

# Doug Mchardie highlights two key models – Porter’s value chain and Mintzberg’s organigram – that focus on organisational interrelationships.

You may be tempted to consider the Organisational Management and Information Systems syllabus as a series of unrelated topics that can be learned in isolation. The reality is that paper P4 emphasises the basic building blocks of a modern business and, more crucially, how they relate to each other.

Michael Porter, a leading authority on competitive strategy, has developed a range of pragmatic strategic models. His value chain (1985) is covered in the P4 syllabus. It serves as an overview of the activities that occur in an organisation (see *diagram 1*).

It’s based on a manufacturing company, but it can be adapted for other contexts. The basic idea of the value chain is that a company makes its products by performing a series of interrelated activities that will combine to generate a customer perception of value. The higher the value placed on the products, the more likely it is that the customers will:

- Pay a higher price for the products.
- Buy the company’s products again.
- Tell other people that the company’s products are worth buying.

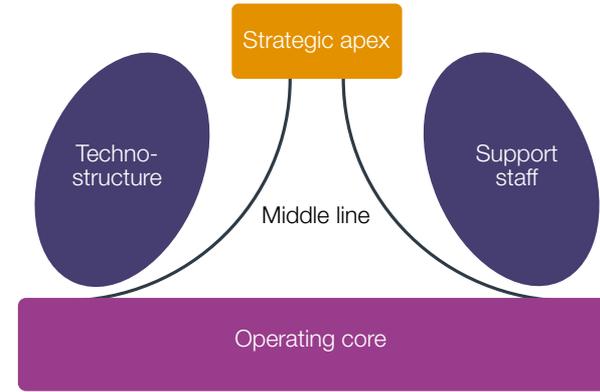
All of these factors contribute to sales growth and can be a source of competitive

advantage. To achieve such a perception, the organisation’s activities need to be things that will enhance customer value in an economical and efficient way.

If you visit a restaurant, you can compare the experience with the alternative of eating at home. The restaurant adds value by making the meal, delivering it to your table and washing up afterwards. Other elements of customer service are also provided while you are its guest – ambience, for example. The activities that create the dining experience – buying food (procurement), making meals (operations) and waiting on customers (service) – incur a cost to the restaurant. You place a value on the meal, which will influence your decisions on whether to dine there again, what tip to pay etc. The extent to which this value exceeds the cost of the activities in providing it is the profit that the restaurant makes.

The value chain is split into organisation-wide support activities and primary activities related to making products and dealing with

## 2 Mintzberg’s organigram

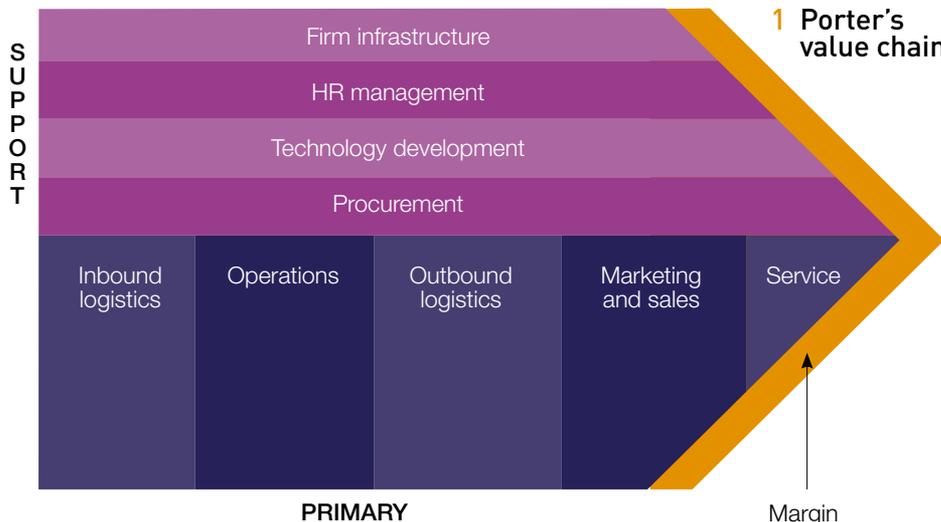


customers. The primary activities include inbound logistics (the management of raw material stocks); operations, including the manufacturing process; and outbound logistics (the warehousing and dispatch of goods). The support activities include IT and R&D (under the “technology development” heading), procurement and HR management.

A business can use the value chain to identify ways to increase its profits. These could include continuing existing activities but at a lower cost – eg, by achieving procurement economies – or performing different activities that will also be valued by customers.

Porter highlighted the importance of the connections between activities – the value chain is only as strong as its weakest link. Poor co-ordination between parts of the business could lead to costly mistakes and a loss of customer satisfaction. For example, the sales team might promise an order that the production department can’t deliver on time. The interrelatedness of a business’s activities reflects the approach taken by P4, which will often require you to discuss linked areas – eg, capacity management and marketing.

Henry Mintzberg, a keen observer of organisational behaviour, created the organigram, a visual description of the key elements of an organisation (see *diagram 2*)



## 1 Porter's value chain

## Parallels between Porter and P4

| Value chain activity                                       | Syllabus area           |
|--|-------------------------|
| Infrastructure   | Change management       |
| HR management  | Managing human capital  |
| Procurement  | Operations (purchasing) |
| Inbound logistics, operations, outbound logistics, service | Operations (other)      |
| Marketing and sales  | Marketing               |

in 1979. The model starts with the strategic apex of senior managers, from which the direction of the organisation is set. That direction is converted into tasks, which are overseen by the middle line of managers. Their staff, known as the operating core, actually produce the goods and services. Support staff – eg, finance and HR – assist the rest of the organisation. And the techno-structure strives for standardisation – eg, compliance and quality control.

The organigram can be used to assess whether the balance of these elements is appropriate for a particular business. For example, financial services companies need a strong techno-structure to ensure their compliance with financial regulation.

Clearly, both models have been around for some time and it should be noted that there are now more flexible views incorporating an emphasis on virtual organisations, supply-chain partnerships and networks facilitated largely by technological developments. Even so, the value chain and organigram provide a useful framework for P4 candidates. From the table above, it is easy to see the link between the value chain and the syllabus, for example.

These two models can be applied to some scenarios typically found in the P4 exam.

### 1 Total quality management (TQM)

TQM is an approach to fulfilling customers' needs that aims for flexibility, continuous improvement and zero defects. It's an incremental method that features commitment from the top; a universal concern for quality; technological solutions; an emphasis on preventive measures rather than cures; and just-in-time production.

It's essential that the strategic apex is committed to TQM, and that it communicates this fact to all parts of the business via the middle line. Product design and development are an important aspect of TQM. These functions need to work with marketing to determine customers' needs through market

research. Co-ordination with technology development is also essential to ensure that the systems are in place to support the flexible manufacturing (operations) required.

Training interventions and reward systems can be implemented (by HR) to support the skills and attitudes required to make TQM work effectively. The emphasis moves away from quality control (techno-structure) and towards a constant process of review at every stage (entailing the co-operation of the middle line and the operating core).

### 2 The marketing mix

Product, price, place and promotion comprise the marketing mix for a product. For a service, three other Ps become relevant: people, processes and physical evidence.

If a company changes its marketing mix to reposition a product or react to changing customer needs, it can have an impact on many parts of the business. A change to the product requires a redesign (technology development), the capability to produce to the new specification (operations) and perhaps a training need to familiarise staff (support) with the redesigned product. The training need may be identified and dealt with by the HR function and will feature as part of the performance measures and, ultimately, the reward framework to reinforce the required performance (techno-structure).

Pricing will be determined by market research (marketing). It will also inform financial planning (infrastructure/techno-structure). The promotion effort will feature a range of activities, including the use of a corporate web site (technology development).

The place aspect includes stockholding levels of finished goods and warehousing

(outbound logistics). It affects the production process (inbound logistics and operations) and supply-chain management.

### 3 Downsizing and delayering

A firm that has decided to downsize and delayer can use the value chain to identify:

- Activities that require greater control or could be delegated downwards.
- Links that could be strengthened.
- Activities that add no value and so can be stopped.

The primary target for delayering will be the middle line in the organigram. We can consider how effective this is and the role played by the other elements – is the techno-structure helping or hindering, for example, or does the main problem lie in the strategic apex? (The difficulty in the latter case, of course, is that those at the apex will be making the key decisions.)

Change management requires us to identify those who will resist the changes and those who will drive them. By looking at organisational activities or elements, we may determine the appropriate management style to adopt in order to turn resisters into drivers – or to remove the resistance.

In each of the scenarios above, the two models can be used to identify points that may be relevant to an answer and, in particular, how parts of a business interact. The P4 syllabus topics are highly interlinked and the exam often specifically requires candidates to discuss these links.

The value chain identifies the activities in an organisation and the organigram identifies the elements of the organisation. These models can provide a useful overview of the organisation and, therefore, the P4 syllabus. They can be used to:

- Help with revision.
- Gain an overall picture of an organisation.
- Identify how parts of the organisation are interlinked.
- Provide a framework for answering some of the longer questions in the exam.

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### further reading

M Porter, *Competitive Advantage*, Free Press, 1985.

H Mintzberg, *The Structuring of Organisations*, Prentice Hall, 1979.