistic
- Time-bound



 OVER TO YOU

Activity 3: Targets

What targets have you had when you worked in an organisation? Think of one of those targets and compare it to the SMART model. Do you think that the target could have been expressed more clearly?

To set a target there needs to be an understanding of data surrounding the organisation:

- What is the current performance? Although current performance does not necessarily dictate future performance, it is a useful starting point.
- What is the trend of performance? Has there been a steady improvement or a steady decline in performance against the particular measure, or has there been little change? Why? Is it because there is little opportunity for change in the measure? Is it because achieving the same measure year on year is actually what is wanted in this particular aspect of the business? Is it due to complacency, and hence does it need challenging through more ambitious targets targets?
- What are competitors doing? It is not always possible to achieve exactly the same as a competitor, but it is a useful guide. If a competitor is achieving more then why cannot this organisation do the same?
- What is happening in the external environment? Is there any change, maybe a change in legislation that is going to affect the ability to work in a particular market that means that the target needs to be reviewed?
- Is there any change in the ability of the organisation to meet a target? Have key employees left the organisation, or have new skills been recruited into the organisation? Has there been a change of focus which means that previous targets are no longer relevant?

It is only from this type of questioning that realistic targets can be put in place.

CASE STUDY: CARIBBEAN TOURIST INDUSTRY

Key performance indicators 2015

In 2015, the Caribbean Tourist Industry set itself the following key performance indicators:

- Build the capacity of CTO member countries in sustainable destination management.
- Increase awareness of key sustainable tourism development issues and the capacity to address them.
- Implement identified aspects of the regional sustainable tourism product development strategies (including food, agro, health/wellness/spa) and conduct research in new areas (e.g. medical tourism).
- Collaborate with the Caribbean Public Health Agency (CARPHA), the CARICOM Regional Organisation for Standards and Quality (CROSQ) and other organisations to enhance Operational, Health, Safety and Environmental Standards, Certification and Recognition Systems.
- Greater engagement with the work of international and tourism development agencies (e.g. UNWTO, WTTC, Global Sustainable Tourism Council, NEP) for the benefit of CTO members.



These are interesting KPIs because it could be argued that they are not easily measurable. For example, if we look at the first two it will be difficult to know when they have been achieved because there is no indication of what the measure of success will be. Try rewording the KPIs, or setting out what measures need to be added.

4.2 Models of change and their application in the organisation

Models of change

Change is an ongoing feature of organisations. Some organisations experience rapid change, as a constant feature. Others experience gradual change, and maybe many employees do not really notice the change as it is happening. Some organisations try to avoid change, even though that could be damaging to the organisation ultimately.

Grundy (1993)³¹ suggests that there are three varieties of change:

- **Smooth incremental change:** This is change that happens in a gradual and systematic way, and is carefully planned.
- **Bumpy incremental change:** This is change which is characterised by periods of relative calm, followed by periods of rapid change. Change can be triggered by events in the environment, or activities within the organisation.
- **Discontinuous change:** This is change which is characterised by significant changes in strategy, structure or culture or even in all three. This can be change that is caused by a significant external event, or maybe by a change of direction in the organisation.

³¹ Grundy, T. (1993), *Managing Strategic Change*. London: Kogan Page

! NEED TO KNOW

Three varieties of change

Grundy suggested that there are three varieties of change:

- **Smooth** – happens in a gradual and systematic way
- **Bumpy incremental** – relative calm followed by rapid change
- **Discontinuous** – characterised by significant changes in strategy, structure or culture



OVER TO YOU

Activity 4: Change

If Grundy is right, and there are these three different varieties of change, which do you think is most and least disruptive for an organisation?

As well as noting that there are different types of change, theorists also argue that there are different paces and scope of change. Balogun and Hope-Hailey (2004) suggested the following table:

		Scope of change	
		Realignment	Transformation
Nature of change	Incremental	Adaptation	Evolution
	Big bang	Reconstruction	Revolution

Source: Adapted from Balogun and Hope-Hailey (2004)

Figure 2: Types of change



Here we see that the incremental change, that is just requiring some realignment of what is happening in the business, is an adaptation of what is happening in the organisation, rather than a major change. The most significant change – pictured here as the revolution – is whether there is transformation in the organisation and the nature of the change is more sudden (referred to here as a “big bang”).

OVER TO YOU

Activity 5: Big bang

Can you think of an example of a change in an organisation that has been a big bang? Why was it necessary to take this more dramatic approach to change?

Various theorists have tried to explain the process of change using theoretical models. Of all of these, maybe the most well-known is the model put forward by Lewin (1951)³².

Lewin's three-step model

Lewin put forward the three-step model of change:

- 1 **Unfreezing:** To be successful in the change process there needs to be some dissatisfaction with the current situation. So, Lewin argues that the first step of creating change is to challenge current attitudes, behaviours and ways of doing things. There needs to be some dissatisfaction with the current approach, and a belief that there is a better way of doing things.
- 2 **Changing:** Once the current situation has been “unfrozen”, the next step is to make the change. Lewin argues that those who are going to be affected by the change should be involved in the process of change. If change is imposed on individuals then it will be less successful.
- 3 **Freezing:** The final stage is to stabilise the changes that have been made. There should now be a focus on making the changes part of the organisation. This does not mean that future changes could not occur, but it does mean that there is an acceptance that the change has taken place, and the organisation is now operating in accordance with this approach of working.

³² Lewin, K. (1951), *Field Theory in Social Science*. New York, Harper and Row

This model does go some way to explaining the process of change, but it could be questioned whether there really needs to be dissatisfaction with the current situation before making change. There could be satisfaction with the current situation, but a realisation that it could still be improved. Alternatively, there could be satisfaction, but by looking at other companies there could be a realisation that there is an even better way of approaching issues.

! NEED TO KNOW

Lewin's model of change

Lewin (1951) suggested three steps of change:

- **Unfreezing** – create dissatisfaction with the current situation
- **Changing** – make the change
- **Freezing** – stabilise the changes that have been made



Kotter's eight-step model

Another theorist who has put forward a model of change is Kotter (1995)³³. He proposed an eight step process of change:

- 1 **Establish a sense of urgency:** The first step is to establish a sense that change is needed, and that it is needed soon. Change is not going to be successful if there is no acceptance that it is important and required.
- 2 **Form a guiding coalition:** There needs to be a group of powerful and influential leaders formed to guide the change. There does need to be responsibility for the change taken by this group.
- 3 **Create a vision:** The guiding group need to explain the vision. What will be different after the change? What will the organisation look like after the change?
- 4 **Communicating the vision:** The vision needs to be communicated to the stakeholders in the change. They need to understand what the vision is, and how it will be achieved.
- 5 **Empowering others to act on the vision:** Although there is a group that is managing the change process, there is also a need for others to work on the vision to make it happen. So, other people need to be empowered so that they can contribute to the achievement of the vision.
- 6 **Planning and creating short-term wins:** Interestingly, Kotter suggests that the change will run more smoothly if there are some short-term wins. There needs to be some short-term evidence that the change process is proving to be successful.
- 7 **Consolidating improvements and producing more change:** As the change takes place there is a need to consolidate what is achieved, and use this to stimulate more change if it is appropriate to do so.
- 8 **Institutionalising new approaches:** This is similar to the "refreezing" stage in Lewin's model. This is putting the new approaches in place so that they become part of the way that the organisation operates.

It is quite possible that these steps are not carried out in the order that they are written. What is important is that change is achieved systematically, even if there is not a step-by-step approach.

³³ Kotter, J. (1995), "Leading change – why transformation efforts fail", *Harvard Business Review*, No. 73, pp. 59–67

CASE STUDY: PEPSICO

Journey to change

PepsiCo is a well-known international organisation. Back in 2004 it identified that its vision of diversity and inclusion was not being shared across the organisation. There was a gap between the values and beliefs of the organisation and the behaviours that were being exhibited in the organisation. It was decided, therefore, to undergo a major change programme. To do this it followed a condensed version of Kotter's eight-step model – combining some of the steps to result in four stages to manage the change.



Stage 1 was called “chartering the journey”. This stage involved a series of workshops with senior management to create leadership for the change. This was covering the first two of Kotter's steps – creating a sense of urgency and forming the guiding coalition.

Stage 2 was a series of three-hour sessions for the staff. The purpose here was to create and share the vision of the organisation. The change was seen as being both cognitive, in thinking differently and also an emotional change.

Stage 3 was referred to as the “sustainment phase”. The focus here was on developing tools that managers could use to develop their work and enhance their skills. By teaching these tools the more junior management were being empowered to act on the vision, and it was hoped that they would achieve some short-term wins by applying the new tools that they were taught.

Stage 4 was the creation and delivery of a “Diversity and Inclusion Practitioner Certification Programme” which was used to develop an internal group of business leaders who could cascade the skills to other levels in the organisation and be the champion for change. This was consolidating the improvements and institutionalising the new approaches.

Managing resistance to change

The process of managing change can be complex. As we have seen from the Lewin model of change, creating dissatisfaction with the current situation is a key component of achieving change. This dissatisfaction is going to be disruptive to the organisation, because it means that employees might be distracted by the change, or might become demotivated. In response to this, various theorists have tried to identify ways of managing change.

Bridges and Mitchell

Bridges and Mitchell (2000)³⁴ put forward a model of managing change, by going back to the three stages in a change programme. They summarise the three stages of change as being:

- **Saying goodbye:** This is letting go of the way that things used to be (which is partly aligned with Lewin's “unfreezing” stage).
- **Shifting into neutral:** The stage in between starting the process of change and it really happening, when nothing seems to be happening.
- **Moving forward:** This is the stage after the change has happened, when there is a requirement to operate in a new way.

³⁴ Bridges, W. and Mitchell, S. (2000), “Leading transition: a new model for change”, *Leader to Leader*, Vol. 16, Spring Issue

! NEED TO KNOW

Three stages

Bridges and Mitchell (2000) suggest three stages to the management of change:

Saying goodbye

Shifting into neutral

Moving forward



To enable these three stages to operate effectively, Bridges and Mitchell suggest that there are seven steps that must be followed:

- 1 Describe the change and why it must happen. They suggest that this should be possible to do in one minute or less. It should be concise and persuasive.
- 2 Make sure that the detail is planned. There must be careful planning of the detail, and someone should be responsible for each element of the detail.
- 3 Understand who must let go of what. There is a need for people to give up what they were doing, and this must be communicated.
- 4 Help people to let go of the past. They argue that some people will struggle with letting go of the past, and hence they need some help.
- 5 Help people through the period when nothing seems to be happening by addressing the 4Ps:
 - Purpose – the reason we have to do this
 - Picture – what it will look like when we get to the end
 - Plan – how we will get there
 - Part – what every person needs to do
- 6 Create temporary solutions. There will be some temporary problems that occur during the period that nothing seems to be happening. Temporary solutions need to be found to address these temporary problems.
- 7 Launch the new beginning.

It is interesting to compare this model for the management of change with Kotter's model of change. We see that communication is a crucial part of both models, but it is emphasised at different stages of the process. Kotter emphasises the importance of communication at an early stage of the process, to communicate the vision of what is going to be different. However, Bridges and Mitchell see communication as being more important once the change has started.

OVER TO YOU

Activity 6: Communicating change

At what stage of the process do you think communication is most important?

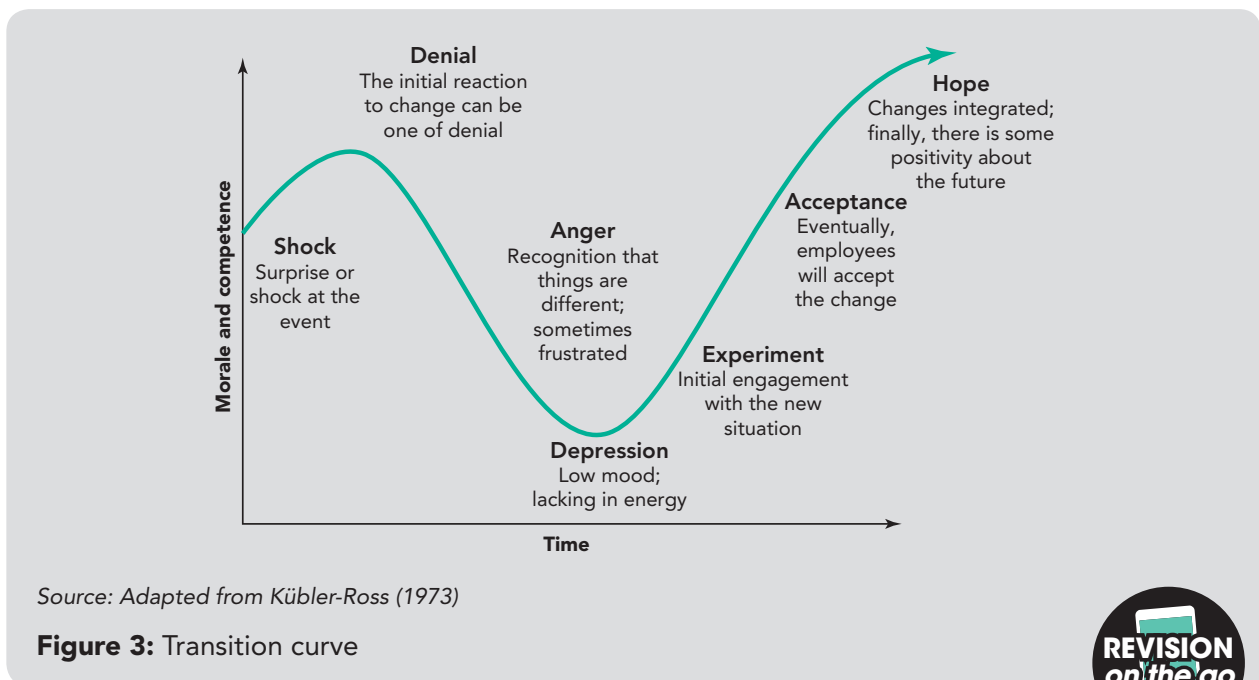
Resistance to change

What we see, therefore, is that a key component of the process of managing resistance to change is communication. People need to understand why something is happening, and how this will impact on them, for change to be accepted.

It is probably inevitable that there will be some resistance to change. There will be people who like the way that things currently happen and do not want change. There will also be some people who are frightened by what is happening. Managing the change process could mean, therefore, that there is a need to allow people to experience different reactions to change, and to help them work through it so that they become accepting of change. Presuming that it is possible to remove resistance to change is unrealistic.

Kübler-Ross (1973)³⁵ carried out a series of studies on the reaction that people have to death. It has been suggested that the stages of bereavement can be likened to the reactions to change. People “grieve” for the situation as it was, and as they liked, and take some time to come to accept the new situation.

Kübler-Ross created the **transition curve**, as shown in Figure 3:



OVER TO YOU

Activity 7: Your experience of change

Think of a change that you have experienced. Did you go through these different stages?

³⁵ Kübler-Ross, E. (1973), *On Death and Dying*. Routledge

As Figure 3 shows there are seven different stages of the transition curve. They are:

- **Shock:** Surprise or shock at the event.
- **Denial:** The initial reaction to change can be one of denial. People refuse to accept that the change is happening, or they try to convince themselves that the change will not really happen.
- **Anger:** Recognition that things are different; sometimes frustration. At this point there is an understanding that the change is going to take place, but anger that it is happening.
- **Depression:** Low mood; lacking in energy. This stage can include some “mourning” for the situation as it was before the change. Employees can become very distressed at this stage if they do not want the change to happen.
- **Experiment:** Initial engagement with the new situation. Employees try out the situation to see what it is really like. This can be the start of accepting the change and seeing that it is actually something that is positive.
- **Acceptance:** Eventually, employees will accept the change. This does not necessarily mean that they agree with the change or support it, but they will accept that it is going to happen.
- **Hope:** Changes integrated and finally there is some positivity about the future, and a hope that the change will have positive impacts.

! NEED TO KNOW

Kübler-Ross transition curve

Kübler-Ross suggested that there is a process of emotions that people go through when change occurs:

- Shock
- Denial
- Anger
- Depression
- Experiment
- Acceptance
- Hope



The impact of diversity on change

We work in increasingly diverse groups. This is diversity in terms of personal features, such as gender and race, and also diversity in terms of the different skills and abilities that people have. Is diversity a positive aspect of the process of change, or a negative aspect?

One argument is that diverse teams perform more effectively than non-diverse teams because they have a greater range of knowledge and a greater variety of cognitive skills to draw on. Polzer, Milton and Swann (2002)³⁶ found that a diverse team is more innovative because it has a greater variety of information, perspectives, knowledge, abilities and skills. Hence, faced with a situation which requires change to take place the diverse team will come up with a greater range of ideas, which will be more diverse and innovative.

However, West (2002)³⁷ suggested that an individual member of a team needs to have some psychological safety to have the confidence to contribute ideas. “Psychological safety” comes from the security of being with like-minded people. If there is a very diverse team the possibility of psychological safety is reduced. This would suggest that there is a negative correlation between team diversity and innovation, and hence in identifying successful change ideas.

³⁶ Polzer, J.T., Milton, L.P. and Swann, W.B. Jr. (2002), “Capitalizing on diversity: Interpersonal congruence in small work groups”, *Administrative Science Quarterly*, Vol. 43, pp. 296–324

³⁷ West, M.A. (2002), “Sparkling fountains and stagnant ponds: Creativity and innovation implementation in work groups”, *Applied Psychology: An International Review*, Vol. 51, pp. 355–386

However, a number of theorists such as Williams and O'Reilly (1998)³⁸, Webber and Donahue (2001)³⁹ and Richard and Shelor (2002)⁴⁰, have all proposed that the relationship between diversity and effective teamwork, in the change process and in other aspects of teamwork, might have actually have a U-shaped form.

The U-shaped form suggests that small increases in diversity have positive impacts on group problem solving abilities and innovation. These small increases do not have a negative impact on the functioning of the group.

However, large levels of diversity offer little improvements in group problem solving and innovation, but have a large effect on the functioning of the group.

The research concludes that there is an optimum level of diversity, at which the group will be effective in problem solving and innovation, but will still be able to function effectively. This suggests, therefore, that there is a need to think carefully about the composition of the team when putting together a group that are managing change, or identifying solutions to the need for change.



OVER TO YOU

Activity 8: Diversity

Think of a team that you have been part of, whether it is at work or in another setting. Do you think that the diversity of the team affected your involvement? Did you feel "psychological safety"?

38 Williams, K.Y. and O'Reilly, C.A. (1998), "Demography and diversity in organizations: a review of 40 years of research", in B. Staw and L. Cummings (eds.), *Research in Organizational Behavior*. Greenwich, CT: JAI Press, pp. 77–140
39 Webber, S.S. and Donahue, L.M. (2001), "Impact of highly and less job-related diversity on work group cohesion and performance: a meta-analysis", *Journal of Management*, Vol. 27, pp. 141–162
40 Richard, O. C. and Shelor, R. M. (2002), "Linking top management team age heterogeneity to firm performance: juxtaposing to mid-range theories", *International Journal of Human Resource Management*, Vol. 13, pp. 958–974

4.3 Analyse the link between management of change and successful performance of an organisation

The role of action learning

The various models that we have studied, looking at both the process of change and the management of change, are all seeking to find a way that the change process can be managed to cause least disruption in the organisation. However, they are also looking at more than this – they are trying to find a way to manage change such that the organisation performs as successfully as possible.

One approach to identifying the need for change is that of **action learning**. Reginald (1907–2003) is largely credited with introducing the concept of action learning back in the 1940s. Action learning is an approach to collaborative learning where a small group of learners (referred to as an “action learning set”) meet regularly together to reflect on real work issues. The idea is that the most effective learning takes place when individuals are faced with a real problem to solve.

Action learning is based on the concept of:

$$L = P + Q$$

In this equation:

L = The learning.

P = Programmed knowledge. This is the knowledge that is already in current use.

Q = Questioning insight. This is the interrogation of what we already know.

So, additional learning occurs when we add to what we already do and know, by questioning it.

It is also noted that people learn better when they learn from each other. This suggests, therefore, that more effective solutions to change will be found when people work together to find a better way of doing things.

! NEED TO KNOW

Action learning

Action learning is based on:

$$L = P + Q$$

L = The learning

P = Programmed knowledge (knowledge currently in use)

Q = Questioning insight (the interrogation of what we already know)



 OVER TO YOU

Activity 9: Action learning

Think of a skill that you have learned. Apply the approach of action learning and consider whether this describes what you experienced.

The actual process of action learning involves three steps:

- 1 Research – finding out more about the issue
- 2 Learning – exploring what is unknown
- 3 Action – to resolve the problem

The whole process is based on the attitude of questioning and reflection, and of challenging the current way of doing things.

The benefits of using action learning are that people are learning at the same time as finding solutions. Hence, this is a way of ensuring personal development as well as solving real business issues. Action learning also enhances personal commitment to change, because it is individual teams who are identifying the solutions. However, action learning does require some trust from management. There is the possibility that action learning sets will come up with actions and solutions that are not supported by management, and this can then cause tensions between those who have been allowed to explore an issue and find solutions, and those who see a different way forward.

The impact of strategy, culture and leadership on the definition of success

In considering the management of change, we are still focused on ensuring that the end result is successful. Therefore, we do need to think how the strategy, culture and leadership of the organisation can affect this definition of success.

One way of exploring this is to think of the reason that change programmes fail. This gives us some insight into the way that strategy, culture and leadership can actually mean that change is not successful. Why does change fail?

- **Wrong decisions were made:** It is possible that the leadership of the organisation rushed ahead and made bad decisions. Alternatively, it could be that the group who were managing change all agreed on a bad outcome, even though the evidence was there that the decision would not be successful.

- **Groupthink:** Thinking more about the possibility that wrong decisions have been made, we could reflect on the concept of groupthink. Janis (1982)⁴¹ defined this as the tendency of groups to minimise conflict. So, a group can be making a decision that is fundamentally flawed, and group members can realise this. However, because the group members want to ensure harmony they do not speak out and challenge the decision that is being made. This can lead to bad decisions.



OVER TO YOU

Activity 10: Groupthink

Have you ever seen a team make bad decisions because no-one is questioning what is happening? Was this groupthink?

- **Lack of a clear vision:** Again, this can be a leadership weakness. If the leaders have started a change process without any clear vision of what is going to be achieved, then it is likely that the end goal will not be reached. If the leaders do not know what it is that they want to achieve, then they will not know if they have achieved it.
- **Fear:** This can be part of the culture of the organisation, where employees agree to whatever management suggest because they are frightened of doing otherwise. Alternatively, fear could occur because the leadership do not enthuse the employees about the change, or suggest a change that is seen as too challenging by the employees.
- **Failure of previous change:** If previous change has failed there will be the attitude of “here we go again”, with a rather resigned attitude that the change is unlikely to be successful. Although it is not possible to ensure that every change is always successful, it is important to address any weaknesses with previous attempts at change so that the same mistakes are not repeated, and so that employees see that things will be different this time.
- **Leader is not respected:** This can be a significant problem for the change management process. If there is no respect for the leader then the trust that the leader will take the organisation forward successfully is minimal. As a result, there will be no commitment to the change process.
- **Misunderstanding of what is required:** As we have seen from the models of change management that we have looked at, communication is a key part of the change process. However, if that communication is not effective then the change will not be successful. Again, this comes back to the leader and the communication of the organisation’s strategy.

⁴¹ Janis, J.L. (1982), *Groupthink*, 2nd edition. Houghton Mifflin

- **Lack of preparation and planning:** If the culture is one of rushing ahead without taking time to prepare and plan, there are likely to be more difficulties in the change management process. The leader must take steps to slow down the process so that adequate preparations can be made.

! NEED TO KNOW

Why does change fail?

Change might fail for the following reasons:

- Wrong decisions were made
- Groupthink
- Lack of a clear vision
- Fear
- Failure of previous change
- Leader is not respected
- Misunderstanding of what is required
- Lack of preparation and planning



The impact of ethics on decision-making in the change process

So far, we have only evaluated the outcome of the change process in terms of the success or failure of the change. However, another factor that needs to be considered is whether the process of decision-making was ethical.

Rayner and Christy (2010)⁴² define ethics as having an understanding of what is good and bad, and suggest that there are three perspectives on ethics:

- **Ethics are duties.** They are things that we should do or should not do.
- **Ethics are consequences.** Good acts lead to good results, and bad acts lead to bad results.
- **Ethics are virtues.** They are the desirable qualities or character traits that good people have.

Despite these three perspectives, it still has to be noted that ethics are difficult to define. This is because knowing what is good or bad is not always clear cut. The culture, the values and the ethos of the organisation will all contribute to determining what is good and bad.

! NEED TO KNOW

Ethics

Rayner and Christy define three perspectives on ethics:

- Ethics are duties
- Ethics are consequences
- Ethics are virtues



⁴² Rayner, C. and Christy, R. (2010), "Professionalism and ethics in managing people", in G. Rees and R. French (eds.) *Leading, Managing and Developing People*. London: CIPD

 OVER TO YOU

Activity 11: Ethics

To what extent have you seen ethics affect the changes that you have observed? Can you think of any examples where ethics have just been ignored?

One specific aspect of ethics, which has an impact on the decision-making process, is **corporate social responsibility** (CSR).

Corporate social responsibility is defined by the CIPD (2009)⁴³ as follows:

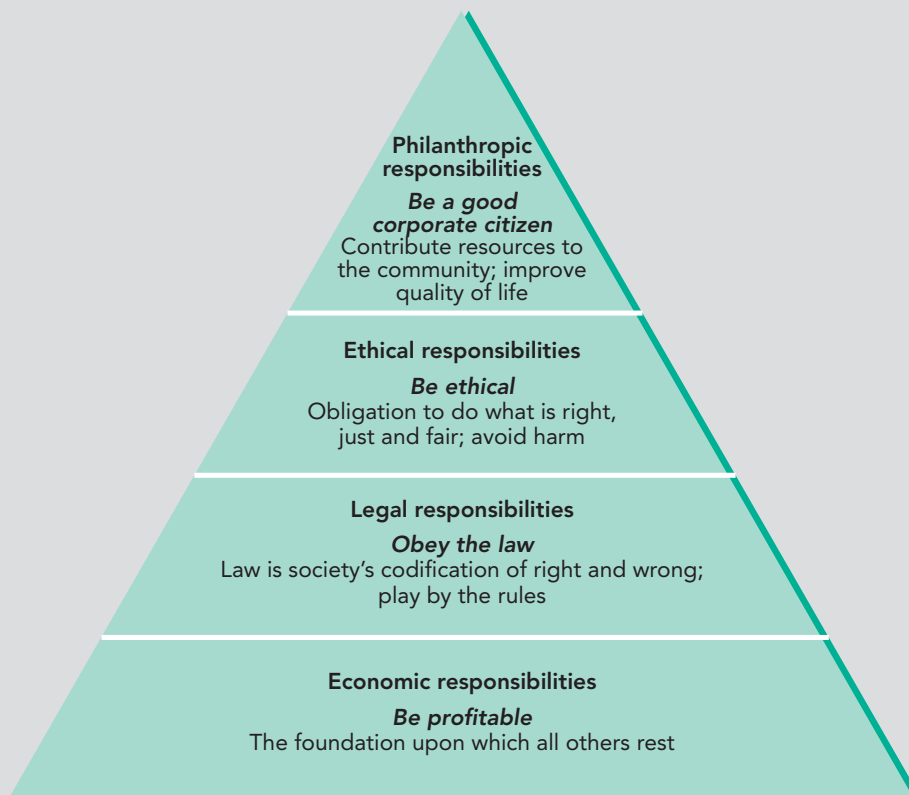
“ CSR covers all aspects of corporate governance. It is about how companies conduct their business in an ethical way, taking account of their impact economically, socially, environmentally and in terms of human rights. This moves beyond traditional business stakeholders such as shareholders or local suppliers. CSR includes social partners such as local communities, and global responsibilities such as protecting the environment and ensuring good labour standards in overseas suppliers. CSR also includes relationships with employees and customers. It inevitably involves working in partnership with other organisations or groups. It can be seen as a form of strategic management, encouraging the organisation to scan the horizon and think laterally about how its relationships will contribute long-term to its bottom line in a constantly changing world. ”

Organisations need to consider CSR when decision-making, and specifically consider the impact of their decision-making on the environment and on local communities. There is a need to consider whether decisions are legally compliant, whether they have any impact on the health and safety of individuals and whether they ensure equal opportunity for individuals.

43 CIPD (2009), *Corporate Social Responsibility, CIPD Factsheet* [online]. Retrieved from: <https://www.cipd.co.uk/subjects/corpsrtgy/corpsocres/csrfact.htm> [Accessed on: 6 September 2017]

Carroll's pyramid of social responsibility

Carroll (1979)⁴⁴ suggested that there are four kinds of social responsibilities within CSR – economic, legal, ethical and **philanthropic**. To describe this he created the pyramid of social responsibility:



Source: Adapted from Carroll (1991)

Figure 4: Pyramid of social responsibility



The responsibilities of the pyramid can be further explained as follows:

- **Economic:** The foundations of CSR are based on the responsibility of the organisation (if applicable) to make a profit.
- **Legal:** As well as being profitable, there is a requirement on the organisation to comply with relevant legislation. The law is the way that society tells us what is seen as right and wrong in the society. If the organisation breaks the law then penalties are imposed by that society.
- **Ethical:** This accepts that the law does not cover every aspect of everything that we do. There is a requirement to go beyond the law when thinking about the expectations of customers, employees, shareholders and the community.
- **Philanthropic:** The final level is the expectation that organisations will be good citizens. So, there is an expectation that organisations will contribute to the wider organisation in the decisions that they make. If a decision has some negative impact on the community then it is expected that organisations will balance this by some positive actions.

⁴⁴ Carroll, A.B. (1979), "A three-dimensional conceptual model of corporate social performance", *Academy of Management Review*, Vol. 4, Issue 4, pp. 497–505

! NEED TO KNOW

Corporate social responsibility

Carroll suggests that there are four levels of social responsibility:

- Economic – the organisation has a responsibility to make a profit
- Legal – the organisation must comply with legislation
- Ethical – the organisation must operate ethically
- Philanthropic – the organisation will be a good citizen



READING LIST

- Franklin, M. (2014) "3 lessons for successful transformational change", *Industrial and Commercial Training*, Vol. 46, Issue 7, pp. 364–370. (This article will be available in your online student resources.)
- Lewis, E., Romanaggi, D. and Chapple, A. (2010), "Successfully managing change during uncertain times", *Strategic HR Review*, Vol. 9, Issue 2, pp. 12–18. (This article will be available in your online student resources.)
- Thomas, M. (2015), "Fixing positive change: Creating an efficient corporate culture with a piece of string, a hammer and a bell", *Strategic Direction*, Vol. 31, Issue 2, pp. 1–3. (This article will be available in your online student resources.)

Summary

Success is defined differently in different organisations. Sometimes success will mean numerical achievement, but there are also other measures of success that are not expressed numerically or financially.

There are a number of different models expressing the process of managing change. However, two common features of the models is that the management of change is a step-by-step process, and that communication is a key part of the process.

There are a number of factors which affect the success of change management. These include the diversity of the group, the way that individuals accept change and the ethical approach taken to the management of change.

Chapter 5

Implementing Successful Organisational Development Strategies

Introduction

Having built an understanding of the nature of organisational design and development, we can now put in place strategies to develop the organisation to achieve success. Here we look at the practical approaches that can be taken to design successful organisational development strategies.

Learning outcome

On completing this chapter you will be able to:

- 5 **Compare and contrast strategies of organisational development to achieve successful organisational performance**

Assessment criteria

- 5 **Compare and contrast strategies of organisational development to achieve successful organisational performance**
 - 5.1 Justify the implementation of strategies to improve organisational performance
 - 5.2 Assess the impact of development strategies on the success of the organisation

Level 6 Organisational Design, Development and Performance

5.1 Developing a strategy

In the last chapter we identified the need to have clear business objectives and we looked at how these could be set.

We now need to think about the way that we can link development strategies to those business objectives. In doing this, most of the material that we have already studied becomes relevant. In particular, think back to the environmental factors that we looked at in Chapter 2. We looked at approaches such as the PESTLE analysis and Porter's Five Forces. As part of that we started to understand the external environment. We also need to think back to the definitions we had of success in Chapter 4. Here we noted that the concept of success varies in different organisations. We also noted the importance of setting measures of success, such as key performance indicators.

All of that information adds together to allow us to have clear business objectives. Once we have those objectives we need to know how they can be achieved. This is the process of linking the strategy for developing the organisation to the business objectives. We need to understand how the business can change and develop to achieve the business objectives.

So, having defined the objectives, how do we create the strategy?

Johnson et al. (2011)⁴⁶ suggest that a strategy has to look at an existing problem in a different way. They propose four **strategy lenses**: four different ways of looking at a strategy.

- 1 Strategy as a design:** This approach suggests that a strategy can be designed in the same way that an architect might design a building. When taking a design approach there is a need to be systematic, analytical and logical. There is a clear idea of what the organisation is trying to achieve, and this is "designed" by using the available information logically.
- 2 Strategy as experience:** This perspective on strategy sees it as something that is based on the experience of managers. So, rather than being based on analysis of information, it is based on the personal experience of individuals and their thoughts on what will work well in future. This strategy builds on what has happened before, and is unlikely to be a radical change.
- 3 Strategy as variety:** Both the design and experience approach do not usually lead to radical approaches to strategy. The design approach is very much based on analytical debate, and hence tends to be more stable, and the experience approach builds on what has gone before rather than doing something radically different. The strategy as variety lens sees strategy as a more emergent process. It comes from within the organisation, rather than being planned and dictated from above. The way that strategy is created is unpredictable.

⁴⁶ Johnson G, Scholes K and Whittington R (2011), *Exploring Corporate Strategy*, 9th edition. London: Pearson Education Ltd

- 4 **Strategy as discourse:** The final approach to strategy is to see it as a discourse. This reflects the fact that managers spend a lot of their time talking, discussing and negotiating. Both the development of strategy, and the way that it is designed, comes about from conversation with the employees and other stakeholders. Hence, strategy comes from talking.

Again, this sees strategy as something that is more emergent, rather than being tightly defined. It changes and develops, rather than being the result of thorough analysis and specificity.

! NEED TO KNOW

Four strategy lenses

Johnson et al. suggest that there are four strategy lenses:

- Strategy as a design – it needs to be systematically planned
- Strategy as experience – the experience of managers will identify what might and might not work
- Strategy as variety – it is not usually radical, but a more emergent process
- Strategy as discourse – it is discussed and negotiated



✎ OVER TO YOU

Activity 1: Strategy lenses

We have thought a lot about strategy throughout this study guide. Which of these lenses do you find most useful in helping you to understand strategy? Why?

From looking at these different approaches to strategy we can see that there are different ways that objectives will be created.

In the design approach, objective definition will be part of the design. It should be specified from the start what the strategy is trying to achieve.

In the variety and discourse approach, the objectives will develop along with the strategy, and will be less rigidly defined.

The process of developing a strategy

Johnson et al. (2011) suggest that strategy is developed through asking 14 fundamental questions. As we have seen by looking at the different strategy lenses, these questions might be asked in a structured way or they might be asked as part of the process of discourse.

The questions that need to be asked all draw on the learning that we have already carried out. As we look through the 14 questions, we can see how the tools and models that we have studied can now be applied.

Strategic position

- 1 **What are the environmental opportunities and threats?** Here we can use tools that we have already studied, such as PESTLE, SWOT and Porter's Five Forces. We need to know what opportunities we can take advantage of, and we need to understand the impact of the threats.
- 2 **What are the organisation's strengths and weaknesses?** SWOT analysis is of definite assistance here. The S and W are the basis for listing the strengths and weaknesses.
- 3 **What is the basic purpose of the organisation?** Here we might want to return to tools such as the Boston Consulting Group Matrix. What parts of the organisation are the stars and what are the dogs? From this analysis, do we know what we want the organisation to do? Do we want the organisation to continue with the purpose it currently has, or do we want it to focus on something different?
- 4 **How does culture shape strategy?** Handy's (1989) model applies here. What is the culture of the organisation? We might want to look at Schein's layers of culture to understand this, to see what the signs and symbols of culture might be.

Creating a strategy: section 1

The process of creating a strategy is divided into three sections. Section 1 is determining the strategic position. Here we ask:

- What are the environmental opportunities and threats?
- What are the organisation's strengths and weaknesses?
- What is the basic purpose of the organisation?
- How does culture shape strategy?



Strategic choices

- 5 **How should business units compete?** Again, the Boston Consulting Group Matrix can help here. Do we want to put all our efforts into the "star" business units, or do we want to let the business units compete with each other?

OVER TO YOU

Activity 2: Business units

What problems might you expect to see if different business units have different strategies?

- 6 **Which businesses should be included in the portfolio?** Referring again to the Boston Consulting Group Matrix, we now have to decide what we want to keep in the portfolio, and what we no longer want. The stars are obviously the ones we should keep, and the dogs are clearly the contenders to go. However, what do we want to do with the other units?
- 7 **Where should the organisation compete internationally?** This is part of deciding what markets we want the organisation to be in. To understand the possibility of moving into international markets the Porter's Five Forces model will be useful.

CASE STUDY: WALMART IN AFRICA

Retail expansion into African markets

The large retailer Walmart has tried to enter the African market, but has found that it has expanded more slowly than originally planned. Back in 2010 it spent \$2.4 billion buying a stake in the South African retailer Massmart. However, over time it has found that it needs to spend more time deciding where in Africa to try to enter.

This experience has also been common to the Spar Group (which has managed to open just 5 of 20 planned stores in Nigeria) and Pick n Pay, South Africa's third biggest grocer which has now decided to pull out of Mozambique and Mauritius because it was not profitable there.

It is not as simple as saying that a retailer wants to enter Africa. There is a need to have the required infrastructure and distribution networks. If these do not exist it takes time to put them in place.



- 8 **Is the organisation innovating appropriately?** Here we need to ask if we are enabling the organisation to innovate. Looking at the leadership style is useful here. A laissez-faire leader might be stepping back and letting employees innovate, whereas an autocratic leader might be impeding the chance for people to innovate.

- 9 Should the organisation buy other companies, form allies or go it alone?** To answer this there needs to be reference back to the KPIs which were defined by the organisation. Is the organisation meeting the targets that were set? If not, would some sort of joint approach with other organisations assist it to meet the targets?

Creating a strategy: section 2

The process of creating a strategy is divided into three sections. Section 2 is making strategic choices. We ask:

- How should business units compete?
- Which businesses should be included in the portfolio?
- Where should the organisation compete internationally?
- Is the organisation innovating appropriately?
- Should the organisation buy other companies, form allies or go it alone?



OVER TO YOU

Activity 3: Forming allies

There are always risks associated with forming allies with other organisations. What risks can you identify?

Strategy in action

- 10 Which strategies are suitable, acceptable and feasible?** We now look at the strategies that are being suggested. Do they fit with the culture of the organisation? To decide this we need to go back to models such as those from Handy, to decide if there is a cultural fit. We also need to analyse the external environment, and consider whether the strategy is feasible. We can use a PESTLE analysis for this.
- 11 What kind of strategy-making process is needed?** Introducing a new strategy is change, so we need to consider how to manage that process of change. Models such as Lewin's three steps, or Kotter's eight steps, are useful here.

- 12 What are the required organisation structures and systems?** To explore this we need to go back to the different types of structure. Do we need a hierarchical structure to keep control in the organisation? Would a flat structure allow employees more opportunity to contribute to the organisation?
- 13 How should the organisation manage necessary changes?** We now need to think about the different models of managing change. Remember that there is likely to be some resistance to change, and here the Kübler-Ross model will be useful.
- 14 Who should do what in the strategy process?** Finally, we are back to the leadership models. Do we need the leader to take charge of the strategy process, if so what leadership styles will be of particular value? What role do we want the employees to take in the strategy process?

Creating a strategy: section 3

The process of creating a strategy is divided into three sections. Section 3 is strategy in action. Here we ask:

- Which strategies are suitable, acceptable and feasible?
- What kind of strategy-making process is needed?
- What are the required organisation structures and systems?
- How should the organisation manage necessary changes?
- Who should do what in the strategy process?



OVER TO YOU

Activity 4: The 14 steps

If you were implementing these steps in an organisation, which three do you think would cause most problems?

The use of continuous improvement approaches

Creating new strategy can be a big change, as we have identified previously. However, organisations also need to engage in continuous improvement.

Continuous improvement could be part of the process of achieving a strategy – it could be a strategy that involves incremental changes. Alternatively, continuous improvement could just be part of the ongoing work in the organisation. Continuous improvement (CI) is sometimes referred to as “**kaizen**” a Japanese word meaning change (*Kai*) for the better (*Zen*).

Kaizen

Kaizen is an approach that was developed in Japan in the 1930s, and was used most notably in Toyota in the 1950s and 1960s. There were two main reasons for introducing Kaizen in Toyota:

- 1 Japanese car manufacturers did not have the scale to compete with American counterparts such as Ford and General Motors. So, they used the approach of making continuous improvement to drive down costs.
- 2 Japanese manufacturing had the reputation, at this time, as being of inferior quality and hence improvements were needed.

Kaizen has been an approach used in the Western world since the 1980s.

The central philosophy of Kaizen was expressed by a previous leader of Toyota, Toyoda (1867–1930), as being that no process is ever perfect. Hence, there is always room for improvement. It is not just a production technique, although it certainly has its roots in production, and the approach of continuous improvement can be applied to all processes.

Kaizen is a proactive method of identifying areas for improvement and then addressing them in a gradual and orderly approach of continuous improvement. Being proactive rather than reactive puts the emphasis on anticipating and preventing problems, rather than fixing problems as they arise.

So, in summary, there are two essential elements that make up Kaizen:

- 1 Improvement or change for the better
- 2 Improvement which is ongoing rather than “stop-start”.

CASE STUDY: TOYOTA

Kaizen in Toyota

Back in 1990 Toyota in Japan had a problem. Around 25% of the newly hired young workers were leaving the company in the first year. To address this Toyota was hiring temporary workers, and the end result was that around 10% of the workforce were actually temporary. The temporary workers were not sufficiently trained, and productivity decreased.

At the same time there was an upsurge in demand for cars across the world, and the demand for labour in the car industry had increased significantly. This meant that other workers started to leave Toyota because there were new opportunities in other companies. Toyota decided that it would manage this crisis by changing its production management and human resource management practices. Toyota decided that it would use the Kaizen approach to modify the production processes so that it could attract new workers.



The focus of Kaizen is on continuous improvement, seeing change as a gradual and incremental process rather than a sudden and dramatic process. To put the Kaizen principles in place throughout the organisation, more responsibility for improvements was devolved to the workforce. For example, the individual teams were allowed to set their own productivity targets and they were allowed to determine how they would meet those targets. They could change the process of production if it meant that the targets could be achieved more effectively, and quality was improved.

This approach of identifying and trying different improvements meant that the employees were more engaged and enthused by their work. They were taking responsibility for making the improvements happen, rather than being disengaged. It also meant that there were improvements, production processes were improved and productivity increased.

! NEED TO KNOW

Kaizen

Kaizen is a method of continuous improvement. There are two essential elements to Kaizen:

- 1 Improvement or change for the better
- 2 Improvement which is ongoing rather than stop start



Cycle of improvement

Kaizen is all based on continuous improvement, and it is important to note that continuous improvement is a process that never stops. It can be referred to as a cycle of improvement, as shown in Figure 1.

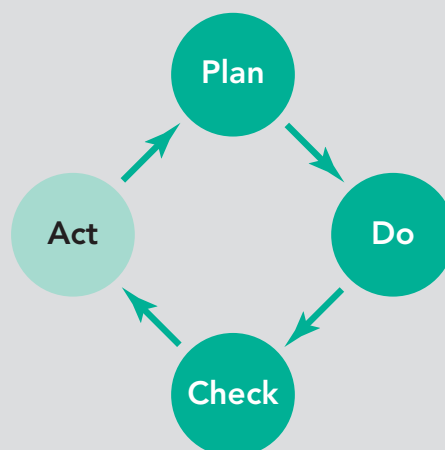


Figure 1: Kaizen: plan-do-check-act cycle



The plan-do-check-act (PDCA) cycle is used throughout the quality improvement process and provides a framework that facilitates rapid change.

Plan

This is the stage of finding opportunities for improvement, identifying the causes of the problem and developing the best solution to address that problem.

Do

This is the stage at which the solution is implemented. This could be on a trial basis, or it could be making changes that are intended to last. Any obvious mistakes are corrected as part of this process.

Check

There is then a time of monitoring the impact of any improvements and identifying any ways in which the changes need to be altered.

Act

Any corrective actions are made, and then there is a return to the planning stage to identify any additional changes that can be made.



OVER TO YOU

Activity 5: Plan, do, check, act

Apply the plan-do-check-act cycle to your own development. Does it help you to think about the ways that you can improve personally?



NEED TO KNOW

Continuous improvement

One model of continuous improvement is the ongoing cycle of:

- Plan
- Do
- Check
- Act



Comparison between ongoing continuous improvement and specific organisational development strategies

So, how does continuous improvement and specific OD strategies vary? In many ways they are similar, but the differences are:

- **People vs processes:** OD tends to focus on people, and how they can be used more effectively in the organisation. Continuous improvement is focused on the processes and how they can be improved.
- **Dialogic vs diagnostic:** OD is focused on dialogue, and discussing and seeking the input from individual employees. Continuous improvement is more focused on diagnostics, and looking at the output from the system to understand what can be improved.
- **Reactive or proactive:** Continuous improvement is always a proactive approach. However, OD strategies can be both proactive and reactive. A new strategy might be developed in response to the need for a change, or it could be that there is a planned change.
- **Size of the change:** Continuous improvement is focused on the small changes, whereas OD strategies usually involve more significant and larger changes.
- **Extent of the planning:** OD strategies are typically based on extensive planning. However, continuous improvement is more of an ongoing process, and hence not the function of such detailed planning.



OVER TO YOU

Activity 6: Small changes

In what ways do you think that the management of small changes should differ from the management of large changes?

There are also some similarities:

- **Purpose of the change:** Whether there is continuous improvement or there are specific OD strategies, the purpose is the same – to make the organisation more successful.
- **Evaluation:** Whatever the approach to the change process there is still a requirement to evaluate the extent to which it has been successful. That applies whether there is continuous improvement or an OD strategy.
- **Communication:** Ensuring that employees understand what is happening, and are committed to the change, is key whether we are looking at small incremental changes or something more significant.

5.2 Assess the impact of development strategies on the success of the organisation

Communicating an organisational development strategy to the organisation

When we looked at the Kotter model of change management, we noted the importance of communication. We have also referred to communication in other contexts during this workbook – there is a requirement to ensure that employees understand what is happening in the organisation, and what strategy is being delivered.

Communication is an important part of all organisational life but it is often overlooked. What approaches to communication could we use, and what would be the most effective way of communicating an OD strategy?



OVER TO YOU

Activity 7: Communication

Think about a change that you have been involved in. How was it communicated? If you were managing that change now, what would you do differently when communicating that change?

Shaw (1978)⁴⁷ identified five different methods of communication. He split these into centralised and decentralised models. Centralised models of communication are ones that start with communication from the leader. Decentralised models are ones which start with communication coming from other sources. Both of these approaches need studying when thinking about the best way of communicating OD strategies. The strategy is going to be communicated centrally initially, but in a large organisation there might also be the need to use some decentralised approaches.

Let us start by looking at the centralised models.

Chain

The **chain model** is probably used most commonly in the form of team briefing. The information starts with senior management, and is then passed down the levels of management in an organisation, until the information has been passed to all levels. It is, quite simply, a chain of communication.



Figure 2: Chain model of communication



There are two big weaknesses with using this approach to communicating the strategy in an organisation.

Firstly, the information can get distorted as it passes from one person to another. This could be because someone does not fully understand the strategy, and hence makes mistakes in the way that it is communicated. It could be that someone puts their own interpretation on what is being said, and that interpretation is wrong. It could be that someone has misheard what has been said, or it could be a deliberate attempt to distort the message so that it is not supported by those who are listening.

The other weakness of the approach is answering any questions that might arise. Although the person who is talking can make a good attempt to answer the questions it might not be the same answer that the person who initially started the communication would give. Hence, the information can be misunderstood.

! NEED TO KNOW

Chain model of communication

The chain model of communication is a centralised model. The message is passed from one person to another down a chain. The difficulty is that the message might get distorted and it can be difficult to get questions answered.



⁴⁷ Shaw, M.E. (1978), "Communication networks fourteen years later", in L. Berkowitz (ed.) *Group Processes*. New York: Academic Press, pp. 351–361

 OVER TO YOU**Activity 8: Team briefing**

Think about any team briefings that you have attended. Were they effective? Why/why not?

Wheel

In the **wheel model**, there is one person at the centre of the communication who is responsible for passing information out to others. This overcomes the problem with the chain model of people passing on the information wrongly. There is one person who is consistently responsible for the communication.

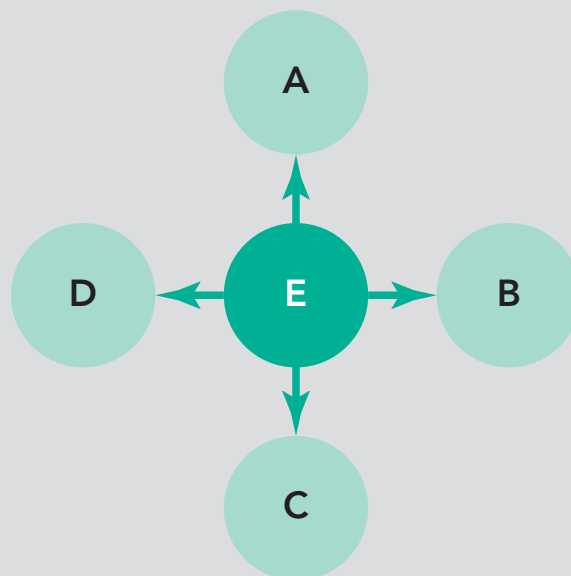


Figure 3: Wheel model of communication



The main difficulty with this approach is the amount of time that the central person spends in communicating. Although it is an effective way of ensuring that there is a consistent message and a consistent source of answering questions, it does mean that one person has got to be available for a lot of events or meetings.

! NEED TO KNOW

Wheel model of communication

The wheel model of communication is a centralised model. The message is passed out from one central body. This is very time consuming for the person at the centre of the wheel, but it does ensure some consistency of message.



The Y model

The **Y model** is a mix of the chain and the wheel. There is some passing of information along a chain, but then there is a split in the chain, and one person takes responsibility for communicating with a number of other people.

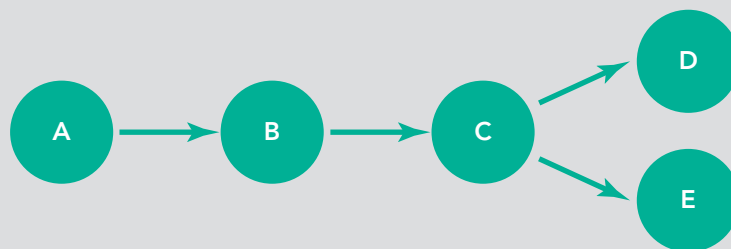


Figure 4: Y model of communication



This approach does overcome some of the disadvantages of the chain, because there is a point at which it splits and one person is taking responsibility for communicating with a number of others. However, there is still an element of chain communication, and still the possibility that the message is distorted.

✎ OVER TO YOU

Activity 9: The Y approach

How would you manage the answering of questions if the Y approach was being used to communication?

! NEED TO KNOW

Y model of communication

The Y model of communication is a centralised model. It is a mix of a chain and wheel approach. At some point the message chain splits and the message is then given by more than one person. This does reduce the possibility of a distorted message, but does not eliminate it totally.



As well as the difficulties that we have already identified, Shaw found that centralised approaches to communication result in the people nearest the central person getting most information, and those furthest away getting least information. He did not find that this was necessarily a deliberate approach, but that it was just the inevitable result of the message being diminished and distorted as it passes along a chain.

Another key weakness is the lack of a process for answering questions. The process results in people trying to answer questions when they are raised, rather than working out who the questions should be referred back to.

The chain model of information can be improved by making use of technology. For example, information can be passed on using a podcast, a video or some other form of recording of a message. That makes it more certain that the message will not be distorted as it is communicated. However, it does not overcome the issue of ensuring that there is a question-answering process.

Show identified two decentralised forms of communication: the comcon model and the circle model.

Comcon

In the **comcon model**, information passes in all directions between different group members:

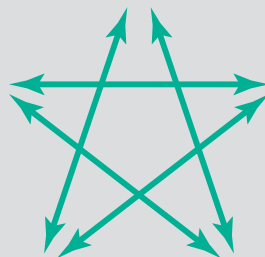


Figure 5: Comcon model of communication



Clearly, this is an unstructured approach to communication and it is characterised by its informality. The challenge in relying on this form of communication is ensuring that there is a consistent and positive message being communicated.

This approach to communication can often develop into rumour, and that can be very negative. In addition, if a complex strategy is being communicated then it can be a problem due to the misunderstanding of the content.

This approach to communication will not be effective for initially introducing a concept approach to change.

! NEED TO KNOW

Comcon model of communication

The comcon model of communication is a decentralised model. This is an informal network of communication with a message being passed from various people to others. This method can mean that rumour is more likely.



✎ OVER TO YOU

Activity 10: Centralised vs decentralised communication

Do you think that centralised or decentralised communication works best in your organisation? (If you are not employed currently, speak to a friend or familiar member about their organisation.)

Circle

The other decentralised approach to communication identified by Shaw was the **circle model**. In this approach the information passes from person to person, but in a more formal structure than the comcon model. However, as it is a feature of a centralised form of communication, there is no one person taking responsibility for the communication.

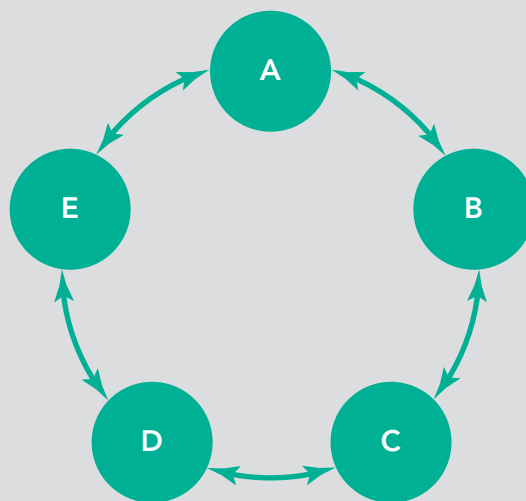


Figure 6: Circle model of communication



! NEED TO KNOW

Circle model of communication

The circle model of communication is a decentralised model. The message is passed from one person to another and goes round and round in circles. There is the danger that the message is distorted in the process of being passed around.

REVISION
on the go

Given that there are five different forms of communication identified here, it is important to consider what is most appropriate. Baron and Greenberg (1990)⁴⁸ looked at the difference in effectiveness of centralised and decentralised networks.

They found that there was more equality of decision-making in decentralised networks, and more equality in status. In centralised networks those at the edges of the communication process were less powerful than others and often felt that they had been left out of the decision-making process. Indeed, this is probably inevitable because they had less information that they could use to make decisions.

It was also found that those who were at the centre of a centralised network of communication had more power, and took more control over what individuals were allowed to know. Overall, those in centralised networks were less satisfied than those in decentralised networks.

It seems that the communication of something as important as the organisation's strategy probably needs a mix of approaches. There is the need for some element of a centralised network because there has to be someone with the knowledge and authority to communicate what is happening in the organisation. However, there also needs to be some element of decentralised communication to allow people to discuss and debate the issues, and then feedback their questions.

☰ CASE STUDY: CELLPLUS IN MAURITIUS

Preferred methods of communication

Cellplus is the largest provider of mobile phone technology in Mauritius. Given the nature of its product it clearly has the technology to facilitate remote communication with employees. However, research was carried out amongst the employees of Cellplus working in Mauritius to try to understand how they prefer to communicate.



The research found that teamwork is effective with the minimal use of technology to aid communication. The preference amongst employees is for face-to-face communication.

Seeking commitment of key stakeholders

Earlier, we noted that there are a variety of stakeholders in the organisation. We also noted that different stakeholders have different levels of power and interest in the organisation. All stakeholders in the organisation should have a commitment to the strategy of the organisation.

⁴⁸ Baron, R.A. and Greenberg, J. (1990), *Behaviour in Organisations*, 3rd edition. London: Allyn and Bacon



OVER TO YOU

Activity 11: Stakeholder communication

How does your organisation communicate with stakeholders? What would you recommend to improve this? (If you are not employed currently, ask a friend or family member about their organisation.)

This commitment can be gained through effective communication, and through thinking ahead about the likely issues that stakeholders will have with the proposed strategy. For example, here are some possible issues that may arise:

- Short-term profitability might be negatively affected by a proposed strategy. Those who have a financial interest in the organisation might be concerned about this, and these concerns need to be addressed by explaining the long-term advantage that will come, despite the short-term disruption.
- There could be an issue of loss of control. This can be particularly worrying in organisations which are family owned, or are tightly controlled. It is important to be honest about the future control of the organisation, but also to explain the benefits of a change of control.
- There could be job losses. A restructuring, or the decision to leave a particular market, or a move to work more efficiently, can all mean that there are job losses. This is never easy to explain to the individuals who are affected.
- There might be an unpredictable impact on the community. For example, there could be a decision to expand the premises, and individuals in the community could be concerned about the impact of additional traffic or the loss of open spaces. Again, honesty is important so that there is not a lack of trust for the future.
- Financial independence might be lost. For example, there might be a plan to take loans or to sell additional shares in the organisation. Existing owners might be worried about the impact of this.

As part of the process of seeking the commitment of stakeholders, it is important to view the situation from their perspective and to pre-empt the issues that might worry them most. These issues should be the focus of the communication, alongside communicating the positive aspects of the proposed change.

 OVER TO YOU

Activity 12: Stakeholder perspectives

How might the perspective of a stakeholder vary from the perspective of management when considering possible organisation change?

Methods to evaluate the impact of an organisational development strategy

Our final consideration is how to evaluate the impact of an organisational development strategy. After all the effort of developing the strategy and putting it into operation, how do we know whether or not it has been successful?

To measure the impact of a strategy we need to go back to the initial objectives. Here we need to go back to the work that we covered in the last chapter, when we looked at success and how to set appropriate measures. When we set those objectives, we set in place measures that will tell us whether or not we have been successful in meeting the objectives. We need to calculate our performance against each of those measures, and that will tell us whether we have been successful. The measures will include issues such as absence, turnover, productivity, engagement levels and anything else that links to the business objectives that were set.

However, just knowing the performance against those measures is not sufficient. We also need to know what has happened to cause that performance. This could be a comment on over-performance, or it could be under-performance. What can we learn from looking at the measures?

Table 1 shows one option for a structured approach to evaluating the impact of strategy on performance:

Objective	Deadline for completion	Measure target	Actual measure	Comments
Grow the sales of fashion for teenage girls	December 2017	Sales to reach \$5m per annum	\$4.5m	The start was slow, but performance has been much stronger in the last three months. The initial slow start was due to a problem with suppliers, but that was resolved by August 2017

Table 1: Evaluating the impact of strategy



This table not only shows us whether or not we achieved the set objective, but also requires us to reflect on why this happened.

This is a useful basis for setting future objectives. If the objective, as set here, was to grow the sales of fashion for teenage girls, we might be looking to set a similar but new target for the coming months. How do we know whether to set the sales target at \$5 million or \$6 million or \$4 million? Part of the answer to that is to understand how we have currently performed, and why. In understanding that we can determine whether it is realistic to look for further growth, or whether we should actually expect a decline in sales.

We also have to remember the difference between continuous improvement and the introduction of new strategies. The target that we set might be part of a continuous and steady improvement, or it could be to totally change the strategy. For example, we might look at the data here and decide that we actually think that the best way forward is to pull out of the teenage girls, fashion market altogether.

READING LIST

- Ashridge (2014), "Organisation design: top tips for organisation design and organisation structure" [online]. Available at: <https://www.youtube.com/watch?v=kMGe2WKD7jc> [Accessed on: 6 September 2017]
- Brooke Dobni, C., Klassen M., and Sands, D. (2016), "Getting to clarity: new ways to think about strategy", *Journal of Business Strategy*, Vol. 37, Issue 5, pp. 12–21. (This article will be available in your online student resources.)
- Parnell, J.A. (2010), "Strategic clarity, business strategy and performance", *Journal of Strategy and Management*, Vol. 3, Issue 4, pp. 304–324. (This article will be available in your online student resources.)

Summary

The process of organisation change never ends. There is a need to constantly be looking for the next challenge and the next possible improvement.

There is a requirement to set out the strategy and to think about ways that this can be improved. The improvements will come from a variety of sources, but we must remember that external and internal factors will definitely cause some of our need for change.

Communication is key. All the stakeholders must understand what we are trying to achieve, and why we are trying to make any changes.

Glossary

Achievable An objective must be possible or it will demotivate.

Action learning A form of learning based on problem solving.

Ad hoc scanning Scanning of the organisation in response to a crisis.

Balanced scorecard A structured way of measuring business success.

Behaviours What the organisation does and how it conducts itself.

Behavioural science Behaviour can be changed through the use of rewards and punishments.

Beliefs That which is held to be true in the organisation.

Bumpy incremental change Change characterised by periods of quiet, interspersed with periods of active change.

Business strategy Strategy of individual business units (applicable in a large organisation).

Buyers Any individual or organisation purchasing from an organisation.

Chain model A model of communication where messages pass from one person to the next.

Chairperson/co-ordinator The leader of a team.

Chaos theory Systems are ordered, but unpredictable.

Circle model A model of communication where messages pass round and round in a circle.

Client-centred principles Developments in an organisation must be beneficial for those who benefit from the organisation.

Closed system Not responsive to the external environment.

Cluster organisation An organisation based on teamwork.

Comcon model A model of communication which is informal with messages passing from anyone to anyone.

Company worker A predictable and hard working person who gets the job done.

Completer/finisher The team member who is orderly and precise and gets work completed.

Complexity theory Small changes in the organisation can have massive results.

Continuous scanning An ongoing process whereby the organisation is constantly looking for improvements that can be made.

Corporate social responsibility The operation of an organisation in an ethical way.

Corporate strategy Overall strategy of the business.

Culture The ideas, customs, and social behaviour of a particular organisation.

Democratic principles The processes in the organisation need to be challenged to ensure growth.

Discontinuous change Change characterised by changes in direction or strategy.

Divisional structure An organisation structure centred around the different goods or services a business offers, or the geographical areas where people work.

Economic stakeholders This includes suppliers, competitors, distributors and shareholders.

Employee turnover The number of employees leaving the organisation.

Engagement Engaged employees are committed to the organisation and motivated to ensure that the organisation is successful.

Environmental scanning The process of highlighting areas where action needs to be taken.

Flat structure An organisation structure with few layers of management.

Formal structure The organisation structure is drawn out in an organisation chart and shows the relationships between the different parts of the organisation.

Freezing Stabilising a change that has occurred.

Functional structure An organisation structure centred around the different work that people do.

Groupthink When members of a group agree with each other, even if the plan is flawed, as a way of minimising conflict.

Hard elements The hard elements of an organisation are those aspects that are easier to identify and define.

Hawthorne studies Studies carried out to understand what motivates employees.

Hierarchical structure An organisation structure with lots of layers of management.

Hierarchy of Needs Maslow's motivation model – one level of need must be satisfied before the next level can be a motivator.

Humanistic principles Organisational development is people centred.

Hygiene factors Can demotivate if they are not met, but once met they become irrelevant to motivation.

Informal structures Informal groups, typically centred around social groups, in an organisation.

Kaizen Change for the better (a continuous improvement approach).

Key performance indicators Numerical measures of success.

Measureable Objectives should be quantifiable.

Mission statement Statement of what the organisation wants to achieve.

Monitor/evaluator Works out if things can be done; has a good sense of judgment.

Network structure An informal organisation structure.

New entrants One of the forces in Porter's model – the impact of new companies entering the market.

Objectives The strategy broken down into manageable actions.

Open system Responsive to the external environment.

Operational strategy How the business is going to operate on a daily basis.

Organisational design A structured way of approaching the way to put an organisation together.

Organisational development A structured and planned approach to change in an organisation.

Organisation structure The interrelations between different people in the organisation.

Personal culture A way of working where the focus is on reaching consensus.

PESTLE analysis An analysis of external factors under the headings political, economic, social, technological, legal and environmental.

Philanthropic Giving to others.

Plant The team member who has a lot of ideas.

Power culture A culture where power is centralised and authoritarian.

Prioritised SWOT analysis A SWOT analysis where the factors are weighted according to their importance to the organisation.

Realistic It must be possible to achieve an objective which has been set.

Regular scanning A timetabled and regular scan of the organisation.

Resource investigator The person who works out how plans can be achieved.

Role culture A culture based on hierarchies.

Scientific management theory The approach of breaking work down into small steps and having individual employees who specialise in each step.

Self-actualisation Personal fulfilment.

Sensitivity training Training to make people more aware of their prejudices and impacts on others.

Shaper The team member who challenges ideas and wants to try out new things.

SMART The acronym used for the setting of objectives – specific, measurable, achievable, realistic and time-bound.

Smooth incremental change Change that happens gradually and in a systematic way.

Social learning theory The theory that people learn through observing and copying others.

Social/political stakeholders This includes policy makers, regulators and government agencies.

Soft elements The soft elements of an organisation are not tangible, and vary according to the culture of the organisation.

Specific Objectives should relate to something that can be defined.

Stakeholders People, groups or organisations that has interest or concern in an organisation.

STEEPLE analysis An analysis of the social, technological, economic, environmental, political, legal and ethical factors affecting an organisation.

Strategic capabilities A business' ability to successfully employ competitive strategies that allow it to survive.

Strategy The long term direction of an organisation.

Strategy lenses Different ways of looking at strategy.

Substitutes New organisations who take part of the market share.

Success Achieving what the organisation set out to achieve.

Suppliers Any organisation providing goods or services to an organisation.

SWOT analysis An analysis of the strengths, weaknesses, opportunities and threats facing the organisation.

System A process of receiving an input, transforming the input and converting it to an output.

Systems theory An organisation is a grouping together of many different parts.

T groups Groups for employees to explore their behaviours and attitudes.

Task culture A culture where the focus is on getting the job done.

Teamworker The team member who is sensitive to others and socially orientated.

Time-bound There must be an end date for an objective to be completed.

Transition curve The series of emotions experienced during a change process.

Transactional leadership "Give and take" approach to leadership.

Transformational leadership Approach to leadership based on inspiring followers.

Unfreezing Creating dissatisfaction prior to a change being put in place.

Valency The desirability placed on a particular outcome.

Values The principles or standards by which the actions of the organisation will be judged.

Virtual organisation A group of people who are not physically together, but are linked through the use of technology.

Vision The goals of the organisation.

Wheel model A model of communication where messages all pass from one central body.

Y model A model of communication which starts as a chain and then splits out.