Determinants of Organisational Structure
- Strategy
- Organisation size
- Technology
- Environment
- Power-control

Organisational Structure

Organisational Designs:
- Design options
- Bureaucracy
- Adhocracy

Applications:
- Managing the environment
- Managing organisational change
- Managing organisational culture
- Managing organisational evolution
- Managing gender

Organisational Effectiveness
Organisational Designs

- To understand the different kinds of organisational designs
- To be able to identify the five different configurations put forward by Mintzberg
- To be able to explain the difference between bureaucracy-based and adhocracy-based configurations
Outline

- Standard Configuration
- The Simple Structure
- The Machine Bureaucracy
- The Professional Bureaucracy
- The Divisional Structure
- The Adhocracy
- Strengths & Weaknesses
- Real-life Examples
Standard Configurations

- Every business has unique “fingerprints”
  - Not clones of each other but are similar
- Unlimited number of configurations but these can be categorised into major groups
- Do clusters of companies in particular industries have the same industry structures?
  - Why or why not?
  - E.g. consider the structures of the “Big Six” consulting companies during the late 1990s
Common Elements in Organisations (Mintzberg)

1. The operating core: employees who perform basic work related to the production of goods & services
2. The strategic apex: top-level managers, who are charged with overall responsibility
3. The middle line: managers, who connect the operating core to the strategic apex
4. The techno-structure: analysts, who have the responsibility for effecting certain forms of standardisation in the organisation
5. The support staff: people who provide indirect support services for the organisation
Structures in Fives
(Mintzberg 1983)
The Dominant Part

- Any one of the five parts can dominate
- Depending on which part is “in control” a structural configuration can be determined
- Consider:
  - The simple structure
  - The machine bureaucracy
  - The professional bureaucracy
  - The divisional structure
  - Adhocracy
The Simple Structure

Owner

Manager (Store A)
Manager (Store B)
Manager (Store C)
Manager (Store D)

Not elaborate, authority centralised in a single person, little formalisation
Flat organisation, organic operating core
Example: small retail store, electronics company run by a hard-driving entrepreneur, op-shop, an airline
Mintzberg’s Simple Structure

- Strategic apex
- Middle line
- Operating Core
Simple Structure: Strengths & Weaknesses

- Simplicity
- Fast and flexible
- Little cost to maintain
- No cumbersome layers
- Minimum amount of goal ambiguity
- Weakness is limited applicability
- Increase in size, structure inadequate
Simple Structure Trends

- Use in formative years of an organisation
- Number of employees is small
- Regardless of size, when an organisation suddenly confronts a hostile environment, management resorts to a simple structure
- Clear who is ‘running the show’ and things are very centralised in general
- Owner-managers like this structure because it grants them the most amount of control
The key concept here is “standardisation”
Highly routine operating tasks (functional)
Centralised authority (chain of command)
Very formalised rules and regulations
E.g. banks, department store, motor registry
Mintzberg’s Machine Bureaucracy
Machine Bureaucracy: Strengths & Weaknesses

- Ability to perform standardised activities in a highly efficient manner
- Results in economies of scale
- Minimisation of duplication of resources
- Pervasiveness of rules and regulations acts as substitutes for managerial discretion
- Specialisation can create sub-unit conflict
- Obsessive concern with following rules
Machine Bureaucracy Trends

- No one knows what’s happening overall until end of quarter results
- Functional unit goals override the overall goals of the organisation
- Best-fit:
  - large size, simple and stable environment, and a technology that contains routine work that can be standardised
- When things don’t precisely fit the rules, there is no room for modification
The Professional Bureaucracy

Introduced, last 30 years
Combines standardisation with decentralisation
Hire highly trained specialists for the operating core
Focused on social specialisation (individual skills) rather than functional specialisation (the division of labour)
E.g. universities, legal & engineering design firms
Mintzberg’s Professional Bureaucracy
Professional Bureaucracy: Strengths & Weaknesses

- Power rests with the operating core because they have the critical skills the company needs.
- Requires top management to give up considerable degree of control.
- But they have to since professionals need autonomy to do their jobs effectively.
- Sub-unit conflicts. Various functions seek to pursue their own narrow objectives at the expense of the whole organisation.
- Rules are set by the professional organisation.
The Divisional Structure

Power lies with middle management
Divisional structure is actually a set of autonomous units, each typically acting like a machine bureaucracy, coordinated with central headquarters
Central headquarters provides support services, legal, tax to all units.
The divisions represent a set of “little companies”. E.g General Motors
E.g. CSR, Boral, Goodman Fielder
Mintzberg’s Divisional Structure
Divisional Structure: Strengths & Weaknesses

- Unlike machine bureaucracy each divisional manager has full responsibility for a product or service
- More accountability → focus on outcomes
- Grants managers broad range of experience in autonomous units
- Autonomous units can be removed with little effect to the overall organisation
- “It’s a business within a business”
- Duplication of activities and resources
- Can encourage divisional conflict, little collaboration
- Can cause coordination problems
Divisional Structure Trends

- Primary criteria is product or market diversity
- Diversification strategy causes conflict in machine bureaucracies at the horizontal level
- Increase in size encourages divisional structures
- Divisionalisation possible when the organisation’s technical system can be efficiently separated into segments, one for each division
The Adhocracy

Low formalisation
Decentralisation
Flexibility
Responsiveness
Differentiation:
  High horizontal
  Low vertical
Agile
Very highly skilled
Mintzberg’s Adhocracy

- Strategic apex
- Middle line
- Operating Core
Adhocracy: Strengths & Weaknesses

- Few rules and regulations
  - Loose and unwritten (inefficient configuration)
- When faced with problems needs to develop a novel solution to solve it
- Decision-making is decentralised
- The traditional link between supervisor and employee become blurred
- Power flows to whomever has expertise
- Task force teams \(\rightarrow\) rapid change
- Conflict ever present. Can produce tension.
Types of Adhocracy

- The matrix:
  - A structural design that assigns specialists from specific functional department to work on one or more interdisciplinary teams, which are led by project leaders
  - Temporary vs permanent matrix

- The network:
  - A small central organisation that relies on other organisations to perform manufacturing, distribution, marketing or other functions on a contract basis

- Other: task force, committee form, collegial form
## Summary of 5 Configurations

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Simple Structure</th>
<th>Machine Bureaucracy</th>
<th>Professional Bureaucracy</th>
<th>Divisional Structure</th>
<th>Adhocracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialisation</td>
<td>Low</td>
<td>High Functional</td>
<td>High Social</td>
<td>High Functional</td>
<td>High Social</td>
</tr>
<tr>
<td>Formalisation</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>High within divisions</td>
<td>Low</td>
</tr>
<tr>
<td>Centralisation</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Limited decentralisation</td>
<td>Low</td>
</tr>
<tr>
<td>Environment</td>
<td>Simple and dynamic</td>
<td>Simple and stable</td>
<td>Complex and stable</td>
<td>Simple and stable</td>
<td>Complex and dynamic</td>
</tr>
<tr>
<td>General Structural Classification</td>
<td>Organic</td>
<td>Mechanistic</td>
<td>Mechanistic</td>
<td>Mechanistic</td>
<td>Organic</td>
</tr>
</tbody>
</table>
Tomorrow’s Organisation

- Drucker (information-based technology argument) and Peters (environmental uncertainty argument) claim that adhocracies are going to be dominant configuration of the future

- Movement towards flexible, team-based, porous adhocracies

- Barnwell & Robbins claim however that widest acceptance is still bureaucracy

- Authority-control still the greatest influence
Applying the theories

- To understand the application of organisation theory in practice
- Special Topics:
  - Environment
  - Change
  - Culture
  - Evolution
  - Gender
Environmental Strategies

- Domain choice
- Environmental scanning
- Recruitment
- Advertising
- Lobbying
- Contracting
- Insuring
- Geographical dispersion
- Rationing
- Co-opting
- Buffering
- Smoothing
## Examples of environmental action

<table>
<thead>
<tr>
<th>Target</th>
<th>Examples of Strategic Actions</th>
</tr>
</thead>
</table>
| Government              | Recruit former government officials  
                           | Commission research to influence government                                                   |
| Competition             | Advertise to build brand loyalty  
                           | Select a less competitive domain  
                           | Merge with competition to gain larger market share                                           |
| Suppliers               | Use multiple suppliers  
                           | Negotiate long-term contracts  
                           | Vertically integrate through acquisitions                                                   |
| Customers               | Advertise  
                           | Use a differentiated price structure  
                           | Change domain to where there are more customers                                             |
| Financial Institutions  | Use multiple financial sources  
                           | Establish a line of credit to draw upon when needed                                           |
A model for managing change in an organisation

Forces initiating change

What is to be changed?
Structure?
Technology?
Process?

Change process
Unfreeze → Move → Refreeze

Implementation tactics
Intervention, Participation, Persuasion, Edict

Change

Organisational Effectiveness

Organisational Initiator

Intervention Strategies

Implementation

Determinants

Feedback
Determinants of Structural Change

- **Change in objectives**
  - Strategic move from innovator to mass producer
  - Move from organic to mechanistic structure

- **Purchase of new equipment**
  - New technological processes usually lead to changes in power and reporting relationships

- **Mergers or acquisitions**
  - Duplicate functions will inevitably be eliminated and new coordinating role will be introduced

- **Sudden internal or external hostility**
  - Temporary crises are typically met by management’s central decision making

- **Decline in profits**
  - When company profit falls, management frequently resorts to a structural shake-up
  - Personnel are shuffled, departments added/deleted, new authority relationships defined, decision-making patterns significantly altered
Tactics for Dealing with Resistance to Change

- **Education and communication**
  - Help employees see the logic of the changes

- **Participation**
  - Involve employees in change decisions

- **Facilitation and support**
  - Paid leave of absence, new skills training
  - Try to minimise the anxiety levels of the staff

- **Negotiation**
  - Offer reward packages even during downturns

- **Manipulation and co-optation**
  - Twisting and distorting facts to make them appear more attractive, withholding undesirable information, rumour mill

- **Coercion**
  - Application of direct threats to the resistors, e.g. loss of promotion

- **Realigning staff profiles**
  - Dismissal of trouble makers or introduction of change managers
# Ranges of Organisational Change

<table>
<thead>
<tr>
<th><strong>Incremental change</strong></th>
<th><strong>Radical change</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Evolution</td>
<td>Revolution</td>
</tr>
<tr>
<td>Maintain equilibrium</td>
<td>Seek new equilibrium</td>
</tr>
<tr>
<td>Change individual parts or departments</td>
<td>Transform the entire organisation</td>
</tr>
<tr>
<td>Optimise existing structure &amp; mgmt</td>
<td>Generate new structure &amp; mgmt</td>
</tr>
<tr>
<td>Improve existing products</td>
<td>Introduce path-breaking new products</td>
</tr>
</tbody>
</table>
What is organisation culture?

- Organisational culture is the pattern of basic assumptions that a given group has invented, discovered or developed in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid, therefore, to be taught to new members as the new way to perceive, think and feel in relation to those problems.
Characteristics Where Cultures Differ

- Individual initiative - degree of freedom
- Risk tolerance - encouraged to be innovative
- Direction - degree of clear objectives
- Integration - sub-unit coordination
- Management support - clear communication
- Control - number of rules & regulations
- Identity - with a unit, organisation, profession
- Reward system - salary increases, favourites
How Employees “Learn” Culture

- Stories
  - Circulation through time and space
  - Legendary tales become fact
- Rituals
  - Recognition for work done
  - Social habits (levels of acceptability)
- Material Symbols
  - Office furniture, logos, style, interior design
- Observation & Experience
  - The notion of “watch and learn”. Subtle but powerful!
- Language
  - Learning the “lingo” that goes with the job = acceptability
Five Phases of Growth

Phase 1 - Small: Leadership crisis, Creativity
Phase 2 - Large: Autonomy, Direction
Phase 3 - Young: Delegation, Control
Phase 4 - Mature: Coordination, Red Tape
Phase 5 - Crisis of? - Collaboration, Revolution stage

AGE OF ORGANISATION
SIZE OF ORGANISATION

Small: Young
Large: Mature
The Organisation’s Life Cycle
Stages of Decline and Widening Performance Gap

Stage 1: Blinded
Stage 2: Inaction
Stage 3: Faulty Action
Stage 4: Crisis
Stage 5: Dissolution
Dysfunctional Consequences of Decline

■ Centralisation
  – Participation decreases
  – Control emphasised

■ No long-term planning
  – Crisis drives out strategic planning

■ Scapegoating
  – Leaders blamed for pain and uncertainty

■ Turnover
  – Competent leaders tend to leave first causing leadership anaemia

■ Low morale
  – Few needs are met
  – Infighting is rampant

■ Loss of slack
  – Uncommitted resources are used to cover operating expenses

■ Loss of credibility
  – Leaders lose confidence of subordinates

■ Non-prioritised cuts

■ Conflict
  – Competition for resources
Gender & Organisation

- Gender is more than the notion of ‘sex’
- It has to do with broader issues:
  - Actions and roles of men and women
  - Social conditioning, family roles and community expectations

- However most studies focus on women in the workforce and on why women do not reach management positions
  - In 1996 a study showed that less than 2% of women were senior managers, yet more than 50% of students enrolled at university were female

- This is beginning to change:
  - Diversity issues, equality issues, multiculturalism etc.

- During times of skills shortages, corporations encourage women to enter the workforce e.g. WW1, WW2, IT Boom.
# Comparison of Male and Female Management Styles

<table>
<thead>
<tr>
<th>Operating Style</th>
<th>Female</th>
<th>Male</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational Structure</td>
<td>Team</td>
<td>Hierarchy</td>
</tr>
<tr>
<td>Basic Objective</td>
<td>Quality output</td>
<td>Winning</td>
</tr>
<tr>
<td>Problem-Solving</td>
<td>Intuitive/Rational</td>
<td>Rational</td>
</tr>
<tr>
<td>Key Characteristics</td>
<td>Lower Control, Empathic, Collaborative, High Performance Standards</td>
<td>High Control, Strategic, Unemotional, Analytical</td>
</tr>
</tbody>
</table>
Review

- The exam will be 20 short answer questions, time: 3 hrs, 15 mins.

- All of the questions in the exam will be from the lecture notes.

- Although the textbook is useful when revising, there will be NO questions taken from the textbook unless that content has also been fully covered in the lectures.

- The marks will vary from one question to another, depending on the difficulty of each individual question. The marks for each question will be shown on the exam paper.
Typical questions

- Describe the evolution of contemporary organisation theory. In your response mention two landmark studies for each of the theoretical classes (Type 1 - Type 4).

Response: the question implies that there are 4 TYPES to be discussed. You would be expected to give the generic name to each type and be able to list the main features of each type. The question mentions “evolution”, so you should indicate when these types were popular and how later types arose from earlier ones. For each type you MUST also provide 2 landmark studies.

Assuming this is a 10 mark question, you could expect to get two marks for each of your descriptions of one of the four types and half a mark for each landmark study.
Complexity and centralisation are related but the relationship is not fixed across all organisations or industries. Explain the concepts of complexity and centralisation and why you agree or disagree with the statement, giving examples.

You should provide a brief (10 line ?) description of each of the concepts: centralisation and complexity, as used in organisational theory. You **must** take a position on the statement that they are related. Because the statement is in two parts, there are several logical positions you could hold:

- C & C are always related in the same way across all industries and organisations. If so, how are they related?
- C & C are related in the same way across all organisations in a given industry. If so, how are they related across some chosen industries?
- C & C are not related across industries or organisations. Make a good argument why you think this to be so.
- Assuming this was a ten mark question you would get 2 marks for each of your descriptions of the key concepts, 4 marks for your argument for one of the above positions and 2 marks for the examples you used to support your argument.

- If you gave a very long description of the key concepts but did not make a clear argument, you would be unlikely to score more than 4 marks.

- If you gave a suitable description and argued a good case but used no examples, you would not score more than 8 marks.

- If you gave a suitable description but your argument didn’t really make sense, you might get 5 or 6 marks. More marks would be added for suitable examples but only if they were appropriate. That might be difficult if your argument is poor.
Managing new technologies:

- Knowledge Management (KM)
- E-Commerce
- Customer relations management (CRM)
- Business Intelligence (BI)
- Enterprise Resource Planning (ERP)
- Supply Chain Management
E-Commerce Overview

- Terminology
- C- Commerce
- The Emerging E-Business Model
- E-Commerce vs C-Commerce
- B2B Electronic Marketplaces or Exchanges
- C-Commerce Case Study: Contract Manufacturing
- New Rules for Business Relationships
- Evolution of Business Models
- Recombinant Business Models for Virtual Enterprises
- New Rules for IT
- Five Styles of E-Business Computing
**Terminology**

- E-Commerce describes electronic-based business transactions [eg. The transmission of purchase orders or other business documents between business partners] and includes technologies such as electronic data interchange [EDI].

- As new web interaction software evolves [such as customer service, email forms, catalogues and personalization], the term loses some of its attraction and is often subsumed under the more popular e-business term.
Terminology

- E-Business applications enable and manage relationships between an enterprise, its functions and processes and those of its customers, suppliers, value chain, community or industry. These applications may not themselves be enterprise-wide but are aimed at optimizing the external relationships.

- C-Commerce is the set of electronically enabled collaborative interactions among an enterprise, its customers, business partners, suppliers and employees.
Terminology

- Enterprise Relationship Management is a concept that describes a business environment in which all constituents share a common application set, crafted to the needs of the individual, that will link all parts of the internal enterprise with all of its external customers and partners.
**C-Commerce**

- **C-Commerce** [collaborative commerce] is a new business model. The aim is to achieve dynamic collaboration among internal personnel, business partners, and customers throughout a given trading community or market.

- Enterprises leverage the Internet to gain revenue and profit improvement by going beyond supply chain models and information sharing. The evolution to c-commerce enables a dynamic ‘virtual enterprise’. The virtual enterprise has been a research and development aim for many years but could not be supported due to lack of suitable technology. Today with stable Internet platforms [even mobile Internet platforms] collaborative technologies can be deployed across enterprises.
This will change many mission critical business processes such as sourcing, product design, selling and production.

The corresponding changes in business process will drive a new generation of business applications which will require enterprises to change their fundamental IT architectures.
The Emerging E-Business Model

C-Commerce is the result of two developments:

- The range of business participants [the connection paradigm] expanding from those within an enterprise and its traditional trading partners to include the cybermarket enterprises in the trading community.
- The enterprises focus [the business paradigm] progressing from departmental productivity and external transaction handling to collaborative interaction.
- Customers will have more synchronized supply chains formed around customer demands, many of which will be unique.
Emerging E-Business Model contd.

- Business applications are expanding from a domain [traditional ERP] and e-commerce orientation to a c-commerce focus. As they evolve the architectures that support them are changing, driving enterprises to modernize their IT infrastructure that is rapidly becoming outdated and inhibits competitiveness.

- C-commerce-enabled applications will replace static, web-enabled supply chain/value chain applications as the dominant application model by 2004 [0.8 probability] [Bond,00]
**E-Commerce vs C-Commerce**

- E-Commerce is a transaction-centred e-business model used to buy and sell goods, whereas C-Commerce is a collaboration-centred e-business model that enables the virtual enterprise.

- E-Commerce is designed to construct a virtual link between a predefined community of trading partners for the purpose of buying and selling goods and services. Content is generally confined to web catalogues of finished goods, and collaboration mechanisms centre on exchanging messages or purchasing transactions.
**E-Commerce vs C-Commerce**

- C-Commerce is a form of B2B interaction designed to allow trading partners to serve as virtual collaborators across a wide range of business processes.

- A C-Commerce framework acts as a virtual conduit for connecting information repositories, business applications and business processes, allowing companies to exploit opportunities in the Internet-connected economy more easily.
B2B Electronic Marketplaces or Exchanges

- Among the fastest growing manifestations of e-businesses are B2B electronic marketplaces or exchanges that allow a community of users to engage in a variety of commerce activities within a given portal. Most exchanges are currently centred around the e-commerce buy/sell/auction model. By 2002 this number will have grown to 3000.

- Most of these marketplaces will fail due to inability to attain critical mass of users and difficulties in constructing a stable and sustainable business model.

- It is said that this will shift to a more collaborative marketplace using the virtual enterprise
Case Study: Contract Manufacturing

- **Collaborative Design** – Customer designs are uploaded via a web interface into Celestica [contract manufacturer] CPC framework.

- The designs are then checked for integrity and manufacturability using Celestica’s DFM program. Suggested corrections and changes are then communicated to the customer.

- **Results:** a reduction in setup time from 7 days to 1 day and has improved first pass accuracy from 10% to 95%.

- **Collaborative Sourcing** – service offered by Celestica – evaluates customer design of components and offers suggested replacements to yield greater savings. Celestica can offer customer 6% - 8% saving on component spending.
Case Study: Contract Manufacturing II

- Collaborative Manufacturing – product and process information is passed via an interface to the local plant ERP system. In addition, production process knowledge like assembly and test information is captured in the framework and is leveraged by other plants bringing up the same production lines.

- Plants can now bring up a new line in response to a demand spike in 48 hours
New Rules for Business Relationships

- Exploiting efficient cyber markets across the business landscape will provide a greater competitive advantage than having tightly integrated predefined supply chains
Evolution of Business Models

2000
- The enterprise as an organization
- Physical organisation
- e-commerce
- Bricks and mortar
- Vertical or horizontal integration
- ‘black-box’ trading partner relationships
- Supply chain partners

2005
- The enterprise as an organism
- Virtual organisation
- c-commerce
- Click and mortar
- Recombinant integration
- Collaborative systems
- Cyber trading communities
Recombinant Business Models

- Recombinant business models are more flexible ways of dealing with business partners.

- They emphasize flexibility and agility when dealing with the various business relationships that need to be constructed to satisfy a given business process or market opportunity.

- The recombinant model avoids the idea of tightly coupled opportunistic approach.
New Rules for IT

- The C-Commerce technology model will create major businesses and technology upheaval for business application vendors with monolithic architectures.

- Traditional monolithic client/server architectures offered by leading manufacturing application vendors today will be severely challenged by new architectures aligned with the vision of agile c-commerce.
New Rules for IT

- Along with web-centric and web-aware architectures, application architectures need to be more agile to reflect the agile organization.
- Previous manufacturing architectures are hierarchical.
- Holonic and other agile architectures need to be investigated.
Five Styles of E-Business Computing

1. Internet-Isolated
2. Internet-Aware
3. Internet-Enabled
4. Internet-Centric
5. Internet-Native
1. **Internet-Isolated** - Systems designed, developed, and deployed without Internet technologies or connections to the Internet e.g. electronic communications systems for institutional traders.

2. **Internet-Aware** – Systems that have rudimentary, passive links to the Internet, employing basic technologies, no mission critical processing/transactions done over the Internet.

3. **Internet-Enabled** – Systems designed to operated without the Internet or Internet technologies, but Internet connected to allow operation as the Internet resources were functionally in the original closed domain. They use middleware, gateways, gatekeepers and core software extensions to use the Internet eg Lotus/Domino & Oracle 8i.
4. **Internet-Centric**: Systems designed using primarily Internet technologies and optimized for conducting mission-critical functions and transactions over the Internet. Connected to ‘legacy’ systems only as peripheral resources eg data stores to support actual core processing.

5. **Internet-Native** – Systems that use only Internet technologies for all functions, from telephony to transactions, and rely totally on the Internet for all resource connection.
Managing new Technologies: CRM

- The biggest hurdle to collaboration with customers is lack of collaboration internally in the enterprise.

- Surveys found that organizations had to foster teamwork and collaboration among employees before they could achieve collaboration with customers.
Customer Relationship Management:

What is it

– Why is it important
– How is it acquired
– Factors for success
– Factors for failure
Customer Relationship Management

- CRM is concerned with managing the relationship (us and the customer, supplier or business partner) from both perspectives, ie. we both want benefits from the relationship.

- CRM is a fresh look at how we can maximise the benefits and minimise the risk of the customer looking elsewhere.
Context

- Customer service has always been a priority of organisations.
- With the adoption of the Web, and more recently mobile commerce, the ability to successfully track and monitor the exchanges between the organisation and the customer became a reality.
- CRM is about ‘service’ to our customer, supplier or business partner, and us capturing those ‘Kodak’ service moments in a digital log.
The complement of CRM is Supply Chain Management (SCM), which is about capturing those ‘goods’ related transactions which are generated as a consequence of us doing business, again, this can be with the customer, supplier or business partner.

Increasingly, CRM is converging to relationship management, of which ‘customer’ is a type, along with supplier, business partner, lawyer, financial institution etc.
Customer Relationship Management

CRM can be likened to:
What salesmen have always known about their clients, which organisations are now trying to write down.

Coupled with this is:
The ability to monitor the flow of information between the organisation and the customer.
Goals of CRM

- Increase customer loyalty
- Increase brand congruence (identification)
- Increase profit
- Decrease time to market for new services
- Manage customer exchanges in the most cost effective way
- Reduce the cost of exchanges and servicing costs
CRM – the Vision

- There is a new ‘breed’ of enterprise, called the relationship based enterprise (truly) which is culturally/mission/vision focused on dealing with all external interfaces on a relationship based level.

- Each relationship is ‘typed’ or categorised (borrower/lender/customer/supplier/stakeholder) using a pattern (template) which attempts to provide some guidelines in terms of managing the relationship, and adding value to that relationship.
Relationships

- Legal/Finance/Project Services/IS
- Shared Services (mail/courier/photocopy)
- Production
- Alliance/Partner
- Product/Inventory/Sales
- Human Resources
- There also issues regarding sharing common data:
  - access, maintenance, ownership, customer protection, copyright
## Relationships – are they out of control

Technology and Psychology have combined to spawn a Relationship sub-industry, with data capture as the hub:

<table>
<thead>
<tr>
<th>Customer Knowledge</th>
<th>Call centre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>Customer loyalty</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>Customer care/targeting</td>
</tr>
<tr>
<td>Sales Effectiveness</td>
<td>Service request</td>
</tr>
<tr>
<td>Customer retention</td>
<td>Crm metrics</td>
</tr>
<tr>
<td>Product presentation</td>
<td>Cross/up selling</td>
</tr>
<tr>
<td>Customer fulfillment</td>
<td>E-care support/reorder</td>
</tr>
<tr>
<td>Customer acquisition</td>
<td>Payment support</td>
</tr>
<tr>
<td>Channel management</td>
<td>Field services</td>
</tr>
<tr>
<td>Marketing intelligence</td>
<td>Online marketing</td>
</tr>
<tr>
<td>Campaign management</td>
<td>Predictive modelling</td>
</tr>
</tbody>
</table>
Things to know about our customers:

- The ideal customer – market research, sales statistics, demographics
- How to forecast customer behaviour
- How to identify customers (on contact)
- How much is this customer costing us:  
  - Service  
  - Support  
  - Logistics
How much data to track

Ultimately this comes down to the amount of detail we wish to track, what information we need to maintain:

– Name and address
– Sales data
– Billing and payment history
– Credit rating details
– Servicing history
– Public liability
Other benefits:

- Who are the valued customers
- Analysis of exchanges to add value to future exchanges
- Maximising value potential
- Determining current priority vs long term value
- Building profiles of customers to determine their value (algorithm)
Customer requirements or needs

On the other side, are things our customers want from us:

– Product
– Time (to resolve relationship issues)
– Resources to service the product
– Resources to procure the product
– Quality of service
– Marketplace support
Relationship management is based on the legal ‘industry’ pattern, in which the details of each ‘service exchange’ or contact with the customer, are related to a specific ‘matter’.

The ‘matter’, or transaction, has an opening event, and is dealt with in an ongoing manner until the ‘matter’ reaches a conclusion.

Note: A sale or stock movement would be maintained as part of SCM, we are concerned with service issues.
CRM Architecture

- Each customer (or any entity who the enterprise may have a relationship with) is able to be monitored in a standard manner.

- Each exchange can be categorised and typed (short term/long term/benefit/cost), with specific information about the service exchange being captured; follow up date, resources required, people involved etc.)
CRM Applications

Linked to the application that track the “matter” are CRM applications which including:

- Relationship databases containing:
  - Names and addresses of leads
  - Follow ups
  - Contacts

- Call centres managing voice, email, fax, web, face to face exchanges

- Data Warehousing and Data Mining for Channel management, Marketing intelligence, Campaign management etc
The true value of CRM may never be realised because of the cost of tracking the exchanges and associated data capture.

However, new technology is being employed to reduce the human interface (GIS/bluetooth etc.)

Increasingly organisations may on-sell data to defray the cost of exchange data capture.
Metrics for Success

- In summary, we need to know:
  - How do we rate the customer, and how much scope should be given to the customer
  - How does the customer rate us, and what do we need to do to retain the customer
  - Expectations/Budget vs Actual
  - How do we calculate valid indicators
Relationship Patterns

- **Marketing Based**
  - Price centred no frills, one time relationship (stateless) transaction based on price
  - Product centred based on a name brand, one time relationship (stateless)

- **Extended Value Chain Based**
  - Requirements centred based on a loosely scripted service oriented model, potentially multiple time relationship (stateful)
  - Value centred based on a continuing relationship (stateful)
Relationship Issues

- Decisions made in the hope of fostering growth for all parties in the relationship
- Information and knowledge sharing
- Planning for capital investment (infrastructure/service providers/technology)
- Allocation of resources to maintain/service the relationship
- Shared Services
Relationship Issues

1. Receivables/Payables
2. Costs/benefits
3. Change Management
4. Outsourcing
5. Quality
1. Receivables/Payables

- Extended payment facilities
- Automatic price breaks
- Buying/Selling Patterns
- Co-operative financial planning
- Integrated Buy/Sell side
- Co-operative technology investment (EDI/Banking/Debt recovery/Mercantile)
2. Costs/benefits

- Each partner in the Extended Value Chain (EVC) must continually evaluate the benefits and costs of maintaining the relationship.
- The more integrated, the closer to convergence the relationship becomes. This has its drawbacks, since convergence reduces the agility of the partners to react to new market opportunities.
- This comes back to the algorithm for determining a ‘valued’ relationship.
3. Change Management

- Effect of change across the EVC
- Government regulations
- Globalisation issues
- Market pressures
- Technology
- Stakeholder pressures
- Integration (IE) issues
- Environmental Issues
4. Outsourcing

- Models of adoption
- Method of selection
- Technology
- Level of Integration
- Level of support
- Logistical support
4. Outsourcing

- Product based – catalogue sales with support
- Portal based – catalogue sales with support
- Contact based – exchange data capture
- Repositories - data warehouse/mining, statistical analysis
- Outsourcing is becoming a growth industry in its own right, eg. organisations are allowing third parties to manage the call centre and play the role of welcomer to the customer. The outsourcer forms another data type in the cog of the relationship wheel
4. Outsourcing

- The outsourcer may be selected on a number of requirement based delivery options:
  - Functional alignment (does the outsourcer’s vision/business process method match our culture and focus)
  - Experience (track record)
  - Transaction value analysis
  - Technology offering
  - Controls offering
  - QOS
5. Quality

- Method of adoption eg. TQM vs other QM models
- Quality of Service
- Metrics
- Technology
- Integration
- Employee acceptance
- Training