1

ORGANIZATIONS AND ORGANIZATION THEORY

Unit Structure :

1.0 OBJECTIVES

After going through this unit, you will be able to understand:

- Concept of an organization and the organization theory
- Organization configuration perspectives
- Dimensions of organization design and evolution.

1.1 ORGANIZATION THEORY IN ACTION

Organization theory gives us the tools to analyze and understand how a huge, powerful firm like Lehman Brothers can die and a company like Bank of America can emerge almost overnight as a giant in the industry. It enables us to comprehend how a band like the Rolling Stones, which operates like a highly sophisticated global business organization, can enjoy phenomenal success for nearly half a century, while some musical groups with equal or superior talent don't survive past a couple of hit songs. Organization theory helps us explain what happened in the past, as well as what may happen in the future, so that we can manage organizations more effectively.

Indeed, managers at companies such as Xerox, Lehman Brothers, Bank of America, and even the Rolling Stones are continually faced with a number of challenges. For example:

- How can the organization adapt to or control such external elements as competitors, customers, government, and creditors in a fast-paced environment?

- What strategic and structural changes are needed to help the organization attain effectiveness?
- How can the organization avoid management ethical lapses that could threaten its viability?
- How can managers cope with the problems of large size and bureaucracy?
- What is the appropriate use of power and politics among managers?
- How should internal conflict be managed?
- What kind of corporate culture is needed to enhance rather than stifle innovation and change, and how can that culture be shaped by managers?

These are the topics with which organization theory is concerned. Organization theory concepts apply to all types of organizations in all industries. Managers at Burger King revitalized the once-floundering fast-food chain by revising its menu and marketing approach based on customer analysis. Nokia underwent a major reorganization to improve the organization's flexibility and adaptability. Hewlett-Packard acquired Electronic Data Systems Corporation to move H-P more aggressively into the technology services industry. All of these companies are using concepts based in organization theory. Organization theory also applies to nonprofit organizations such as the United Way, the American Humane Association, local arts organizations, colleges and universities, and the Make-A-Wish Foundation, which grants wishes to terminally ill children.

Organization theory draws lessons from organizations such as Xerox, Bank of America, and United Way and makes those lessons available to students and managers. As our opening example of Xerox shows, even large, successful organizations are vulnerable, lessons are not learned automatically, and organizations are only as strong as their decision makers. Organizations are not static; they continuously adapt to shifts in the external environment. Today, many companies are facing the need to transform themselves into dramatically different organizations because of new challenges in the environment.

Current Challenges

Research into hundreds of organizations provides the knowledge base to make Xerox and other organizations more effective. For example, challenges facing organizations today are different from those of the past, and thus the concept of organizations and organization theory is evolving. The world is changing more rapidly than ever before, and managers are responsible for positioning their organizations to adapt to new needs. Some specific challenges today's managers and organizations face are globalization, intense competition, rigorous ethical scrutiny, the need for rapid response, the digital workplace, and increasing diversity.

Globalization. The cliche that the world is getting smaller is dramatically true for today's organizations. With rapid advances in technology and communications, the time it takes to exert influence around the world from even the most remote locations has been reduced from years to only seconds. Markets, technologies, and organizations are becoming increasingly interconnected. Today's successful organizations feel "at home" anywhere in the world. Companies can locate different parts of the organization wherever it makes the most business sense: top leadership in one country, technical brainpower and production in other locales. Related trends are global *outsourcing*, or contracting out some functions to organizations in other countries, and *strategic partnering* with foreign firms to gain a global advantage. 50 percent said they saw cross-border acquisitions as crucial to their future competitiveness. Moreover, U.S. managers believe developing relationships in India and China will be vital to business success. Already, numerous companies from all over the world, including Home Depot, CNA Life, and Sony, use India's Wipro Ltd. To develop sophisticated software applications, design semiconductors, and manage back-office solutions. Other companies turn to China, which is the world's largest maker of consumer electronics and is rapidly and expertly moving into biotechnology, computer manufacturing, and semiconductors.

Intense Competition. This growing global interdependence creates new advantages, but it also means that the environment for companies is becoming extremely competitive. Customers want low prices for goods and services. Outsourcing firms in low-wage countries can often do work for 50 to 60 percent less than companies based in the United States, for instance, so U.S. firms that provide similar services have to search for new ways to compete or go into new lines of business.8 In recent years, though, rising fuel costs cut into the cost advantage many manufacturers enjoyed from what has been called the "China price." The higher cost of shipping goods from China or other low wage countries counteracted the lower cost of production, leaving U.S. manufacturers searching for ways to make up the difference without exorbitant price increases.

Companies in all industries are feeling pressure to drive down costs and keep prices low, yet at the same time they are compelled to invest in research and development or get left behind in the global drive for innovation. In the United States, high oil prices, the housing slump, mortgage meltdown, crisis in the financial sector, and the soaring costs of materials and supplies created a tough environment for companies in all industries. Consider McDonald's. Even as managers were seeking ways to expand the menu and draw in new customers, McDonald's labs were testing how to cut the cost of making basic items on the Dollar Menu. With the price of ingredients such as cheese, beef, and buns going up, McDonald's had to cut internal costs or lose money on its dollar-menu items. Auto insurers searched for new ways to compete as drivers faced with steep gas prices looked for ways to cut their transportation costs. Casual restaurant chains battled to draw in customers as people cut back on eating out. Grocers, too, felt the sting. Managers at Supervalu, the second largest supermarket company in the United States, quickly learned that they couldn't just pass on their higher costs to shoppers. Sales and profits plunged in early 2008 before managers adjusted their strategy to promote cheaper store brands, work with manufacturers to design innovative promotions and coupons, and introduce new lines of products at lower prices.

Ethics and Social Responsibility. Today's managers face tremendous pressure from the government and the public to hold their organizations and employees to high ethical and professional standards. Following widespread moral lapses and corporate financial scandals, organizations are under scrutiny as never before. The pervasiveness of ethical lapses in the early 2000s was astounding. Once-respected firms such as Enron, Arthur Andersen, Tyco, and HealthSouth became synonymous with greed, deceit, and financial chicanery. No wonder a public poll found that 79 percent of respondents in the United States believe questionable business practices are widespread. Less than one-third said they think most CEOs are honest. The sentiment is echoed in other countries. Recent investigations of dozens of top executives in Germany for tax evasion, bribery, and other forms of corruption have destroyed the high level of public trust business leaders there once enjoyed, with just 15 percent of respondents in Germany now saying they consider business leaders trustworthy. The climate of suspicion has spread to nonprofit organizations and colleges and universities as well. For example, the student loan industry has come under close scrutiny after an investigation found that Student Loan Xpress paid financial aid directors at three universities a total of $160,000 in consulting fees, personal tuition reimbursement, and other payments as a gateway to being placed on the universities' preferred lenders lists. Investigators are seeking to determine whether lenders are being recommended to students because of the hidden payments university officials are receiving rather than the fact that they offer the best lending terms to students.

Speed and Responsiveness. A third significant challenge for organizations is to respond quickly and decisively to environmental changes, organizational crises, or shifting customer expectations. For much of the twentieth century, organizations operated in a relatively stable environment, so managers could focus on designing structures and systems that kept the organization running smoothly and efficiently.

There was little need to search for new ways to cope with increased competition, volatile environmental shifts, or changing customer demands. Today, globalization and advancing technology have accelerated the pace at which organizations in all industries must roll out new products and services to stay competitive. Today's customers want products and services tailored to their exact needs, and they want them *now*. Manufacturing firms that relied on mass production and distribution techniques must be prepared with new computer-aided systems that can produce one-of-a-kind variations and streamlined distribution systems that deliver products directly from the manufacturer to the consumer. Service firms, as well, are searching for new ways to provide value. Allstate Insurance, for example, enhanced responsiveness to customers with its Your Choice Auto program, which gives drivers the opportunity to choose the insurance perks they want.

Allstate managers recognize that what appeals to drivers can change quickly as gasoline prices shift.

Considering the turmoil and flux inherent in today's world, the mindset needed by organizational leaders is to expect the unexpected and be prepared for rapid change and potential crises. Crisis management has moved to the forefront in light

of devastating natural disasters and terrorist attacks all over the world; a tough economy, rocky stock market, growing unemployment, and weakening consumer confidence; widespread ethical scandals; and, in general, an environment that may shift dramatically at a moment's notice.

The Digital Workplace. Many traditional managers feel particularly awkward in today's technology-driven workplace. Organizations have been engulfed by information technology that affects how they are designed and managed. In today's workplace, many employees perform much of their work on computers and may work in virtual teams, connected electronically to colleagues around the world. In addition, rather than competing as independent entities, organizations are becoming enmeshed in electronic networks. More and more of today's business takes place by digital processes over a computer network rather than in physical space. Some companies have taken e-business to very high levels to achieve amazing performance. The use of end-to-end digital supply-chain networks to keep in touch with customers, take orders, buy components from suppliers, coordinate with manufacturing partners, and ship customized products directly to consumers has spread to all industries.

These advances mean that organizational leaders not only need to be technologically savvy but are also responsible for managing the web of relationships that reaches far beyond the boundaries of the physical organization, building physical e-links between the company and its employees, suppliers, contract partners and customers.

Diversity. As organizations increasingly operate on a global playing field, the workforce—as well as the customer base—grows increasingly diverse. Many of today's leading organizations have an international face. Look at the makeup of consulting firm McKinsey & Company. In the 1970s, most consultants were American, but by the turn of the century, McKinsey's chief partner was a foreign national (Rajat Gupta from India), only 40 percent of consultants were American,

and the firm's foreign-born consultants came from forty different countries. In addition to coping with global diversity, managers in the United States realize the nation's domestic population is changing dramatically. The minority population of the United States is now more than 100 million, making about one in three U.S. residents a minority. Roughly 32 million people speak Spanish at home, and nearly half of these people say they don't speak English very well. Today's average employee is older, and many more women, people of color, and immigrants are seeking job and advancement opportunities. By 2050, it is estimated that 85 percent of entrants into the workforce will be women and people of color. Already, white males, the majority of workers in the past, represent less than half of the workforce. This growing diversity brings a variety of challenges, such as maintaining a strong corporate culture while supporting diversity, balancing work and family concerns, and coping with the conflict brought about by varying cultural styles.

1.2 WHAT IS AN ORGANIZATION?

Organizations are hard to see. We see outcroppings, such as a tall building, a computer workstation, or a friendly employee, but the whole organization is vague and abstract and may be scattered among several locations, even around the world. We know organizations are there because they touch us every day. Indeed, they are so common that we take them for granted. We hardly notice that we are born in a hospital, have our birth records registered in a government agency, are educated in schools and universities, are raised on food produced on corporate farms, are treated by doctors engaged in a joint practice, buy a house built by a construction company and sold by a real estate agency, borrow money from a bank, turn to police and fire departments when trouble erupts, use moving companies to change residences, and receive an array of benefits from various government agencies. Most of us spend many of our waking hours working in an organization of one type or another.

Definition

Organizations as diverse as a bank, a corporate farm, a government agency, and Xerox Corporation have characteristics in common.

Organizations are social entities that are goal-directed, are designed as deliberately structured and coordinated activity systems, and are linked to the external environment. The key element of an organization is not a building or a set of policies and procedures; organizations are made up of people and their relationships with one another. An organization exists when people interact with one another to perform essential functions that help attain goals. Recent trends in management recognize the importance of human resources, with most new approaches designed to empower employees with greater opportunities to learn and contribute as they work together toward common goals.

Managers deliberately structure and coordinate organizational resources to achieve the organization's purpose. However, even though work may be structured into separate departments or sets of activities, most organizations today are striving for greater horizontal coordination of work activities, often using teams of employees from different functional areas to work together on projects. Boundaries between departments, as well as those between organizations, are becoming more flexible and diffuse as companies face the need to respond to changes in the external environment more rapidly. An organization cannot exist without interacting with customers, suppliers, competitors, and other elements of the external environment. Today, some companies are even cooperating with their competitors, sharing information and technology to their mutual advantage.

From Multinationals to Nonprofits

Some organizations are large, multinational corporations, others are small, family owned businesses, and still others are nonprofit organizations or governmental agencies. Some manufacture products such as automobiles, flat-panel televisions, or light bulbs, whereas others provide services such as legal representation, Internet and telecommunications services, mental health resources, or car repair. Another important distinction is between for-profit businesses and *nonprofit organizations* such as the Salvation Army, the World Wildlife Fund and the Save the Children Foundation, which is dedicated to serving the poor, just as they do such businesses as Xerox and Dunkin' Donuts. However, there are some important dissimilarities to keep in mind. The primary difference is that managers in businesses direct their activities toward earning money for the company, whereas managers in nonprofits direct their efforts toward generating some kind of social impact. The unique characteristics and needs of nonprofit organizations created by this distinction present unique challenges for organizational leaders. Financial resources for nonprofits typically come from government appropriations, grants, and donations rather than from the sale of products or services to customers.

In businesses, managers focus on improving the organization's products and services to increase sales revenues. In nonprofits, however, services are typically provided to nonpaying clients, and a major problem for many organizations is securing a steady stream of funds to continue operating. Nonprofit managers, committed to serving clients with limited funds, must focus on keeping organizational costs as low as possible and demonstrating a highly efficient use of resources. Another problem is that, since nonprofit organizations do not have a conventional "bottom line," managers often struggle with the question of what constitutes organizational effectiveness. It is easy to measure dollars and cents, but nonprofits have to measure intangible goals such as "improve public health," "make a difference in the lives of the disenfranchised," or "enhance appreciation of the arts."

Managers in nonprofit organizations also deal with many diverse stakeholders and must market their services to attract not only clients (customers) but also volunteers and donors. This can sometimes create conflict and power struggles among organizations. Thus, the organization design concepts, such as dealing with issues of power and conflict, setting goals and measuring effectiveness, coping with environmental uncertainty, implementing effective control mechanisms, and satisfying multiple stakeholders, apply to nonprofit organizations as they do to businesses such as Xerox. These concepts and theories are adapted and revised as needed to fit the unique needs and problems of various small, large, profit, or nonprofit organizations.

Importance of Organizations

It may seem hard to believe today, but organizations as we know them are relatively recent in the history of humankind. Even in the late nineteenth century there were few organizations of any size or importance—no labor unions, no trade associations, and few large businesses, nonprofit organizations, or governmental agencies. What a change has occurred since then? The development of large organizations transformed all of society, and, indeed, the modern corporation may be the most significant innovation of the past 100 years. Organizations are all around us and shape our lives in many ways. But what contributions do organizations make? Why are they important? There are seven reasons organizations are important to you and to society. First, organizations bring together resources to accomplish specific goals.

Grumman Newport News (formerly Newport News Shipbuilding), builds nuclear-powered, Nimitz-class aircraft carriers. Putting together an aircraft carrier is an incredibly complex job involving 47,000 tons of precision-welded steel, more than 1 million distinct parts, 900 miles of wire and cable, and more than seven years of hard work by 17,800 employees. How could such a job be accomplished without an organization to acquire and coordinate these varied resources?

Organizations also produce goods and services that customers want at competitive prices. Bill Gates, who built Microsoft into a global powerhouse, asserts that the modern organization "is one of the most effective means to allocate resources we've ever seen. It transforms great ideas into customer benefits on an unimaginably large scale". Companies look for innovative ways to produce and distribute desirable goods and services more efficiently. Two ways are through e-business and through the use of computer-based manufacturing technologies. Redesigning organizational structures and management practices can also contribute to increased efficiency. Organizations create a drive for innovation rather than a reliance on standard products and outmoded approaches to management and organization design.

Organizations exist to do the following

- *Bring together resources to achieve desired goals and outcomes*
- *Produce goods and services efficiently*
- *Facilitate innovation*
- *Use modern manufacturing and information technologies*
- *Adapt to and influence a changing environment*
- *Create value for owners, customers, and employees*
- *Accommodate ongoing challenges of diversity, ethics, and the motivation and coordination of employees.*

1.3 PERSPECTIVES ON ORGANIZATIONS

Over the years, organization theory has advanced into a form of thinking and writing that tries to describe, explain and influence what goes on in organizations. It became increasingly diverse in terms of the perspectives that theorists use to study the important social phenomena that affect many aspects of our lives.

There are five perspectives of formal models - the structural, systems, bureaucratic, rational, and hierarchical.

Structural Models

Structural models emphasize the importance of an organizational structure that is often denoted by the formal organizational chart, which typically employs the authorized pattern of relationships among members of the organization. It is the manner the individuals communicate to realize their organizational goals. Organizational structure is an approach in which responsibility and power are distributed and work procedures are carried out by organizational members. The structural models include a network of relationships and roles existing throughout the organisation.

Systems Models

Grounded on the theories emphasizing the unity and integrity of the organization and its focus on the interaction between its constituents and with the type of their relationships to external environment, systems models are categorized either closed or open. Several of the works that were based on closed system models, were Taylor's scientific management approach, Weber's model of bureaucracy, Fayol's administrative theory, Barnard's theory of cooperative systems and Mayo's human relations model.

However, the environment has changed dramatically over the past century and the direction of change is toward an increase in both complexity and dynamism since closed systems do not realistically epitomize actual organisations, they became less popular.

Open system model stresses the complexity and variability of the individual members and subgroups/subunits in an organisation and the looseness of connection among them.

Bureaucratic Models

An organization can be seen as a bureaucracy, with a hierarchical assembly, decisions stemming from top to bottom, and rules and procedures providing a predictable basis for operation and behavior in the work setting, that which produces maximum efficiency. The organizational chart visually depicts this concept. An emphasis on merit and expertise of some sort also ties in with another essential characteristic; an elaborate division of. From organization theory, one would predict that when the tenets of the formal organization are fully operational, there should be little stress for administrators and high stress when these principles are not functional. It is interesting to note that the bureaucratic model serves best in schools where teachers are the main actors in the realization of educational goals.

Rational Models

The rational model underscores managerial process with emphasis on decision-making that occurs within a known structure and in pursuit of accepted goals. Rational organization theory is the idea that an organization, such as a business, is a tool for achieving a definable goal or set of goals. A rational organization uses a formal structure to define the role of each member of the organization. In a business where roles and goals are clearly defined, the process of management should be rational and predictable

Hierarchical Models

Hierarchical approaches emphasize vertical relationships within organizations and the accountability of leaders to external stakeholders. A hierarchical model is similar to the living organisms representing their organized sequences of stimuli. But human beings don't fully exhibit patterned of learning sequences. This phenomenon relates to the members of the organisation.

Nevertheless, the hierarchical model is still strictly being practiced in the military organizations, where the words/commands of the higher officers are treated with full respect and tight discipline. The organizational theory has developed as a lens for examining human organisations over many years. It widely covers different facets of dynamic corporations, which are characterized by their systems, official structure, rational process, authority of leaders, and accountability to their stakeholders. The existence of the different perspectives on organizational theory, particularly of the formal models give every organisation an opportunity to review their current status and from there : (1) create the vision of increasing their efficiency, (2) produce growths in organizations to help boost economic potential in a society and help generate the tools necessary to fuel its capitalistic nature, like when Henry Ford created the assembly line, a system of organization that enabled efficiency and drove both Ford and the U.S. economy forward and (3) see a window to induce changes not only in the organization's infrastructure but also in competing organizations and the economy as a whole. The formal models' perspectives inspire and influence the many organisations worldwide.

1.4 DIMENSIONS OF ORGANIZATION DESIGN: STRUCTURAL AND CONCEPTUAL

Organizations shape our lives, and well-informed managers can shape organization. The first step to understand organizations is by examining the features that describe specific organizational design traits. These features describe organizations in much the same way that personality and physical traits describe people.

There are two types of interacting features of organizations: structural dimensions and contingency factors.

Structural dimensions provide labels to describe the internal characteristics of an organization. They create a basis for measuring and comparing organizations.

Contingency factors encompass larger elements that influence structural dimensions, including the organization's size, technology, environment, culture, and goals. Contingency factors describe the organizational setting that influences and shapes the structural dimensions. Contingency factors can be confusing because they represent both the organization and the environment.

Key structural dimensions of organization design include the following:

- formalization,
- specialization,
- hierarchy of authority,
- complexity, and
- concentration.

Formalization

Formalization pertains to the amount of written documentation in the organization. Documentation includes procedures, job descriptions, regulations, and policy manuals. These written documents describe behavior and activities. Formalization is often measured by simply counting the number of pages of documentation within the organization. Large universities, for example, tend to be high on formalization because they have several volumes of written rules for such things as registration, dropping and adding classes, student associations, dormitory governance, and financial assistance. A *small, family-owned* business, in contrast, may have almost no written rules and would be considered informal.

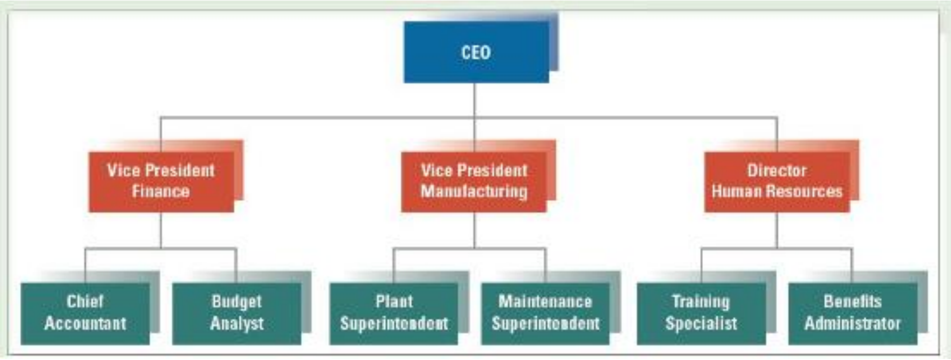
Specialization

Specialization (sometimes referred to as the division of labor) is the degree to which organizational tasks are subdivided into separate jobs.

Hierarchy of Authority

Hierarchy of authority describes who reports to whom and the span of control for each manager.

The hierarchy is depicted by the vertical lines on an organization chart, as illustrated in figure below. The hierarchy is related to *span of control* (the number of employees reporting to a supervisor).



Complexity

Complexity refers to the number of distinct departmental units or activities within the organizations. Complexity can be measured along three dimensions: vertical, horizontal, and spatial. When spans of control are narrow, the hierarchy tends to be tall. When spans of control are wide, the hierarchy of authority will be shorter.

Centralization

Centralization refers to a setup in which the decision-making powers are concentrated in a few leaders at the top of the organizational structure. Centralization is characterized by the degree of delegation of decision making authority. Whereas low degrees of centralization means that employees have high discretion over decisions; high degrees of centralization means that employees have little discretion over decisions. A high degree of centralization means that there are few decisions makers in the organization.

Key conceptual dimensions of organization design include the following:

- Work specialization
- Departmentalization and compartments
- Formalization of elements
- Centralization and decentralization
- Span of control
- Chain of command

Work specialization

Work specialization is a process that assigns each professional to a specific task. Because the management of the company is clear in what they expect from their employees, each one can focus on their task, gaining special skills and experience that can help them improve.

When using work specialization, management professionals often assign tasks to the employee who is best suited for it. This means the professional's work history, skill set and education align with the task. Work specialization allows an employer to focus less on training and redirect its energy and resources to other company needs.

For example, factory and warehouse companies use work specialization for assembly line workers. In a factory that specializes in making gift baskets, one professional may arrange the decorative paper in the basket while another professional adds fruits to the basket.

Departmentalization and Compartments

Departments and compartments are teams of professionals within a larger company. This component of organizational design allows each compartment or department to focus on a specific task the professionals in each group work together to achieve.

Compartments refer to teams of professionals who each are from a different career path and specialty. These professionals each use their own talents to help complete the project. For example, when a film company wants to produce a new movie, they hire a director, a casting agent, a costume designer and other professionals to create the film.

Departments refer to groups of professionals of a similar skill set within a company. Each of these professionals usually has the same primary duties and uses similar practices to meet the same goal. For example, a company's accounting department all work to manage the company's finances and taxation records using the same methodologies and practices.

Formalization of elements

Formalization specifies the relationships and roles within a company. Larger companies often have a more distinct formalization of primary roles than smaller companies. This is because employees may fill multiple roles in a smaller company. For example, in a neighborhood pizza shop, the manager may be responsible for food preparations besides their leadership responsibilities.

Formalization of elements also can clarify workplace rules, such as how many breaks an employee can take during their shift. Because these elements can shape workplace culture, it's important to consider them carefully when crafting a company's organizational design plan.

Centralization and decentralization

Centralization and decentralization refer to the senior levels of employees who can influence company decisions. Each company rests somewhere on a scale of centralization. For example, with centralization, some companies give the senior level of professionals complete influence over the decision-making process, while with decentralization, a company may seek the input of lower-level employees as well. Allowing more employees to influence company practices can give employees a stronger sense of pride and satisfaction in their work. However, allowing only senior staff members to share their input can be more time-effective.

Span of control

A leader can be more successful when they manage an appropriate amount of employees. Span of control is an element of organizational design that accounts for the number of people a leader supervises and the tasks they handle. For example, the acquisitions department of a publishing company is likely to have a large volume of incoming book pitches. If the department employs many readers to accommodate this demand, the department may need multiple managers to monitor and guide the readers' work.

Clarifying a specific span of control can ensure managers can handle all their tasks while overseeing daily operations and monitoring the progress of their designated team members. The ideal span of control can depend on a variety of factors including:

- Workplace size
- Manager abilities
- Company goals
- Company structure
- Leadership style

Chain of command

The chain of command of a company describes the business' hierarchy and can affect workplace culture and the efficiency of work production. An organizational chart can visually portray each employee's place in the company hierarchy, and the company may have a strict or flexible chain of command.

With a strict chain of command, each employee has a direct supervisor with an exception for the chief executive officer. In a more flexible chain of command, the owner may be the highest point of contact, then a manager or two in the middle with the rest of the employees ranking under the managers. In this scenario, the lowest level of employee would report to the managers and the managers report to the business owner.

1.5 EVOLUTION OF ORGANIZATION THEORY AND DESIGN

The root of organizations theory can be traced to generalizations on the concept which began as far back as the 1850s wherein the organisation theory came to be considered as a broad field of study comprising scientific management, industrial psychology, industrial engineering, psychology of small groups, human resources management and strategy among others.

Organization theories are offshoots of organizational practices and at the same time aid those practices. However, the concept has evolved over time because organisations operate in a fluid environment that causes it to continually change its shape and operations to survive, making organisation theory to evolve along with it to fit its current need. Historic documentations are sketchy on the chronological evolution of organisation theory, especially prior to the pre-classical era. The theory of organisation can be said to have first commenced from the pre-historic age. The prehistoric age is comprised of three eras, including the Palaeolithic (Old Stone Age) - starts with the appearance of first hominids and ends with the discovery of agriculture. Next is the Mesolithic (middle Stone Age) - a period of climatic changes when humans learnt to hunt and fish in groups. Thirdly, the Neolithic (New Stone Age) when humans invented agriculture and livestock raising. The next period is that of management in ancient civilization which was depicted by the Egyptian Pyramid and the Great Walls of China. This period is followed by that of management during the medieval period, a period best known as the era of Darkness. The next period is described as the era of transition which covered the pre-industrial revolution period, industrial revolution period and the pre-scientific period. The last is the era of systematic management which precedes the classical management era. The evolution of organization theory and design are broadly categorized in four phases; Pre-Classical Era, Classical Organizations Theory, Neoclassical Organizations Theory, and Modern organizations theory.

Pre-Classical Era

Most discussions on the evolution of organisation theory starts with the classical organisation theory, albeit organizations have existed for several years to the effect that management as a concept can be traced to 2900 BC when the Egyptians managed the workplace and built the pyramids. Early philosophers from the pre-classical era advocated conceptual models which later formed the basis on which organisation theories are rooted.

These contributors include Robert Owen (1771-1858) who was a pioneer in the field of human resources management and advocated for improved living and working conditions for factory workers. He considered his employees as being equally important as his machines. He was among the first to manage his employees rather than order them and tried to gain their agreement for his ideas rather than imposing it on them. He invented the 'silent monitor' which was used as a means of implementing discipline and reward and is considered a precursor to staff appraisal.

Adam smith (1723-1790) pioneered the concept of management and identified division of labour and specialization as major drivers of productivity. He also discovered 'the invisible hand' principle which highlighted the importance of aligning the incentives of labour with the goals of the organisation.

Charles Babbage (1792-1871) is considered a giant in the field of operations research and management science. He emphasized the importance of work specialization and the idea of profit sharing to improve productivity. He invented a mechanical calculator, a versatile computer and a punch-card machine and is considered the father of modern computing. These and other pre-classical contributors presented ideas that became the foundation upon which organisation theories are built.

However, the industrial revolution which resulted in social and technological changes that occurred between mid-19th and 20th centuries led to the emergence of larger and more formalized organizations, thus stimulating interest in more people who became involved in organisations and this also stimulated interest in more research on the concept resulting in general propositions and theories on it.

Classical Organisation Theory

This theory was the pioneer theory of organisations and was the traditional theory of organisations in the 1930s and it is still relevant today. The advent of industrial revolution and power-driven machines resulted in production workers and factory systems which led to capital intensive and highly coordinated work processes. As a result, the old order of the organisation process was no longer enough and classical theory emerged as an answer to this challenge. The classical theory comprises three schools of thought comprising the scientific management- which emphasized the one best way to complete a line of work, bureaucratic management- which focuses on hierarchy, rules and procedure, and clear division of labour, and administrative management which emphasized the transmission of information across the organisation.

Classical theorists viewed the organisation as a machine and the humans working in these organisations as the components of this machine. They believed that an organization can only increase its efficiency if its human components are made to be efficient. Classical scholars devoted their studies to laying down organizational ideologies and formalization of the structure of the organization.

Contributors to this theory include Adam Smith, Frederick Taylor, Charles Babbage, Max Weber, Daniel McCullum, and Henry Fayol. Smith's division of labour highlighted the positive effects of specialization with regards to overall productivity of the organisation, while McCullum built on the general principles of smith's organisation and concentrated on the vertical flow of information and designed the first organizational chart.

Taylor further built on the works of both authors and focused on increasing productivity by using scientific methods to discover the one best way of dividing up task and least fatiguing production method in the design of the organisation.

Weber introduced bureaucracy and defined it as a specific set of structural arrangements that informed the functionality of organisations. He maintained that bureaucracy is key in the organization and as such there is that need for everyone to accomplish his responsibilities in a hierarchical arrangement. He advocated a clear chain of command in the organization and emphasized specialization through division of labour, where employees are to carry out only functions, they are skilled to perform. Performance rewards were tied to competence and merit, objectivity and depersonalization were also encouraged. His work is summarized in the table below:

Sr. No.	Elements of Bureaucratic Organisation	Explanation
1	**Division of labor**	Jobs designed in a simple, routine, and well-defined tasks
2	**Authority**	Offices or positions are organized to recognize hierarchy where each lower position is being controlled and supervised by a higher one.
3	**Formal selection**	All staff of the organization are to be selected using technical qualifications demonstrated by training, education, or formal examination as yardsticks.
4	**Formal rules and regulations**	To ensure uniformity and to regulate the actions of employees, managers must rely deeply on formal organizational rules.
5	**Impersonality**	Rules and controls are applied uniformly, avoiding involvement with personalities and personal preferences of employees
6	**Career orientation**	Managers are professional officials rather than owners of the units they manage. They work for fixed salary and pursue their career within the organization.

Max Weber's Bureaucracy

Source: Adapted from Robbins and Coulter (1999). Management. 6th edn

In his case, Henry Fayol (1949) primarily contributed the fourteen principles of management that birthed successful organisations and are still rules managerial processes today. Fayol's 14 principles are hereunder presented in a tabular shape in the following table:

Sr. No.	Element	Explanation
1	**Division of Work**	Specialization makes it possible for individuals to gather experience, and get improved in skills for improved productivity. The importance of specialization is obvious as it enables staff to perform specific tasks not only at a single time but as a routine duty also
2	**Authority**	This implies that the right to issue commands, and authority must go with responsibility because exercising authority gives rise to responsibility. This principle suggests that there is a need for managers to have authority

Sr. No.	Element	Explanation
		in order to command subordinates so they can perform their jobs while being responsible for their actions.
3	**Discipline**	Employees must obey, but this is two-sided: employees will only obey orders if management plays her part through good leadership. This principle is often a part of the core values of an organization in form of good conduct, respectful interactions, proper dress code, etc.
4	**Unity of Command**	Each worker should be answerable to one boss with no other conflicting lines of command. This principle has been however questioned especially with regards to current situations in modern organisations where work is done in groups and teams, it simply suggests that each group will have a coordinator or supervisor whom orders are gotten from; whereas this coordinator may not be the sole or overall manager. This principle is rigid and needs modification, especially in consonance with current realities in many Organisations. Fayol was not explicit to show if it means that only one person can give orders or whether two or more persons can give instructions/directives to employees but not at the same time. It is not unusual for a staff member to receive instructions from superiors outside his/her immediate units/sections or departments. We could conclude here that Fayol's proposition is about timing, where only one command is issued at a time.
5	**Unity of Direction**	People engaged in the same kind of activities must have the same objectives in a single plan. This is essential to ensure unity and coordination in the enterprise. Unity of command does not exist without unity of direction but does not necessarily arise from it. Organisations run on established objectives; hence everyone must be committed to the same direction.
6	**Subordination of individual**	Management must see that the goals of the firms are always paramount, and the interest of

Sr. No.	Element	Explanation
	Interest (to the general interest)	the employee must be subject to those of the organization.
7	**Remuneration**	Compensation for work done should be sufficient and fair to both employers and employees. Fayol suggests that, the significant process of remuneration paid to employees should be fair, reasonable, satisfactory to both employer & employees, and rewarding their efforts.
8	**Centralization or Decentralization**	Decreasing the role of the subordinate in decision-making is centralization whereas increasing such role is decentralization. Fayol believed that managers should retain final responsibility, but should at the same time give subordinates enough authority to do their job properly. This is a matter of degree depending on the condition of the business and the quality of its personnel.
9	**Scalar chain (Line of Authority)**	A hierarchy is necessary for unity of direction. But lateral communication is also fundamental, as long as superiors know that such communication is taking place. Scalar chain refers to the number of levels in the hierarchy from the ultimate authority to the lowest level in the organization. It should not be over-stretched and consist of too-many levels. According to Fayol, 'Organisations should have a chain of authority and communication that runs from top to bottom and should be followed by managers and the subordinates.' Scalar chain depicts there should be a clear line of authority in an organization so that when one sees the need to 'Escalate things' then you know the line of authority
10	**Order**	Both material order and social order are necessary. The former minimizes lost time and useless handling of materials. The latter is achieved through organization and selection. This principle however states that every material in an organization should be put in its right position in the organization and the right job be assigned to the right employee.

Sr. No.	Element	Explanation
11	**Equity**	In running a business, a 'combination of kindliness and justice' is needed. Treating employees well is important to achieve equity. The principle of equality should be followed and applied at every level of management. Thus, there should not be any form of discrimination as regards status, sex, religion, etc.. Fairness can be said to be in similar context with Equity. Equity means combination of fairness, kindness & justice towards employees. It simply means for commitment and loyalty to be expected from employees, they should be treated fairly and similarly to people of their level of position and authority, most importantly, their Managers should be less impartial.
12	**Stability of Tenure of Personnel**	Employees work better if job security and career progress are assured to them. An insecure tenure and a high rate of employee turnover will affect the organization adversely.
13	**Initiative**	Allowing all personnel to show their initiative in some way is a source of strength for the organization. Even though some mistakes may arise in the process, the gains are surely more. However, there should always processes, procedures and policies in place to guide the employees to ensure successful implementation and prevent abuse of the privilege as managers encourage initiative
14	**Esprit de Corps**	According to Merriam Webster, espirit de corps is the common spirit existing in the members of a group and inspiring enthusiasm, devotion, and strong regard for the honor of the group. It is the degree to which employees obliged to common goal and to one another in the organization. It is the 'valued asset among organizational members who do not have formal authority over each other'. Espirit de Corps is the intensity and depth of feelings which brings job and fosters support amongst members of a group.

Fayol's 14 Principles of Management

Source: Adapted from Gabriel, J.M.O. (2020): Principles and practice of management for successful business

These great men developed their theories by building on each other's work and viewed organisations as machines that require boundaries between units. They relied on the predictability and accuracy achieved via specialization, the vertical flow of information and limited exchanges with the external environment. This theory placed emphasis on specialization and co-ordination of the activities of the production process. It was mainly concerned with the one best way of dividing up task to be done, how to group these tasks together into departments and with the coordination of the production process. They emphasized the need for a clear definition of responsibilities and authority and they also explained the principles that should be used in designing the organisation. The six pillars of this theories are departmentalization, division of labour, scalar and functional process, coordination, structure and span of control.

The following are some basic assumptions of these theories:

- Organizations are formed to implement production related and economic goals.
- There is one best way to organize the production process and that best way can be found by a systematic scientific inquiry.
- Workers, as components of the organizational machine, are replaceable.
- Through division of labour and specialization, production can be maximized.
- The organisation and its people are rational economic beings.
- Organisations should function like machines
- Organisations should be structured into departments.

Neo-classical Organization Theory

The increase in output and the educational development of employee coupled with the excessively severe principles and mechanical models of organization, the classical theories of organization resulted in regular confrontations and tension between the workforce and management, the inner communications are responsible for being misunderstood and the inner clashes become, to a greater extent, common. Consequently, studies were carried out to examine and identify the causes of these unpleasant outcomes. It is these studies that will inspire the new theories of administration that would pay more consideration to the human issue and birth the humanized organization.

Elton Mayo pioneered the Hawthorne studies which formed the basis for this theory. The study started in 1924 at Hawthorne works, the western electric company in Chicago. He did several experimentations using diverse approaches to investigate the relationship between the style of leadership, working condition and other organizational issues with employee output. The study revealed that economic incentives alone is not enough to keep human beings motivated, hence social and psychological motivating factors which include appreciation, association, sense of belongingness and different societal facets connected to the workplace were discovered. It was discovered that there are informal organisations within the organisation and that socio-psychological factors exert influence on human behaviour. It showed the possibility that co-workers may exert a greater influence on work behaviour than the economic incentives offered by management. This revelation that the workers are social beings and have social needs contradicted the classical theory's position that viewed people solely as rational, economic creatures. Social considerations were now seen as the prime motivator of behavior and work performance. There are two main sources of neoclassical theory: the sociologists and social psychologists who were concerned with interaction and relations within groups, often referred to as the Human Relations School, and the psychologists who focused on individual behaviour, or the Behavioral School. Some basic assumptions of the theory are a view of the organisation as a social system that has several integrating parts. It recognizes the existence of an informal organisation within every formal organisation and that both of them affect each other. The theory assumes that the human being is interdependent, therefore, the organisation can only predict its behaviour if it studies its social and psychological factors. It posits that human beings do not always act rationally, and that organisation goals conflict with the goals of the individual workers, therefore, it is important to reconcile these goals to benefit both parties. This theory has vitally influenced the consideration of human behaviour on the job and in the organization. It has highlighted the vast role of the human being in the production process, and has given fresh thoughts and practices for a better understanding of human behaviour with regards to group dynamics, team work, culture, leadership, motivation, group dynamics, and participation, the environment of the job, and power and influence. The four major pillars of this theory are scalar and functional procedures, the division of labour, span of control, and structure. Other contributors to this theory include Abraham H. Maslow, Frederick Herzberg, Douglas Mc Gregor, Rensis Likert, and Keith Davis who all worked to inspire and promote the drive for human relations, which posit that workers react mainly to the societal setting of the workplace, containing societal habituation, group customs and relational dynamics.

Modern Organisation Theory

Modern organisation theory is an integration of valuable concepts of the classical models with the social and behavioral sciences. Modern theorists view the organization as a dynamic open system which has to adapt to changes in its environment. This theory still has a major influence in contemporary society. Its distinctive features are its reliance on empirical research data, conceptual-analytical base, and, more importantly, it's integrating nature. These distinct features are inspired by a philosophy that accepts the premise that the only meaningful way to study organization is to study it as a system. It treats the organization as a system of mutually dependent variables. The organization has reflected a sub-system which happens and interrelates within a much comprehensive system. Consequently, modern organization theory, which accepts system analysis, changes the conceptual level of organization study above the classical and neoclassical theories. This theory asks a range of interrelated questions which are not seriously considered by the two other theories. This theory is not unified body of thought, as each contributor has his own special part where he places emphasis when he considers the system. It is an amalgamation of contingency, decision-making, systems and other theories. The parts of the organizational system comprise the individual and the personality structure he brings to the organisation, the formal arrangement of functions, that is, the organizational structure, the informal organisation, the physical setting in which the job is to be accomplished and the status and role patterns and all these parts are interrelated and work together to achieve organizational goals. These subsystems are interconnected through communication, decision-making, and balance which is the equilibrating mechanism which allows the different parts of the system to stay in a harmonious and structured relationship.

Other distinguishing features of this theory are that it is probabilistic and not deterministic as its results are uncertain and depends on the chance of occurrence. It emphasises the importance of communication and integration of individual and organizational interest as a basis for smooth functioning of the organisation. It encompasses multi-level and multi-dimensional aspects of the organisation, as it covers both the internal and external environment of the organisation. Another distinguishing feature is that this theory is multi-variable; it considers multiple variables simultaneously, showing that cause and effects are not simple phenomena but can be caused by a combination of several variables.

1.6 SUMMARY

In this unit the concept of organizations and organization theory is introduced. The theory helps us explain what happened in the past, as well as what may happen in the future, so that we can manage organizations more effectively. The organization theory is influenced by factors like: globalization as the world is getting smaller is dramatically true for today's organizations; intense competition is due to growing global interdependence creates new advantages, but it also means that the environment for companies is becoming extremely competitive; ethics and social responsibility as today's managers face tremendous pressure from the government and the public to hold their organizations and employees to high ethical and professional standards; speed and responsiveness is due to a third significant challenge for organizations is to respond quickly and decisively to environmental changes, organizational crises, or shifting customer expectations; the digital workplace where many traditional managers feel particularly awkward in today's technology-driven workplace; diversity.

As organizations increasingly operate on a global playing field, the workforce—as well as the customer base—grows increasingly diverse. Many of today's leading organizations have an international face. The early philosophers from the pre-classical era advocated conceptual models which later formed the foundation on which organisation theories are built when the social and technological changes brought on by the industrial revolution necessitated the emergence of organisation theories. The classical organisation theory is the pioneer organisation theory and it made enormous contributions to the practice of management but it did not always yield desired results. It's oversimplified and mechanistic view of the organization as a machine without people could no longer adequately deal with the complexities of an organization structure and functioning as factories became larger. The neo-classical organisation theory came with another perspective to make-up for the perceived lack in classical theory but it also has its own flaws.

Organizations are social entities that are goal-directed, are designed as deliberately structured and coordinated activity systems, and are linked to the external environment. Organizations bring together resources to achieve desired goals and outcomes, produce goods and services efficiently, facilitate innovation, use modern manufacturing and information technologies, adapt to and influence a changing environment, create value for owners, customers, and employees. accommodate ongoing challenges of diversity, ethics, and the motivation and coordination of employees .

There are different perspectives of organizations such as: structural, systems, bureaucratic, rational, hierarchical, open close. Contingency factors describe the organizational setting that influences and shapes the structural dimensions. Key conceptual dimensions of organization design include: work specialization, departmentalization and compartments, formalization of elements centralization and decentralization, span of control and chain of command.

New challenges are springing up, with global pandemics, globalisation, and technological advances, on the rise, organisations are adapting in response to these challenges in the environment. There is a rise in new perspectives and ideologies as organisations become increasingly larger and complex thus the bureaucratic organisation is also giving way to matrix structures. Thus, modern organisation theory is gradually replacing bureaucratic organisations, however, it is our opinion that classical and neo-classical theories are still important and cannot be completely done away with as they still provide very relevant answers to certain challenges.

1.7 EXERCISES

Q.1. What is an organization?

Q.2 Explain the perspectives on organizations

Q.3. What do you understand by the dimensions of organization design? Discuss.

Q.4. Critical evaluate the pros and cons of evolution of organization theory and design.

Q.5 Fill in the blanks in the following sentences:

a. Organization theory gives us the ____ to ___ and understand how a huge, powerful firm can emerge almost overnight as a giant in the industry

b. Some specific challenges today's managers and organizations face are _______ and intense competition.

c. Companies in all industries are feeling pressure to drive down ____ and keep _____ low.

d. For much of the twentieth century, organizations operated in a relatively _____ environment.

e. Today's technology-driven workplace is _______ workplace.

f. A social entity that is goal-directed is an organization.

g. Organizations create value for _____, _____, and employees.

h. An organization model that distributes responsibility and power is called as the _______ model.

i. ________ dimensions provide labels to describe the internal characteristics of an organization.

j. _______ specialization is a process that assigns each professional to a specific task.

k. a specific span of control depends on the _____ size.

l. Egyptians managed the workplace and built the pyramids in _____ era.

m. Modern organization theory is ______ and not ______.

n. Robert Owen is a philosopher of ______ era.

o. Frederick Taylor gave ________ organizational theory.

p. Fourteen principles of management were given by _____ _____.

q. _______ is considered as the pioneer of the Hawthorne studies.

1.8 SUGGESTED READING

Text books

Robins Khandwalla, P. N. Organizational design for excellence, New Delhi, Tata McGraw Hill, 1992

Reference books

Daft, R. L. Organization Theory and Design, Current Edition. Thomson Southwestern

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2

STRATEGY, ORGANIZATION DESIGN, AND EFFECTIVENESS

Unit Structure :

2.0 OBJECTIVES

After going through this unit you will be able to

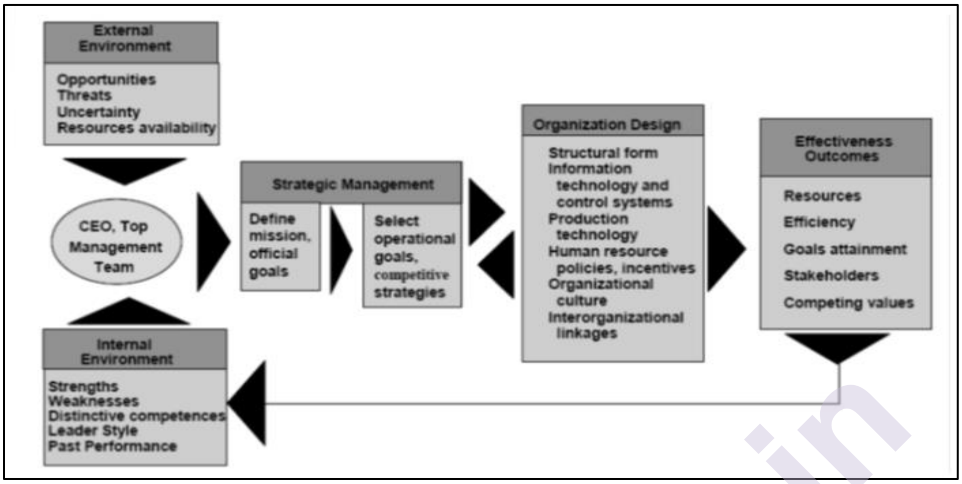
- understand the types of goals that organizations pursue
- know some of the competitive strategies managers use to reach those goals
- get an overview of strategic management
- understand significant frameworks for determining strategic action
- understand how strategies affect organization design
- describe approaches to measuring the effectiveness of organizational efforts.

2.1 THE ROLE OF STRATEGIC DIRECTION ON ORGANIZATION DESIGN

An **organizational goal** is a desired state of affairs that the organization attempts to reach. A goal represents a result or end point toward which organizational efforts are directed. The choice of goals and strategy influences how the organization should be designed.

Top executives decide the end purpose the organization will strive for and determine the direction it will take to accomplish it. It is this purpose and direction that shapes how the organization is designed and managed.

Indeed, *the primary responsibility of top management is to determine an organization's goals, strategy, and design, therein adapting the organization to a changing environment.* Middle managers do much the same thing for major departments within the guidelines provided by top management. Figure below illustrates the relationships through which top managers provide direction and then design.



The direction-setting process typically begins with an assessment of the opportunities and threats in the external environment, including the amount of change, uncertainty, and resource availability Top managers also assess internal strengths and weaknesses to define the company's distinctive competence compared with other firms in the industry. This competitive analysis of the internal and external environments is one of the central concepts in strategic management.

Self-Check Exercise

1 A company's strategic intent or direction reflects managers' systematic analysis of organizational and environmental factors.

Answer: Agree. The best strategies come from systematic analysis of organizational strengths and weaknesses combined with analysis of opportunities and threats in the environment. Careful study combined with experience enable top managers to decide on specific goals and strategies.

The next step is to define and articulate the organization's strategic intent. This includes defining an overall mission and official goals based on the correct fit between external opportunities and internal strengths. Leaders then formulate specific operational goals and strategies that define how the organization is to accomplish its overall mission. In the above figure, organization design reflects the way goals and strategies are implemented so that the organization's attention and resources are consistently focused toward achieving the mission and goals. Organization design is the administration and execution of the strategic plan.

Organization direction is implemented through decisions about structural form, including whether the organization will be designed for a learning or an efficiency orientation, as well as choices about information and control systems, the type of production technology, human resource policies, culture, and linkages to other organizations. Strategies are often made within the current structure of the organization, so that current design constrains, or puts limits on, goals and strategy. More often than not, however, the new goals and strategy are selected based on environmental needs, and then top management attempts to redesign the organization to achieve those ends.

Finally, the figure above illustrates how managers evaluate the effectiveness of organizational efforts—that is, the extent to which the organization realizes its goals. This chart reflects the most popular ways of measuring performance. It is important to note here that performance measurements feed back into the internal environment, so that past performance of the organization is assessed by top management in setting new goals and strategic direction for the future.

The role of top management is important because managers can interpret the environment differently and develop different goals. For example, a new CEO at Borders Group believed the book retailer was missing an opportunity by emphasizing its bricks and mortar stores while paying little attention to the online world of book retailing. When George Jones took over as CEO, he quickly saw e-commerce as "a necessary component of our business." Borders ended its alliance with Amazon.com and reopened its own branded website. This gave Borders Rewards members the chance to earn benefits online, which they weren't able to do through Amazon. Aiming to become a force in online bookselling, Borders abandoned its strategy of expanding the book superstore concept, selling off most of its overseas stores and closing numerous stores in the United States.

The choices top managers make about goals, strategies, and organization design have a tremendous impact on organizational effectiveness. Remember that goals and strategy are not fixed or taken for granted. Top managers and middle managers must select goals for their respective units, and the ability to make good choices largely determines firm success. Organization design is used to implement goals and strategy and also determines organization success.

2.2 ORGANIZATION PURPOSE

All organizations, including MySpace, Johnson & Johnson, Google, Harvard University, the Catholic Church, the U.S. Department of Agriculture, the local laundry, and the neighborhood deli, exist for a purpose.

This purpose may be referred to as the overall goal, or mission. Different parts of the organization establish their own goals and objectives to help meet the overall goal, mission, or purpose of the organization.

Strategic Intent

Many types of goals exist in organizations, and each type performs a different function. However, to achieve success, organizational goals and strategies are focused with strategic intent. Strategic intent means that all the organization's energies and resources are directed toward a focused, unifying, and compelling overall goal.

Examples of ambitious goals that demonstrate strategic intent are Komatsu's vision to "Encircle Caterpillar," Canon's to "Beat Xerox," and Coca-Cola's "To put a Coke within 'arm's reach' of every consumer in the world".

Strategic intent provides a focus for management action. Three aspects related to strategic intent are the mission, core competence, and competitive advantage.

Mission. The overall goal for an organization is often called the mission—the organization's reason for existence. The mission describes the organization's shared values and beliefs and its reason for being. The mission is sometimes called the official goals, which refers to the formally stated definition of business scope and outcomes the organization is trying to achieve. Official goal statements typically define business operations and may focus on values, markets, and customers that distinguish the organization. Whether called a mission statement or official goals, the organization's general statement of its purpose and philosophy is often written down in a policy manual or the annual report.

One of the primary purposes of a mission statement is to serve as a communication tool. The mission statement communicates to current and prospective employees, customers, investors, suppliers, and competitors what the organization stands for and what it is trying to achieve. A mission statement communicates legitimacy to internal and external stakeholders, who may join and be committed to the organization because they identify with its stated purpose and vision. Most top leaders want employees, customers, competitors, suppliers, investors, and the local community to look on them in a favorable light, and the concept of legitimacy plays a critical role. In today's corporate world of weakened trust, increasing regulation, and concern for the natural environment, many organizations face the need to redefine their mission to emphasize the firm's purpose in more than financial terms. Companies where managers are sincerely guided by mission statements that focus on a larger social purpose, such as "To restore people to full life and health" or "Helping people live safer, more secure lives," typically attract better employees, have better relationships with external parties, and perform better in the marketplace over the long term.

Competitive Advantage. The overall aim of strategic intent is to help the organization achieve a sustainable competitive advantage. Competitive advantage refers to what sets the organization apart from others and provides it with a distinctive edge for meeting customer or client needs in the marketplace. Strategy necessarily changes over time to fit environmental conditions, and good managers pay close attention to trends that might require changes in how the company operates. Managers analyze competitors and the internal and external environments to find potential competitive openings and learn what new capabilities the organization needs to gain the upper hand against other companies in the industry.

Strong customer service and top-notch pharmacist knowledge have always been key strengths for any organization. Now these competencies are being applied on a broader scale as the company moves into the larger health care industry. Managers strive to develop strategies that focus on their core competencies in order to attain a competitive advantage.

Core Competence. A company's core competence is something the organization does especially well in comparison to its competitors. A core competence may be in the area of superior research and development, expert technological know-how, process efficiency, or exceptional customer service.

Operative Goals

The organization's mission and overall goals provide a basis for developing more specific operative goals. Operative goals designate the ends sought through the actual operating procedures of the organization and explain what the organization is actually trying to do.

Operative goals describe specific measurable outcomes and are often concerned with the short run. Operative goals typically pertain to the primary tasks an organization must perform.

Specific goals for each primary task provide direction for the day-to-day decisions and activities within departments. Typical operative goals include performance goals, resource goals, market goals, employee development goals, productivity goals, and goals for innovation and change.

Overall Performance

Profitability reflects the overall performance of for-profit organizations. Profitability may be expressed in terms of net income, earnings per share, or return on investment. Other overall performance goals are growth and output volume. Growth pertains to increases in sales or profits over time. Volume pertains to total sales or the amount of products or services delivered.

Government and nonprofit organizations such as social service agencies or labor unions do not have goals of profitability, but they do have goals that attempt to specify the delivery of services to clients or members within specified expense levels. The Internal Revenue Service has a goal of providing accurate responses to 85 percent of taxpayer questions about new tax laws. Growth and volume goals also may be indicators of overall performance in nonprofit organizations. Expanding their services to new clients is a primary goal for many social service agencies, for example.

Resources. Resource goals pertain to the acquisition of needed material and financial resources from the environment. They may involve obtaining financing for the construction of new plants, finding less expensive sources for raw materials, or hiring top-quality technology graduates. Resource goals for Stanford University include attracting top-notch professors and students. Auto manufacturers such as Honda Motor Company and Toyota Motor Corporation have resource goals of obtaining high-quality auto parts at low cost. For nonprofit organizations, resource goals might include recruiting dedicated volunteers and expanding the organization's funding base.

Market. Market goals relate to the market share or market standing desired by the organization. Market goals are largely the responsibility of marketing, sales, and advertising departments. In the toy industry, Canada's Mega Bloks Inc. achieved its market goal of doubling its share of the toy building block market to 30 percent.

The giant of the industry, Denmark's LEGO Group, is reevaluating strategies to try to regain the market share it has lost. Market goals can also apply to nonprofit organizations.

Employee Development. Employee development pertains to the training, promotion, safety, and growth of employees. It includes both managers and workers. Strong employee development goals are one of the characteristics common to organizations that regularly show up on Fortune magazine's list of "100 Best Companies to Work For." For example, family-owned Wegmans Food Markets, which has appeared on the list every year since its inception and was voted the nation's top supermarket chain by the Food Network in 2007, has a motto of "Employees First, Customers Second," reflecting the company's emphasis on employee development goals.

Productivity. Productivity goals concern the amount of output achieved from available resources. They typically describe the amount of resource inputs required to reach desired outputs and are thus stated in terms of "cost for a unit of production," "units produced per employee," or "resource cost per employee." Managers at Akamai Technologies, which sells Web content delivery services, keep a close eye on sales per employee to see if the company is meeting productivity goals. Akamai's chief financial officer, Timothy Weller, sees this statistic as "the single easiest measure of employee productivity.

Innovation and Change. Innovation goals pertain to internal flexibility and readiness to adapt to unexpected changes in the environment. Innovation goals are often defined with respect to the development of specific new services, products, or production processes. Procter & Gamble is taking a new approach to innovation that brings in ideas from outside entrepreneurs and researchers. Managers set a goal of getting 50 percent of the company's innovation from outside the organization by

2010, up from about 35 percent in 2004 and only 10 percent in 2000.

Successful organizations use a carefully balanced set of operative goals. Although profitability goals are important, some of today's best companies recognize that a single-minded focus on bottom-line profits may not be the best way to achieve high performance. Innovation and change goals are increasingly important, even though they may initially cause a decrease in profits. Employee development goals are critical for helping to maintain a motivated, committed workforce.

The Importance of Goals

Both official goals and operative goals are important for the organization, but they serve very different purposes. Official goals and mission statements describe a value system for the organization and set an overall purpose and vision; operative goals represent the primary tasks of the organization. Official goals legitimize the organization; operative goals are more explicit and well defined.

Operative goals serve several specific purposes, as outlined in the below figure. For one thing, goals provide employees with a sense of direction, so that they know what they are working toward. This can help to motivate employees toward specific targets and important outcomes. Numerous studies have shown that specific high goals can significantly increase employee performance. People like having a focus for their activities and efforts. Consider Guitar Center, a fast-growing retailer in the United States. Managers establish specific goals for sales teams at every Guitar Center store each morning, and employees do whatever they need to, short of losing the company money, to meet the targets. Guitar Center's unwritten mantra of "Take the deal" means that salespeople are trained to take any profitable deal, even at razor-thin margins, to meet daily sales goals.

Types of Goals	Purpose of Goals
Official goals, mission	Legitimacy
Operative goals	Employee direction and motivation Decision guidelines Standard of performance

Another important purpose of goals is to act as guidelines for employee behavior and decision making. Appropriate goals can act as a set of constraints on individual behavior and actions so that employees behave within boundaries that are acceptable to the organization and larger society. They help to define the appropriate decisions concerning organization structure, innovation, employee welfare, or growth. Finally, goals provide a standard for assessment. The level of organizational performance, whether in terms of profits, units produced, degree of employee satisfaction, level of innovation, or number of customer complaints, needs a basis for evaluation. Operative goals provide this standard for measurement.

2.3 A FRAMEWORK FOR SELECTING STRATEGY AND DESIGN/STRUCTURE

To support and accomplish the organization's strategic intent and keep people focused in the direction determined by organizational mission, vision, and operative goals, managers have to select specific strategy and design options that can help the organization achieve its purpose and goals within its competitive environment. In this section, we examine a couple of practical approaches to selecting strategy and design. The questionnaire in this chapter's "How Do You Fit the Design?" box will give you some insight into your own strategic management competencies.

A strategy is a plan for interacting with the competitive environment to achieve organizational goals. Some managers think of goals and strategies as interchangeable, but for our purposes, goals define where the organization wants to go and strategies define how it will get there. For example, a goal might be to achieve 15 percent annual sales growth; strategies to reach that goal might include aggressive advertising to attract new customers, motivating salespeople to increase the average size of customer purchases, and acquiring other businesses that produce similar products. Strategies can include any number of techniques to achieve the goal. The essence of formulating strategies is choosing whether the organization will perform different activities than its competitors or will execute similar activities more efficiently than its competitors do.

Two models for formulating strategies are the Porter model of competitive strategies and Miles and Snow's strategy typology. Each provides a framework for competitive action. After describing the two models, we will discuss how the choice of strategies affects organization design.

Porter's Competitive Forces and Strategies

One popular and effective model for formulating strategy is Porter's competitive forces and strategies. Michael E. Porter studied a number of business organizations and proposed that managers can formulate a strategy that makes the organization more profitable and less vulnerable if they understand five forces in the industry environment. Porter found the following forces determine a company's position vis-à-vis competitors in the industry:

- ***The Threat of New Entrants***. The threat of new entrants to an industry can create pressure for established organizations, which might need to hold down prices or increase their level of investment. For example, when managers at Nike learned that fast-growing athletic apparel company Under Armour planned to get into the business of selling athletic footwear, they quickly invested in reviving their company's long-dead cross-training category by designing the new SPARQ trainer. The threat of entry in an industry depends largely on the amount and extent of potential barriers, such as cost. It is far more costly to enter the auto manufacturing industry, for instance, than to start a specialty coffee shop.

- ***The Power of Suppliers***. Large, powerful suppliers can charge higher prices, limit services or quality, and shift costs to their customers, keeping more of the value for themselves. The concentration of suppliers and the availability of substitute suppliers are significant factors in determining supplier power. The sole supplier of materials or information to a company will have great power, for example. The Nielsen Company has wielded tremendous power with television networks because it has until recently been the sole source of ratings data that network executives use to make advertising and programming decisions.

- ***The Power of Buyers***. Powerful customers, the flip side of powerful suppliers, can force down prices, demand better quality or service, and drive up costs for the supplying organization. Wal-Mart, for example, is so powerful that it can easily put the screws to manufacturers who supply goods for sale at its stores.

- ***The Threat of Substitutes***. The power of alternatives and substitutes for a company's product or service may be affected by changes in cost, new technologies, social trends that will deflect buyer loyalty, and other environmental changes.

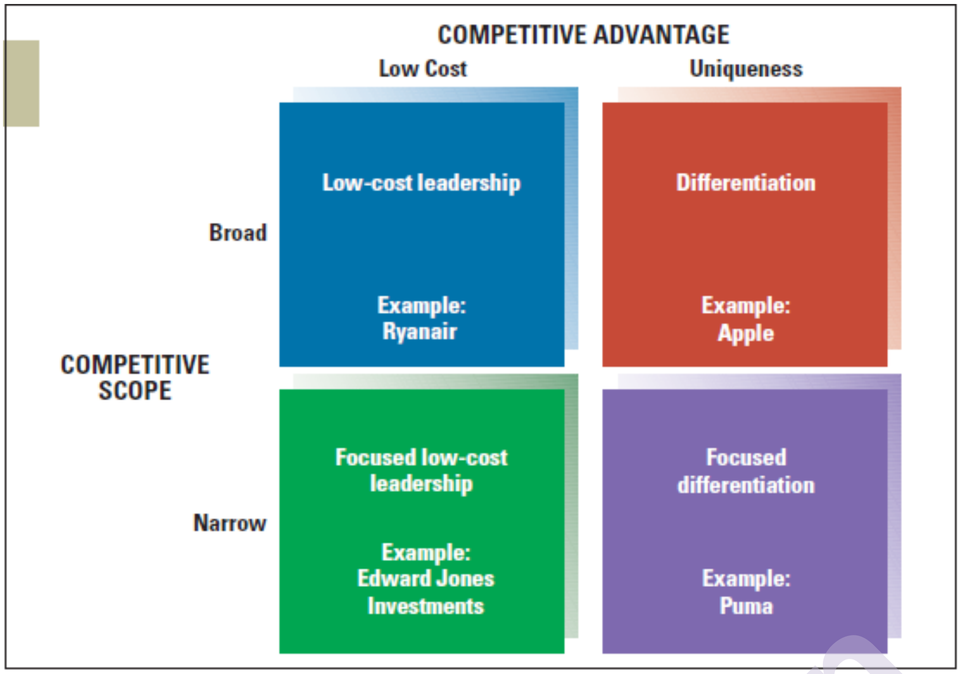
Large pharmaceutical companies are under intense pressure from generic competition as patents on numerous popular drugs have expired in recent years.

Providers of conventional long-distance telephone services have suffered from the introduction of inexpensive Internet-based phone services.

- ***Rivalry among Existing Competitors***. Rivalry among competitors is influenced by the preceding four forces, as well as by cost and product differentiation. Porter has referred to the "advertising slugfest" when describing the scrambling and jockeying for position that occurs among fierce rivals within an industry.

The rivalry between Coke and Pepsi is a famous example. Recently, Coke scored big with its sponsorship of the Beijing Olympics, but Pepsi's creative marketing had many Chinese consumers thinking it was an official sponsor too. In finding its competitive edge within these five forces, Porter suggests that a company can adopt one of three strategies: differentiation, low-cost leadership, or focus. The focus strategy, in which the organization concentrates on a specific market or buyer group, is further divided into focused low cost and focused differentiation. This yields four basic strategies, as illustrated in the figure. To use this model, managers evaluate two factors, competitive advantage and competitive scope. With respect to advantage, managers determine whether to compete through lower costs or through the ability to offer unique or distinctive products and services that can command a premium price. Managers then determine whether the organization will compete on a broad scope (competing in many customer segments) or a narrow scope (competing in a selected customer segment or group of segments). These choices determine the selection of strategies, as illustrated in the figure.

Differentiation. In a differentiation strategy, organizations attempt to distinguish their products or services from others in the industry. An organization may use advertising, distinctive product features, exceptional service, or new technology to achieve a product perceived as unique. This strategy usually targets customers who are not particularly concerned with price, so it can be quite profitable.



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A differentiation strategy can reduce rivalry with competitors and fight off the threat of substitute products because customers are loyal to the company's brand. However, companies must remember that successful differentiation strategies require a number of costly activities, such as product research and design and extensive advertising. Companies that pursue a differentiation strategy need strong marketing abilities and creative employees who are given the time and resources to seek innovations.

One good illustration of a company that benefits from a differentiation strategy is Apple. Apple has never tried to compete on price and likes being perceived as an "elite" brand. Its personal computers, for example, can command significantly higher prices than other PCs because of their distinctiveness. The company has built a loyal customer base by providing innovative, stylish products and creating a prestigious image.

Consider the launch of the iPhone. Sure, you can buy a cell phone for next to nothing these days. But when Apple launched the iPhone at a price of more than $599, long lines of shoppers were eager to buy them. Everyone who was anyone had to have an iPhone.

That's a bit of an exaggeration, of course, but demand for the pricey phone was strong even before Apple cut the price to expand sales to a wider group of consumers. Referred to as "perhaps the most-hyped gadget in history," the iPhone quickly became a status symbol.

The less-expensive, faster iPhone 3G experienced even stronger demand when it was released in mid-2008. AT&T sold 2.4 million iPhones in the third quarter of that year. Although Apple is still a small player in the broader cell phone market, the innovative technology of the iPhone, combined with creative marketing and the cachet of Apple, convinced many consumers that they needed a phone that gives them easy access to the Internet, digital music and video, and mobile social networks. So-called "smartphones" have been used for years by business professionals, with Research in Motion's BlackBerry being the leader. But it took Apple to build a strong consumer market for them. Apple is now aiming directly at the BlackBerry, opening the door to third-party software applications that can make the iPhone more compatible with the needs of business users. The BlackBerry has a huge head start in this market, but as one IT professional said, "The iPhone is the coolest thing you'll touch".

Service firms can use a differentiation strategy as well. Umpqua Bank, based in Portland, Oregon, for instance, wants to become a "lifestyle brand," rather than just a financial institution. Many branches have free Wi-Fi access, spacious seating areas with big-screen televisions, and Umpqua branded coffee. The company recently released its first CD—not a "certificate of deposit," but the kind with music on it. The bank worked with music marketing firm Rumblefish to put together a collection of songs by new or undiscovered artists in the markets where Umpqua operates. Over the past dozen or so years, Umpqua's differentiation strategy has helped it grow from about $150 million in deposits to more than $7 billion.

Low-Cost Leadership. The low-cost leadership strategy tries to increase market share by keeping costs low compared to competitors. With a low-cost leadership strategy, the organization aggressively seeks efficient facilities, pursues cost reductions, and uses tight controls to produce products or services more efficiently than its competitors.

Low-cost doesn't necessarily mean low-price, but in many cases, low-cost leaders provide goods and services to customers at cheaper prices. For example, the CEO of Irish airline Ryanair said of the company's strategy: "It's the oldest, simplest formula: Pile 'em high and sell 'em cheap . . . We want to be the Wal-Mart of the airline business. Nobody will beat us on price. EVER." Ryanair can offer low fares because it keeps costs at rock bottom, lower than anyone else in Europe. The company's watchword is cheap tickets, not customer care or unique services.

The low-cost leadership strategy is concerned primarily with stability rather than taking risks or seeking new opportunities for innovation and growth. A lowcost position means a company can achieve higher profits than competitors because of its efficiency and lower operating costs. Low-cost leaders such as Ryanair or Wal-Mart can undercut competitors' prices and still earn a reasonable profit. In addition, if substitute products or potential new competitors enter the picture, the low-cost producer is in a better position to prevent loss of market share.

Self-Check Exercise

The best business strategy is to make products and services as distinctive as possible to gain an edge in the marketplace.

Answer: Disagree. Differentiation, making the company's products or services distinctive from others in the market, is one effective strategic approach. A low cost leadership approach can be equally or even more effective depending on the organization's strengths and the nature of competition in the industry.

Focus. With Porter's third strategy, the focus strategy, the organization concentrates on a specific regional market or buyer group. The company will try to achieve either a low-cost advantage or a differentiation advantage within a narrowly defined market. One good example of a focused low-cost strategy is Edward Jones, a St. Louis–based brokerage house. The firm has succeeded by building its business in rural and small-town America and providing investors with conservative, long term investments. An example of a focused differentiation strategy is Puma, the German athletic-wear manufacturer. In the mid-1990s, Puma was on the brink of bankruptcy. CEO Jochen Zeitz, then only 30 years old, revived the brand by targeting selected customer groups, especially armchair athletes, and creating stylish shoes and clothes that are setting design trends. Puma is "going out of its way to be different," says analyst Roland Könen.

Porter found that companies that did not consciously adopt a low-cost, differentiation, or focus strategy achieved below-average profits compared to those that used one of the three strategies. Many Internet companies have failed because managers did not develop competitive strategies that would distinguish them in the marketplace.

On the other hand, Google became highly successful with a coherent differentiation strategy that distinguished it from other search engines. The ability of managers to devise and maintain a clear competitive strategy is considered one of the defining factors in an organization's success. However, in today's tumultuous environment, some scholars and consultants emphasize that managers also need to maintain flexibility in their strategic thinking.

Miles and Snow's Strategy Typology

Another strategy typology was developed from the study of business strategies by Raymond Miles and Charles Snow. The Miles and Snow typology is based on the idea that managers seek to formulate strategies that will be congruent with the external environment. Organizations strive for a fit among internal organization characteristics, strategy, and the external environment. The four strategies that can be developed are the prospector, the defender, the analyzer, and the reactor.

Prospector. The prospector strategy is to innovate, take risks, seek out new opportunities, and grow. This strategy is suited to a dynamic, growing environment, where creativity is more important than efficiency. Nike, which innovates in both products and internal processes, exemplifies the prospector strategy. Nike's new Air Jordan XX3, for example, is the first in a program of shoes based on designs that can be produced using recycled materials and limited amounts of toxic chemical based glues. CEO Mark Parker says Nike's growth strategy is based on both outward expansion and inward redesign of operations. Online companies such as Facebook, Google, and MySpace also reflect a prospector strategy.

Defender. The defender strategy is almost the opposite of the prospector. Rather than taking risks and seeking out new opportunities, the defender strategy is concerned with stability or even retrenchment. This strategy seeks to hold on to current customers, but it neither innovates nor seeks to grow. The defender is concerned primarily with internal efficiency and control to produce reliable, high-quality products for steady customers. This strategy can be successful when the organization exists in a declining industry or a stable environment. Paramount Pictures has been using a defender strategy for several years. Paramount turns out a steady stream of reliable hits but few blockbusters. Managers shun risk and sometimes turn down potentially high-profile films to keep a lid on costs. This has enabled the company to remain highly profitable while other studios have low returns or actually lose money.

Analyzer. The analyzer tries to maintain a stable business while innovating on the periphery. It seems to lie midway between the prospector and the defender. Some products will be targeted toward stable environments in which an efficiency strategy designed to keep current customers is used. Others will be targeted toward new, more dynamic environments, where growth is possible. The analyzer attempts to balance efficient production for current product or service lines with the creative development of new product lines. Amazon.com provides an example. The company's current strategy is to defend its core business of selling books and other physical goods over the Internet, but also to build a business in digital media, including initiatives such as a digital book service, an online DVD rental business, and a digital music store to compete with Apple's iTunes.

Reactor. The reactor strategy is not really a strategy at all. Rather, reactors respond

to environmental threats and opportunities in an ad hoc fashion. In a reactor strategy, top management has not defined a long-range plan or given the organization an explicit mission or goal, so the organization takes whatever actions seem to meet immediate needs. Although the reactor strategy can sometimes be successful, it can also lead to failed companies. Some large, once highly successful companies are struggling because managers failed to adopt a strategy consistent with consumer trends. In recent years, managers at Dell, long one of the most successful and profitable makers of personal computers in the world, have been floundering to find the appropriate strategy. Dell had a string of disappointing quarterly profits as the company reached the limits of its "make PCs cheap and build them to order" strategy.

Competitors caught up, and Dell had failed to identify new strategic directions that could provide a new edge. The Miles and Snow typology has been widely used, and researchers have tested its validity in a variety of organizations, including hospitals, colleges, banking institutions, industrial products companies, and life insurance firms. In general, researchers have found strong support for the effectiveness of this typology for organization managers in real-world situations.

How Strategies Affect Organization Design

Choice of strategy affects internal organization characteristics. Organization design characteristics need to support the firm's competitive approach. For example, a company wanting to grow and invent new products looks and "feels" different from a company that is focused on maintaining market share for long-established products in a stable industry. Figure below summarizes organization design characteristics associated with the Porter and Miles and Snow strategies.

With a low-cost leadership strategy, managers take an efficiency approach to organization design, whereas a differentiation strategy calls for a learning approach. Organizations designed for efficiency have different characteristics from those designed for learning. A low-cost leadership strategy (efficiency) is associated with strong, centralized authority and tight control, standard operating procedures, and emphasis on efficient procurement and distribution systems. Employees generally perform routine tasks under close supervision and control and are not empowered to make decisions or take action on their own. A differentiation strategy, on the other hand, requires that employees be constantly experimenting and learning. Structure is fluid and flexible, with strong horizontal coordination. Empowered employees work directly with customers and are rewarded for creativity and risk taking. The organization values research, creativity, and innovativeness over efficiency and standard procedures.

The prospector strategy requires characteristics similar to a differentiation strategy, and the defender strategy takes an efficiency approach similar to low-cost leadership. Because the analyzer strategy attempts to balance efficiency for stable product lines with flexibility and learning for new products, it is associated with a mix of characteristics. With a reactor strategy, managers have left the organization with no direction and no clear approach to design.

Strategy is one important factor that affects organization design. Ultimately, however, organization design is a result of numerous contingencies. . The emphasis given to efficiency and control versus learning and flexibility is determined by the contingencies of strategy, environment, size and life cycle, technology, and organizational culture. The organization is designed to "fit" the contingency factors. For example, in a stable environment, the organization can have a traditional structure that emphasizes vertical control, efficiency, specialization, standard procedures, and centralized decision making. However, a rapidly changing environment may call for a more flexible structure, with strong horizontal coordination and collaboration through teams or other mechanisms. In terms of size and life cycle, young, small organizations are generally informal and have little division of labor, few rules and regulations, and ad hoc budgeting and performance systems. Large organizations such as Coca-Cola, Sony, or General Electric, on the other hand, have an extensive division of labor, numerous rules and regulations, and standard procedures and systems for budgeting, control, rewards, and innovation.

Porter's Competitive Strategies	Miles and Snow's Strategy Typology
Strategy: Differentiation **Organization Design:** • Learning orientation; acts in a flexible, loosely knit way, with strong horizontal coordination • Strong capability in research • Values and builds in mechanisms for customer intimacy • Rewards employee creativity, risk taking, and innovation	**Strategy:** Prospector **Organization Design:** • Learning orientation; flexible, fluid, decentralized structure • Strong capability in research
Strategy: Low-Cost Leadership **Organization Design:.** • Efficiency orientation; strong central authority; tight cost control, with frequent, detailed control reports • Standard operating procedures • Highly efficient procurement and distribution systems • Close supervision; routine tasks; limited employee empowerment	**Strategy:** Defender **Organization Des.ign:** • Efficiency orientation; centralized authority and tight cost control • Emphasis on production efficiency; low overhead • Close supervision; little employee empowerment
	Strategy: Analyzer **Organization Design:** • Balances efficiency and learning; tight cost control with flexibility and adaptability • Efficient production for stable product lines; emphasis on creativity, research, risk-taking for innovation
	Strategy: Reactor **Organization Design:** • No clear organizational approach; design characteristics may shift abruptly, depending on current needs

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

Coleman, Jr., "Organizational Strategy, Structure, and Process," Academy of Management Review 3 (1978), 546–562.

2.4 ASSESSING ORGANIZATIONAL EFFECTIVENESS

Understanding organizational goals and strategies, as well as the concept of fitting design to various contingencies, is a first step toward understanding organizational effectiveness. Organizational goals represent the reason for an organization's existence and the outcomes it seeks to achieve.

Organizational effectiveness is the degree to which an organization realizes its goals. Effectiveness is a broad concept. It implicitly takes into consideration a range of variables at both the organizational and departmental levels. Effectiveness evaluates the extent to which multiple goals—whether official or operative—are attained.

Efficiency is a more limited concept that pertains to the internal workings of the organization. Organizational efficiency is the amount of resources used to produce a unit of output. It can be measured as the ratio of inputs to outputs. If one organization can achieve a given production level with fewer resources than another organization, it would be described as more efficient. Sometimes efficiency leads to effectiveness, but in other organizations, efficiency and effectiveness are not related. An organization may be highly efficient but fail to achieve its goals because it makes a product for which there is no demand. Likewise, an organization may achieve its profit goals but be inefficient. Efforts to increase efficiency, particularly through severe cost cutting, can also sometimes make the organization less effective. One regional fast food chain wanting to cut costs decided to reduce food waste by not cooking any food until it was ordered. The move reduced the chain's costs, but it also led to delayed service, irritated customers, and lower sales. Overall effectiveness is difficult to measure in organizations. Organizations are large, diverse, and fragmented. They perform many activities simultaneously, pursue multiple goals, and generate many outcomes, some intended and some unintended.

Managers determine what indicators to measure in order to gauge the effectiveness of their organizations. Studies and surveys have found that many managers have a difficult time with the concept of evaluating effectiveness based on characteristics that are not subject to hard, quantitative measurement. However, top executives at some of today's leading companies are finding new ways to measure effectiveness, including the use of such "soft" indications as customer loyalty and employee engagement.

2.5 TRADITIONAL EFFECTIVENESS APPROACHES, CONTINGENCY EFFECTIVENESS APPROACH, RESOURCE BASED APPROACH, AND INTERNAL PROCESS APPROACH

Traditional Effectiveness Approaches

Organizations bring resources in from the environment, and those resources are transformed into outputs delivered back into the environment, as shown in the figure. Traditional approaches to measuring effectiveness look at different parts of the organization and measure indicators connected with outputs, inputs, or internal activities.

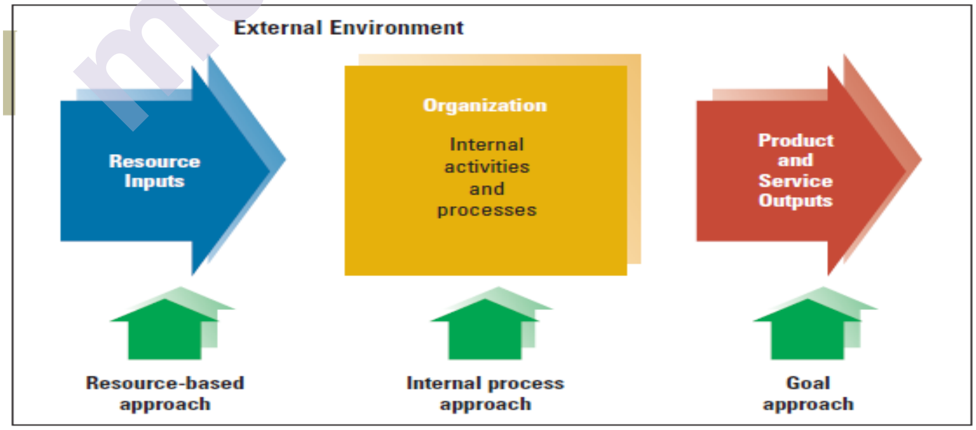
Goal Indicators

The goal approach to effectiveness consists of identifying an organization's output goals and assessing how well the organization has attained those goals. This is a logical approach because organizations do try to attain certain levels of output, profit, or client satisfaction. The goal approach measures progress toward attainment of those goals. For example, an important measure for the Women's National Basketball Association is number of tickets sold per game. During the league's first season, President Val Ackerman set a goal of 4,000 to 5,000 tickets per game. The organization actually averaged nearly 9,700 tickets per game, indicating that the WNBA was highly effective in meeting its goal for attendance. The important goals to consider are operative goals, because official goals (mission) tend to be abstract and difficult to measure. Indicators tracked with the goal approach include:

- **Profitability:** the positive gain from business operations or investments after expenses are subtracted
- **Market share:** the proportion of the market the firm is able to capture relative to competitors
- **Growth:** the ability of the organization to increase its sales, profits, or client base over time
- **Social responsibility:** how well the organization serves the interests of society as well as itself
- **Product quality:** the ability of the organization to achieve high quality in its products or services

Resource-based Indicators

The resource-based approach looks at the input side of the transformation process shown in the figure. It assumes organizations must be successful in obtaining and managing valued resources in order to be effective. From a resource-based perspective, organizational effectiveness is defined as the ability of the organization, in either absolute or relative terms, to obtain scarce and valued resources and successfully integrate and manage them. The resource-based approach is valuable when other indicators of performance are difficult to obtain. In many nonprofit and social welfare organizations, for example, it is hard to measure output goals or internal efficiency.



In a broad sense, resource indicators of effectiveness encompass the following dimensions:

- **Bargaining position:** the ability of the organization to obtain from its environment scarce and valued resources, including financial resources, raw materials, human resources, knowledge, and technology

- The abilities of the organization's decision makers to perceive and correctly interpret the real properties of the external environment
- The abilities of managers to use tangible (e.g., supplies, people) and intangible (e.g., knowledge, corporate culture) resources in day-to-day organizational activities to achieve superior performance
- The ability of the organization to respond to changes in the environment

Internal Process Indicators

In the internal process approach, effectiveness is measured as internal organizational health and efficiency. An effective organization has a smooth, well-oiled internal process. Employees are happy and satisfied. Department activities mesh with one another to ensure high productivity. This approach does not consider the external environment. The important element in effectiveness is what the organization does with the resources it has, as reflected in internal health and efficiency. The best-known proponents of an internal process model are from the human relations approach to organizations. Such writers as Chris Argyris, Warren G. Bennis, Rensis Likert, and Richard Beckhard have all worked extensively with human resources in organizations and emphasize the connection between human resources and effectiveness. Results from a study of nearly 200 secondary schools showed that both human resources and employee-oriented processes were important in explaining and promoting effectiveness in those organizations.

Internal process indicators include:

- A strong, adaptive corporate culture and positive work climate
- Operational efficiency, such as using minimal resources to achieve outcomes
- Undistorted horizontal and vertical communication
- Growth and development of employees.

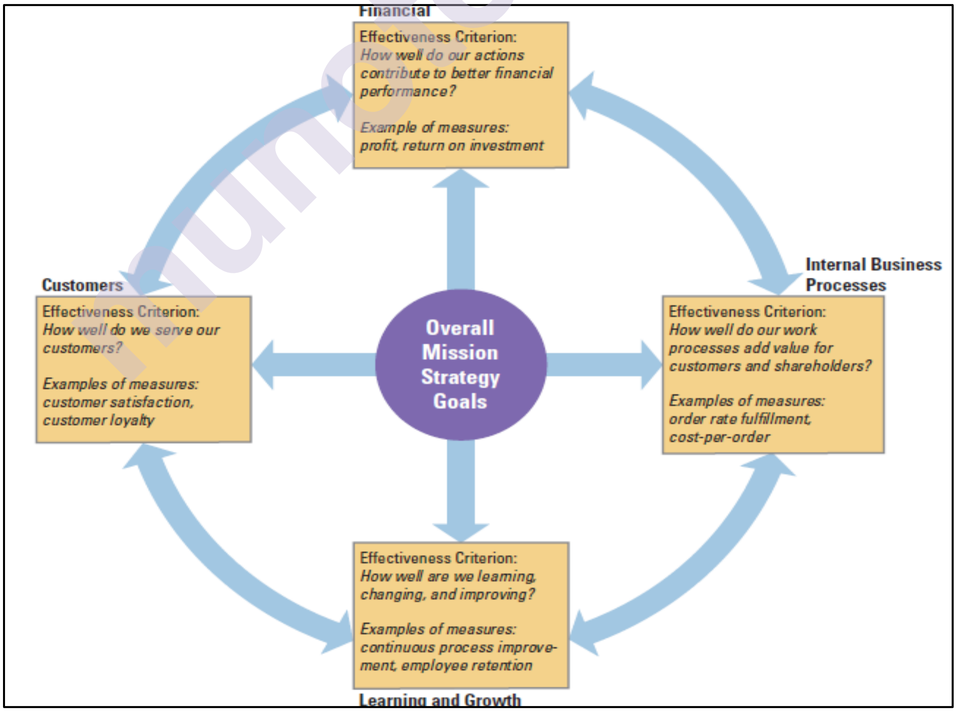
The Balanced Scorecard Approach to Effectiveness

Business organizations have typically focused on financial measures such as profit and return on investment to assess performance. Nonprofit organizations also have

to assess budgets, spending, and fund-raising income, and each of these measures is concerned with finances. Traditional approaches based on goal, resource-based, or internal process indicators all have something to offer, but each one, just like sole reliance on financial numbers, tells only part of the story. In recent years, a new approach that balances a concern for various parts of the organization rather than focusing on one aspect has become popular. The balanced scorecard combines several indicators of effectiveness into a single framework, balancing traditional financial measures with operational measures relating to a company's critical success factors.

Figure below illustrates the four effectiveness categories considered by the balanced scorecard. Within each area of effectiveness—financial performance, customer service, internal business processes, and the organization's capacity for learning and growth—managers identify key performance indicators the organization will track. The *financial perspective* reflects a concern that the organization's activities contribute to improving short- and long-term financial performance. It includes traditional measures such as net income and return on investment.

Customer service indicators measure such things as how customers view the organization, as well as customer retention and satisfaction. *Business process indicators* focus on production and operating statistics, such as speed of order fulfillment and cost per order. The final component looks at the organization's *potential for learning and growth,* focusing on how well resources and human capital are being managed for the company's future. Measurements include such things as employee satisfaction and retention, amount of training people receive, business process improvements, and the introduction of new products. The components of the scorecard are designed in an integrative manner so that they reinforce one another and link short-term actions with long-term strategic goals, as illustrated in the next figure.



Source: Based on Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January–February 1996), 75–85; Chee W. Chow, Kamal M. Haddad, and James E. Williamson, "Applying the Balanced Scorecard to Small Companies," Management Accounting 79, no. 2 (August 1997), 21–27; and Cathy Lazere, "All Together Now," CFO (February 1998), 28–36.

Self-Check Exercise

The best measures of business performance are financial.

Answer: *Disagree.* If you can have only one type of measure of business performance, it might have to be financial. But diverse views of performance, such as using the balanced scorecard, have proven to be more effective than financials alone, because managers can understand and control the actions that cause business effectiveness. Financial numbers alone provide narrow and limited information.

The balanced scorecard helps managers assess the organization from many perspectives so they have a better understanding of total effectiveness. Successful managers keep the organization focused on data in all four components rather than relying on just one, such as finances, which tells only part of the story. Companies such as Best Buy, Wells Fargo, and Hilton Corporation, for instance, are striving to understand how they perform on all four components of effectiveness and looking at the relationships among the components. For example, how does internal efficiency relate to customer satisfaction or financial outcomes? How do measures of employee engagement, customer satisfaction, sales performance, and profitability interconnect and contribute to overall effectiveness? Hilton found that a boost in customer retention rates led to an increase in revenues. Best Buy has connected employee engagement to better store performance. Thus, the balanced scorecard has evolved into a system that helps managers see how organizational effectiveness results from accomplishing outcomes in four consistent and mutually supportive areas. Overall effectiveness is a result of how well these interdependent elements are aligned, so that individuals, teams, departments, and so forth are working in concert to attain specific goals that ultimately help the organization achieve high performance and fulfill its mission.

Design Essentials

Organizations exist for a purpose. Top managers decide the organization’s strategic intent, including a specific mission to be accomplished. The mission statement, or official goals, makes explicit the purpose and direction of an organization.

Operative goals designate specific ends sought through actual operating procedures. Official and operative goals are a key element in organizations because they meet these needs—establishing legitimacy with external groups, providing employees with a sense of direction and motivation, and setting standards of performance.

Two other aspects related to strategic intent are competitive advantage and core competence. Competitive advantage refers to what sets the organization apart from others and provides it with a distinctive edge. A core competence is something the organization does extremely well compared to competitors. Managers look for competitive openings and develop strategies based on their core competencies.

Strategies may include any number of techniques to achieve the stated goals. Two models for formulating strategies are Porter's competitive forces and strategies and the Miles and Snow strategy typology. Organization design needs to fit the firm's competitive approach to contribute to organizational effectiveness.

Assessing organizational effectiveness reflects the complexity of organizations as a topic of study. No easy, simple, guaranteed measure will provide an unequivocal assessment of performance. Organizations must perform diverse activities well - from obtaining resource inputs to delivering outputs—to be successful. Traditional approaches use output goals, resource acquisition, or internal health and efficiency as the indicators of effectiveness.

No approach is suitable for every organization, but each offers some advantages that the others may lack. In addition, a more recent approach to measuring effectiveness is the balanced scorecard approach, which takes into consideration financial performance, customer service, internal business processes, and the organization's capacity for learning and growth. Managers track and analyze key metrics in these four areas to see how they are interconnected and contribute to overall effectiveness.

Contingency Effectiveness Approach

The contingency effectiveness approach to management is based on the idea that there is no one best way to manage and that to be effective, planning, organizing, leading, and controlling must be tailored to the particular circumstances faced by an organization. Managers have always asked questions such as "What is the right thing to do? Should we have a mechanistic or an organic structure? A functional or divisional structure? Wide or narrow spans of management? Tall or flat organizational structures? Simple or complex control and coordination mechanisms? Should we be centralized or decentralized? Should we use task or people oriented leadership styles? What motivational approaches and incentive programs should we use?" The contingency effectiveness approach to management (also called the situational approach) assumes that there is no universal answer to such questions because organizations, people, and situations vary and change over time. Thus, the right thing to do depends on a complex variety of critical environmental and internal contingencies.

The contingency effectiveness approach, often called the Situational Approach is based upon the premise that all management is essentially situational in nature. All decisions by managers will be affected (if not controlled) by the contingencies of a given situation.

There is no one good way to address any decision. Contingencies arise from various environmental factors. As such, managers must take into account these contingencies when making decisions that affect the organization.

Contingency theory builds upon accepted elements of System Theory. It recognized that an organization is an open system made up of interrelated sub-units. It adds, however, that the behavior of individual sub-units is contingent upon internal and external environmental contingencies.

These might include the relationship between two other sub-units or external systems. This is particularly true when these internal or external units/systems have an effect on the desired outcome of a sub-unit.

Contingency theory also proposes structural changes or designs, leadership styles, and control systems in an organization that allow it to react to environmental contingencies.

What are the primary characteristics of the Contingency Approach?

The primary characteristics of contingency theory include:

- Non-universality of management theory - There is no one best way of doing things.
- Contingency - Management decision making is contingent upon the situation.
- Environment - Managerial policies and practices to be effective, must adjust to changes in the environment.
- Diagnostics - Managers must possess and continue to improve diagnostic skills so as to anticipate and ready for environmental changes.
- Human Relations - Managers should have sufficient human relations skills to accommodate and stabilize change.
- Information and Communication - Managers must develop a communication system adequate to deal with environmental changes.

How do Contingencies Affecting Organizational Structure?

Theorists Burns and Stalker, in their text "Management of innovation", identified two types of organizational structure (mechanistic) and (organic) and two categories of the environment (stable and dynamic).

Mechanistic structures are more common in stable environments. Organic structures are more common and suitable in dynamic environments.

The commonly-identified contingencies influencing organizational structure include:

- Organization Size
- Nature of Business and Technology (the need for customization)
- Environmental Uncertainty
- Individual Differences or Organizational Preferences.

The contingency approach defines not only patterns of internal interaction but also suggests organization designs and management approaches most appropriate for specific situations.

Advantages and Disadvantages of Contingency Theory

The primary advantages of contingency theory include:

- It provides a realistic view of management and organization.
- It discards the universal validity of principles.
- Managers are situation-oriented and not stereotyped.
- Lends itself to an innovative and creative management style.

The negatives of contingency theory include:

- It does not have a theoretical base.
- Executive is expected to know all the alternative courses of action before taking action in a situation that is not always feasible.
- It does not prescribe a course of action.
- A situation can be influenced by many factors. It is difficult to analyze all these factors.

Who are the Primary Contributors to Contingency Theory?

Some of the primary contributors to contingency theory include:

Burns and Stalker - In their work "Management of innovation" (1968), they identified two types of organizational structures (Mechanistic and Organic) and two categories of the environment (Stable and Dynamic).

John Woodward - She analyzed the influence of technology on the organization structure and observed that the type of technology used for production, such as unit, small batches, large batches, mass production, and continuous process of production. She also examined how production shifts directly affected the span of control, use of committees, participative decision making, and other structural characteristics.

J.W. Lorsch and P.R. Lawrence - In studies beginning in 1969, they proposed that organizations functioning in a complex environment adopted a much higher degree of differentiation and integration than those operating in a simple environment. They identified as key issues: environmental uncertainty and information flow. They advocated to Focus on exploring and improving the organization's relationship with the environment, which characterized by along a certainty-uncertainty continuum.

Resource Based Approach and Internal Process Approach

Resource Based Approach to Organizational Effectiveness was developed in response to the goal approach. The approach sees an organisation as an open system. The organisation obtains inputs, participates in transformation processes, and generates outputs. This approach emphasizes inputs over output. It sees most organizations as entities which function in order to survive, at the same time rivaling for scarce and valued resources. It assumes that the organisation consists of interrelated subsystems. If any sub-system functions inefficiently, it is going to influence the performance of the whole system.

The disadvantages of this approach relate to its measurement of means. An issue with this approach is that a higher amount of obtained resources is not going to promise effective usage. In addition, it is tough to define an ideal degree of resource acquisition across distinct organizations.

Internal-Process Approach has been developed in response to a fixed output view of the goal approach. It looks at the internal activities. Organizational effectiveness is assessed as internal organizational health and effectiveness. According to Internal-Process Approach effectiveness is the capability to get better at internal efficiency, co-ordination, commitment and staff satisfaction. This approach assesses effort as opposed to the attained effect.

Some experts have criticized the internal-process approach, like the system-resource approach, cannot lead to legitimate indicators of organizational effectiveness itself. Rather, it is accepted as an approach for studying its assumed predictors. Similar to the system-resource approach, the internal-process approach could possibly be applied only where comparable organizational outcomes can hardly be assessed accurately.

2.6 AN INTEGRATED EFFECTIVENESS MODEL

How healthy is an Organization's Leadership System?

When the organization's leadership system functions effectively, performance improves. The leadership system is the central organizing system that must deliver on all functions owned by the top team. These functions include and require that leadership: become cohesive, define the future vision, set direction, create and execute strategy, ensure alignment, communicate clarity, engage stakeholders, develop talent, manage performance, build accountability, ensure succession, allocate resources, craft the culture, and deliver results.

The leadership system is the organization's DNA—its genetic code or distinctive brand. It sets the context that produces all outcomes, gives everything its meaning, and indicates what we are predisposed to doing and being. The effectiveness of the leadership system determines the performance of the business. Does your leadership system predispose you for quality, agility, speed, stakeholder engagement, profitable growth, fulfillment, competitive advantage, and strong financial performance? How can we improve business performance by establishing a healthy Leadership System?

We use our proven Whole Systems Approach to advance the Six Systems of organizational effectiveness. This approach to developing the organization, with leadership at the core, balances the development of competence and capability with consciousness and character, and transforms any enterprise into a profitable and purposeful organization. Every essential system is integrated and aligned, and every stakeholder is involved.

The Six Systems are broader in scope than functional departments and must be understood independently and interdependently as part of an integrated whole. These Six Systems set up the conditions and components necessary to create a healthy, high-performing organization.

The Six Systems of Organizational Effectiveness:

1. **Leadership**. To achieve high performance or sustain results, leaders must define and refine key processes and execute them with daily discipline. They must translate vision and values into strategy and objectives, processes and practices, actions and accountabilities, execution and performance. Leaders address three questions: 1) Vision/Value. What unique value do we bring to our customers to gain competitive advantage? What do we do, for whom? Why? 2) Strategy/Approach. In what distinctive manner do we fulfill the unique needs of our customers and stakeholders? What strategy supports the vision for achieving competitive advantage? 3) Structure/Alignment. What is the designed alignment of structure and strategy, technology and people, practices and processes, leadership and culture, measurement and control? Are these elements designed and aligned to create optimal conditions for achieving the vision?

2. **Communication**. Everything happens in or because of a conversation, and every exchange is a potential moment of truth—a point of failure or critical link in the success chain. Strategic communication ensures that the impact of your message is consistent with your intentions, and results in understanding. What you say, the way you say it, where, when, and under what circumstances it is said shape the performance culture. When leaders maximize their contribution to daily conversations, they engage and align people around a common cause, reduce uncertainty, keep people focused, equip people for moments of truth that create an on-the-table culture, prevent excuses, learn from experience, treat mistakes as intellectual capital, and leverage the power of leadership decisions to shape beliefs and behaviors.

3. **Accountability**. Leaders translate vision and strategic direction into goals and objectives, actions and accountabilities. Performance accountability systems clarify what is expected of people and align consequences or rewards with actual performance. Leaders need to build discipline into their leadership process and management cycle to achieve accountability, predictability, learning, renewal, and sustainability.

4. **Delivery**. The best organizations develop simple processes that are internally efficient, locally responsive, and globally adaptable. Complexity is removed from the customer experience to enable them to engage you in ways that are both elegant and satisfying. Establishing and optimizing operational performance is an ongoing journey. Operations need to be focused on the priority work, using the most effective techniques—aligning initiatives and operations with

strategy; continuously improving operations; pursuing performance breakthroughs in key areas; using advanced change techniques in support of major initiatives; establishing a pattern of executive sponsorship for all initiatives; and building future capability and capacity.

5. **Performance**. The Human Performance System is designed to attract, develop, and retain the most talented people. The idea is to hire the best people and help them develop their skills, talents, and knowledge over time. Of course, it becomes more critical, as they add abilities and know-how, that we reward them properly so they feel good about their work and choose to remain with the organization as loyal employees.

6. **Measurement**. A system of metrics, reviews, and course corrections keeps the business on track. Organizations need concrete measures that facilitate quality control, consistent behaviors, and predictable productivity and results. Within these parameters, control is instrumental to viability and profitability. Every activity has a set of daily rituals and measures. Leaders establish and maintain the measurement system to ensure disciplined processes. They track progress against strategy and planning; review status on operational results through clear key metrics; update the strategy regularly; and ensure action is driven by insight based on relevant, current information that is focused on achieving the vision.

2.7 SUMMARY

In this unit we have discussed, the role of strategic direction in organization design and organizational purpose with detailed description of strategic intent, operative goals, and importance of goals. A framework for selecting strategy and design with reference to Porter's Competitive Forces and Strategies, Miles and Snow's Strategy

Typology. How strategies affect organization design and other factors affecting organization design are highlighted. Different approached to assess organizational effectiveness like Traditional Effectiveness Approaches, Contingency Effectiveness Approach, Resource Based Approach, and Internal Process Approach are explained. An integrated effectiveness model for an organization is introduced by discussing the six systems frame model.

2.8 EXERCISES

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

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

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

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

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

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

7. Fill in the blanks in the following sentences:

   a) An ____________ ________ is a desired state of affairs that the organization attempts to reach.

   b) The _________ process typically begins with an assessment of the opportunities and threats in the external environment.

   c) The choices top managers make about goals, strategies, and organization design have a tremendous impact on organizational _________.

   d) To achieve success, organizational goals and strategies are focused with strategic ________.

   e) The overall goal for an organization is often called the _______.

f) ________ advantage refers to what sets the organization apart from others.

g) ________ reflects the overall performance of for-profit organizations.

h) ________ goals pertain to internal flexibility and readiness to adapt to unexpected changes in the environment.

i) A strategy is a plan for interacting with the competitive ________ to achieve organizational goals.

j) Powerful ________, the flip side of powerful suppliers, can force down prices.

k) A _________ strategy can reduce rivalry with competitors and fight off the threat of substitute products.

l) The low-cost leadership strategy is concerned primarily with stability rather than taking _____.

m) Porter found that companies that did not consciously adopt a low-cost, differentiation, or focus strategy achieved below-average ______.

n) The _____________ typology is based on the idea that managers seek to formulate strategies that will be congruent with the external environment.

o) Organizational effectiveness is the _______ to which an organization realizes its goals.

2.9 SUGGESTED READING

Text books

Robins Khandwalla, P. N. Organizational design for excellence, New Delhi, Tata McGraw Hill, 1992

Reference books

Daft, R. L. Organization Theory and Design, Current Edition. Thomson Southwestern

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3

FUNDAMENTAL OF ORGANIZATION STRUCTURE

Unit Structure :

3.0 OBJECTIVES

After going through this unit you will be able to understand basic concepts of organization structure and how to design structure as it appears on the organization chart.

First we define structure and provide an overview of structural design. Then, an information-sharing perspective explains how to design vertical and horizontal linkages to provide needed information flow. The unit next presents basic design options, followed by strategies for grouping organizational activities into functional, divisional, matrix, horizontal, virtual network, or hybrid structures. The final section examines how the application of basic structures depends on the organization's situation and outlines the symptoms of structural misalignment.

3.1 ORGANIZATION STRUCTURE

Organizational structure (OS) is the systematic arrangement of human resources in an organization so as to achieve common business objectives. It outlines the roles and responsibilities of every member of the organization so that work and information flow seamlessly, ensuring the smooth functioning of an organization.

There are three key components in the definition of organization structure:

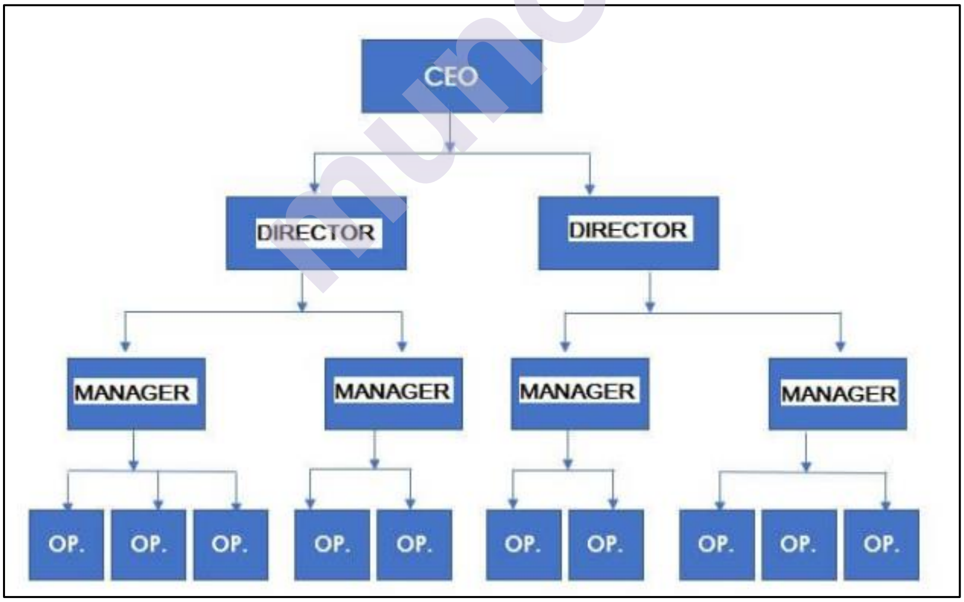
1. Organization structure designates formal reporting relationships, including the number of levels in the hierarchy and the span of control of managers and supervisors.

2. Organization structure identifies the grouping together of individuals into departments and of departments into the total organization.

3. Organization structure includes the design of systems to ensure effective communication, coordination, and integration of efforts across departments.

Organization structure is reflected in the organization chart. It isn't possible to see the internal structure of an organization the way we might see its manufacturing tools, offices, or products. Although we might see employees going about their duties, performing different tasks, and working in different locations, the only way to actually see the structure underlying all this activity is through the organization chart. The organization chart is the visual representation of a whole set of underlying activities and processes in an organization.

An OS displays how different resources of an organization come together and align with its goals. It clearly defines the functions of employees that enable them to work harmoniously and efficiently. This reduces wastage of resources and increases productivity. The OS of a company establishes its workflow. Without a proper OS, there would be chaos in a business. Thus, a company must create a centralized or decentralized OS depending on its workflow needs.



3.2 INFORMATION PROCESSING PERSPECTIVE IN ORGANIZATION STRUCTURE

The organization should be designed to provide both vertical and horizontal information flow as necessary to accomplish the organization's overall goals. If the structure doesn't fit the information requirements of the organization, people either will have too little information or will spend time processing information that is not vital to their tasks, thus reducing effectiveness. However, there is an inherent tension between vertical and horizontal mechanisms in an organization. Whereas vertical linkages are designed primarily for control, horizontal linkages are designed for coordination and collaboration, which usually means reducing control.

Organizations can choose whether to orient toward a traditional organization designed for efficiency, which emphasizes vertical communication and control, or toward a contemporary learning organization, which emphasizes horizontal communication and coordination.

An emphasis on efficiency and control is associated with specialized tasks, a hierarchy of authority, rules and regulations, formal reporting systems, few teams or task forces, and centralized decision making, which means problems and decisions are funneled to top levels of the hierarchy for resolution. Emphasis on learning and adaptation is associated with shared tasks, a relaxed hierarchy, few rules, face-to-face communication, many teams and task forces, and informal, decentralized decision making. Decentralized decision making means decision-making authority is pushed down to lower organizational levels.

Organizations may have to experiment to find the correct degree of centralization or decentralization to meet their needs.

Vertical Information Sharing

Organization design should facilitate the communication among employees and departments that is necessary to accomplish the organization's overall task. Managers create information linkages to facilitate communication and coordination among organizational elements. Vertical linkages are used to coordinate activities between the top and bottom of an organization and are designed primarily for control of the organization. Employees at lower levels should carry out activities consistent with top-level goals, and top executives must be informed of activities and accomplishments at the lower levels. Organizations may use any of a variety of structural devices to achieve vertical linkage, including hierarchical referral, rules, plans, and formal management information systems.

A vertical information system is another strategy for increasing vertical information capacity. Vertical information systems include the periodic reports, written information, and computer-based communications distributed to managers. Information systems make communication up and down the hierarchy more efficient.

In today's world of corporate financial scandals and ethical concerns, many top managers are considering strengthening their organization's linkages for vertical information and control. The other major issue in organizing is to provide adequate horizontal linkages for coordination and collaboration.

Horizontal Information Sharing

Horizontal communication overcomes barriers between departments and provides opportunities for coordination among employees to achieve unity of effort and organizational objectives. Horizontal linkage refers to communication and coordination horizontally across organizational departments. Horizontal linkage mechanisms often are not drawn on the organization chart, but nevertheless are a vital part of organization structure.

A significant method of providing horizontal linkage in today's organizations is the use of cross-functional information systems. Computerized information systems enable managers or frontline workers throughout the organization to routinely exchange information about problems, opportunities, activities, or decisions. Some organizations also encourage employees to use the company's information systems to build relationships all across the organization, aiming to support and enhance ongoing horizontal coordination across projects and geographical boundaries.

A higher level of horizontal linkage is direct contact between managers or employees affected by a problem. One way to promote direct contact is to create a special liaison role. A liaison person is located in one department but has the responsibility for communicating and achieving coordination with another department.

Liaison roles often exist between engineering and manufacturing departments because engineering has to develop and test products to fit the limitations of manufacturing facilities. Liaison roles usually link only two departments. When linkage involves several departments, a more complex device such as a task force is required.

A task force is a temporary committee composed of representatives from each organizational unit affected by a problem. Each member represents the interest of a department or division and can carry information from the meeting back to that department. Task forces are an effective horizontal linkage device for temporary issues. They solve problems by direct horizontal coordination and reduce the information load on the vertical hierarchy. Typically, they are disbanded after their tasks are accomplished. Organizations have used task forces for everything from organizing the annual company picnic to solving expensive and complex manufacturing problems.

A stronger horizontal linkage device is to create a full-time position or department solely for the purpose of coordination. A full-time integrator frequently has a title, such as product manager, project manager, program manager, or brand manager. Unlike the liaison person described earlier, the integrator does not report to one of the functional departments being coordinated. He or she is located outside the departments and has the responsibility for coordinating several departments. The integrator can also be responsible for an innovation or change project, such as coordinating the design, financing, and marketing of a new product. An organization chart that illustrates the location of project managers for new product development.

Integrators need excellent people skills. Integrators in most companies have a lot of responsibility but little authority. The integrator has to use expertise and persuasion to achieve coordination. He or she spans the boundary between departments and must be able to get people together, maintain their trust, confront problems, and resolve conflicts and disputes in the interest of the organization.

Project teams tend to be the strongest horizontal linkage mechanism. Teams are permanent task forces and are often used in conjunction with a full-time integrator.

When activities among departments require strong coordination over a long period of time, a cross-functional team is often the solution. Special project teams may be used when organizations have a large-scale project, a major innovation, or a new product line.

3.3 ORGANIZATION DESIGN ALTERNATIVES

The overall design of organization structure indicates three things—required work activities, reporting relationships, and departmental groupings.

Required Work Activities

Departments are created to perform tasks considered strategically important to the company. For example, in a typical manufacturing company, work activities fall into a range of functions that help the organization accomplish its goals, such as a human resource department to recruit and train employees, a purchasing department to obtain supplies and raw materials, a production department to build products, a sales department to sell products, and so forth. As organizations grow larger and more complex, managers find that more functions need to be performed. Organizations typically define new positions, departments, or divisions as a way to accomplish new tasks deemed valuable by the organization.

Reporting Relationships

Once required work activities and departments are defined, the next question is how these activities and departments should fit together in the organizational hierarchy. Reporting relationships, often called the chain of command, are represented by vertical lines on an organization chart. The chain of command should be an unbroken line of authority that links all persons in an organization and shows who reports to whom.

Departmental Grouping Options

Options for departmental grouping, including functional grouping, divisional grouping, multi-focused grouping, horizontal grouping, and virtual network grouping. Departmental grouping affects employees because they share a common supervisor and common resources, are jointly responsible for performance, and tend to identify and collaborate with one another.

Functional grouping places together employees who perform similar functions or work processes or who bring similar knowledge and skills to bear. For example, all marketing people work together under the same supervisor, as do all manufacturing employees, all human resources people, and all engineers. For an Internet company, all the people associated with maintaining the website might be grouped together in one department. In a scientific research firm, all chemists may be grouped in a department different from biologists because they represent different disciplines.

Divisional grouping means people are organized according to what the organization produces. All people required to produce toothpaste—including personnel in marketing, manufacturing, and sales—are grouped together under one executive.

Multifocused grouping means an organization embraces two or more structural grouping alternatives simultaneously. These structural forms are often called matrix or hybrid. They will be discussed in more detail later in this chapter. An organization may need to group by function and product division simultaneously or might need to combine characteristics of several structural options.

Horizontal grouping means employees are organized around core work processes, the end-to-end work, information, and material flows that provide value directly to customers.

All the people who work on a core process are brought together in a group rather than being separated into functional departments.

Virtual network grouping is the most recent approach to departmental grouping. With this grouping, the organization is a loosely connected cluster of separate components.

In essence, departments are separate organizations that are electronically connected for the sharing of information and completion of tasks. Departments can be spread all over the world rather than located together in one geographic location.

3.4 FUNCTIONAL, DIVISIONAL AND GEOGRAPHICAL DESIGNS

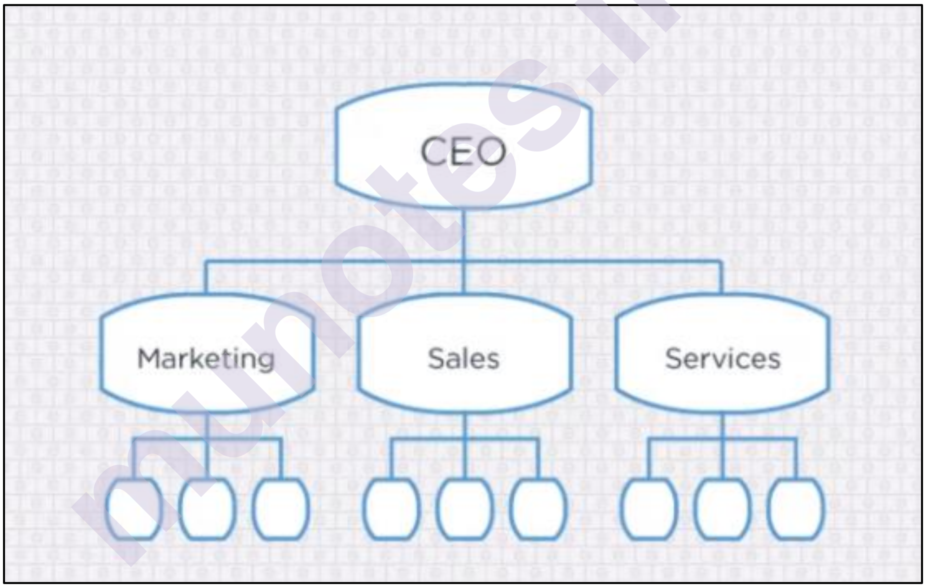
Functional grouping and divisional grouping are the two most common approaches to structural design.

In a functional structure, activities are grouped together by common function from the bottom to the top of the organization. All engineers are located in the engineering department, and the vice president of engineering is responsible for all engineering activities. The same is true in marketing, R&D, and manufacturing.

With a functional structure, all human knowledge and skills with respect to specific activities are consolidated, providing a valuable depth of knowledge for the organization. This structure is most effective when in-depth expertise is critical to meeting organizational goals, when the organization needs to be controlled and coordinated through the vertical hierarchy, and when efficiency is important. The structure can be quite effective if there is little need for horizontal coordination.

One strength of the functional structure is that it promotes economy of scale within functions. Economy of scale results when all employees are located in the same place and can share facilities. Producing all products in a single plant, for example, enables the plant to acquire the latest machinery.

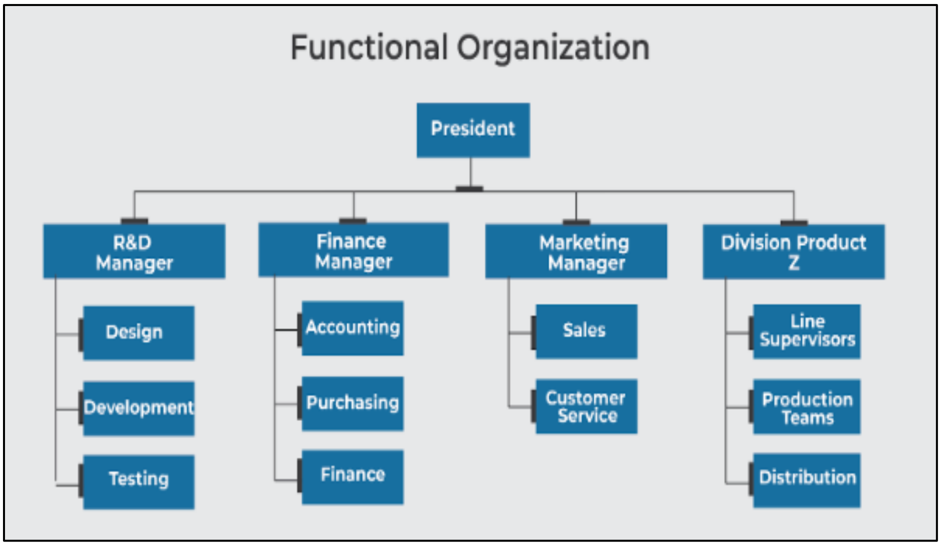
The main weakness of the functional structure is a slow response to environmental changes that require coordination across departments. The vertical hierarchy becomes overloaded. Decisions pile up, and top managers do not respond fast enough. Other disadvantages of the functional structure are that innovation is slow because of poor coordination, and each employee has a restricted view of overall goals.



Functional Design

Functional Structure with Horizontal Linkages

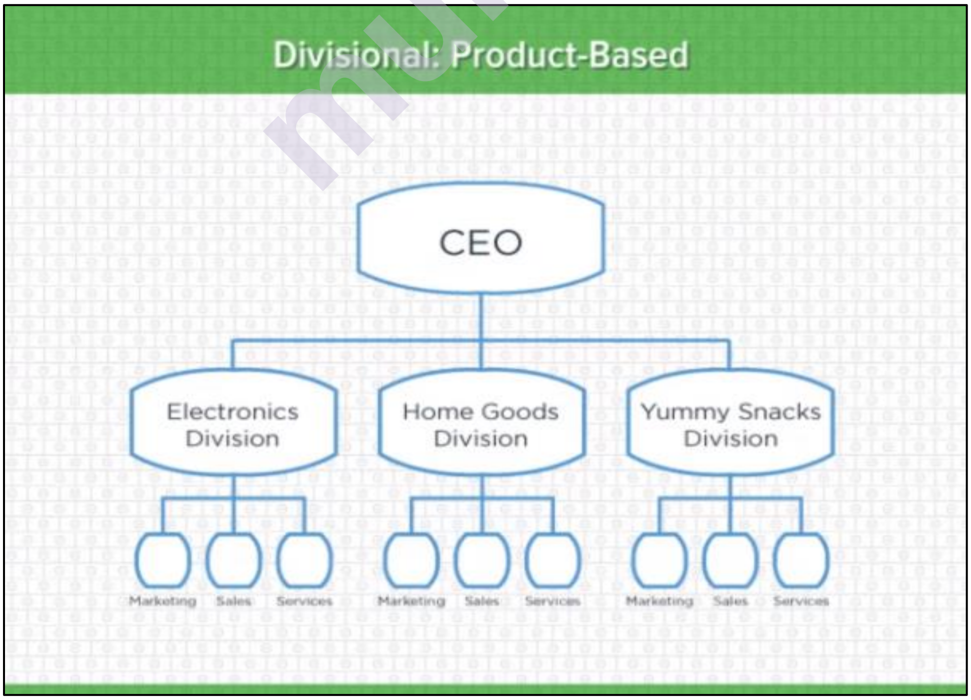
A recent survey found that organizing by functions is still the prevalent approach to organization design. However, in today's fast-moving world, very few companies can be successful with a strictly functional structure. Organizations compensate for the vertical functional hierarchy by installing horizontal linkages. Managers improve horizontal coordination by using information systems, direct contact between departments, full-time integrators or project managers, task forces, or teams.



Functional Structure with Horizontal Linkages

Divisional Structure

The term divisional structure is used here as the generic term for what is sometimes called a product structure or strategic business units. With this structure, divisions can be organized according to individual products, services, product groups, major projects or programs, divisions, businesses, or profit centers. The distinctive feature of a divisional structure is that grouping is based on organizational outputs. The divisional organization structure is excellent for achieving coordination across functional departments. It works well when organizations can no longer be adequately controlled through the traditional vertical hierarchy, and when goals are oriented toward adaptation and change.

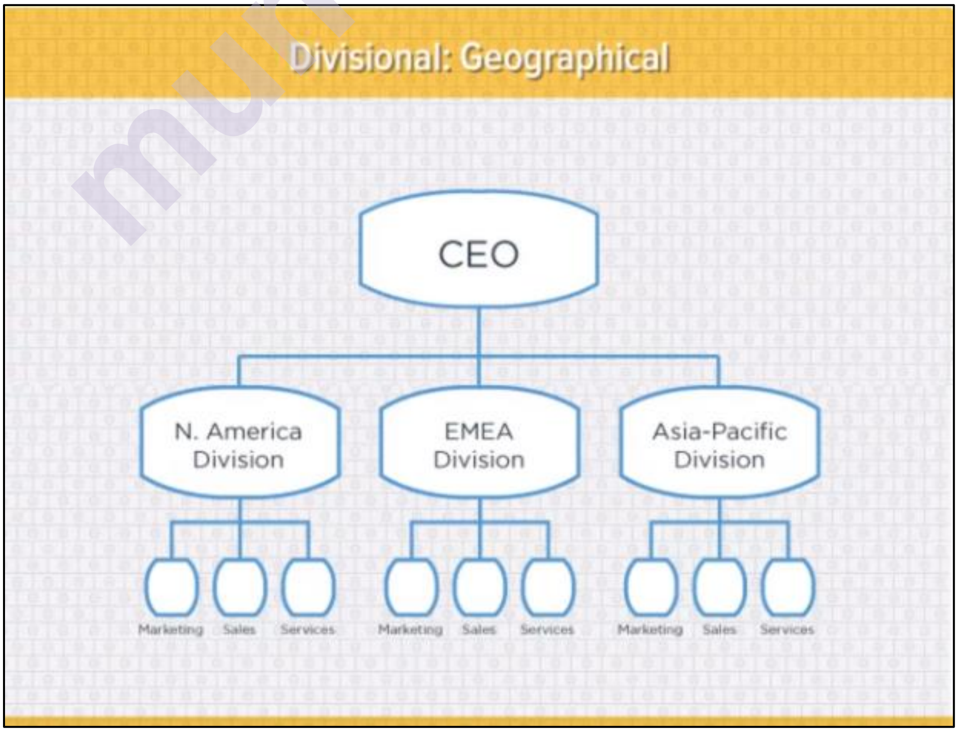


The divisional structure has several strengths. This structure is suited to fast change in an unstable environment and provides high product or service visibility. Since each product line has its own separate division, customers are able to contact the correct division and achieve satisfaction. Coordination across functions is excellent. Each product can adapt to requirements of individual customers or regions. The divisional structure typically works best in organizations that have multiple products or services and enough personnel to staff separate functional units. Decision making is pushed down to the divisions. Each division is small enough to be quick on its feet, responding rapidly to changes in the market. One disadvantage of using divisional structuring is that the organization loses economies of scale. Instead of fifty research engineers sharing a common facility in a functional structure, ten engineers may be assigned to each of five product divisions. The critical mass required for in-depth research is lost, and physical facilities have to be duplicated for each product line. Another problem is that product lines become separate from each other, and coordination across product lines can be difficult.

Geographic Structure

Another basis for structural grouping is the organization's users or customers. The most common structure in this category is geography. Each region of the country may have distinct tastes and needs. Each geographic unit includes all functions required to produce and market products or services in that region.

The strengths and weaknesses of a geographic divisional structure are similar to the divisional organization characteristics.



The organization can adapt to the specific needs of its own region, and employees identify with regional adapt to the specific needs of its own region, and employees identify with regional goals rather than with national goals. Horizontal coordination within a region is emphasized rather than linkages across regions or to the national office.

3.5 MATRIX STRUCTURE

Sometimes, an organization's structure needs to be multifocused in that both product and function or product and geography are emphasized at the same time. One way to achieve this is through the matrix structure. The matrix can be used when both technical expertise and product innovation and change are important for meeting organizational goals. The matrix structure often is the answer when organizations find that the functional, divisional, and geographic structures combined with horizontal linkage mechanisms will not work.

The matrix is a strong form of horizontal linkage. The unique characteristic of the matrix organization is that both product divisions and functional structures (horizontal and vertical) are implemented simultaneously. The product managers and functional managers have equal authority within the organization, and employees report to both of them. The matrix structure is similar to the use of full-time integrators or product managers.

Conditions for the Matrix

A dual hierarchy may seem an unusual way to design an organization, but the matrix is the correct structure when the following conditions are present:

- **Condition 1**. Pressure exists to share scarce resources across product lines. The organization is typically medium sized and has a moderate number of product lines. It feels pressure for the shared and flexible use of people and equipment across those products. For example, the organization is not large enough to assign engineers full-time to each product line, so engineers are assigned part time to several products or projects.

- **Condition 2**. Environmental pressure exists for two or more critical outputs, such as for in-depth technical knowledge (functional structure) and frequent new products (divisional structure). This dual pressure means a balance of power is needed between the functional and product sides of the organization, and a dual-authority structure is needed to maintain that balance.

- **Condition 3.** The environmental domain of the organization is both complex and uncertain. Frequent external changes and high interdependence between departments require a large amount of coordination and information processing in both vertical and horizontal directions.

Under these three conditions, the vertical and horizontal lines of authority must be given equal recognition. A dual-authority structure is thereby created so the balance of power between them is equal. The matrix formalizes horizontal teams along with the traditional vertical hierarchy and tries to give equal balance to both. However, the matrix may shift one way or the other. Many companies have found a balanced matrix hard to implement and maintain because one side of the authority structure often dominates. As a consequence, two variations of matrix structure have evolved—the functional matrix and the product matrix. In a functional matrix, the functional bosses have primary authority and the project or product managers simply coordinate product activities.

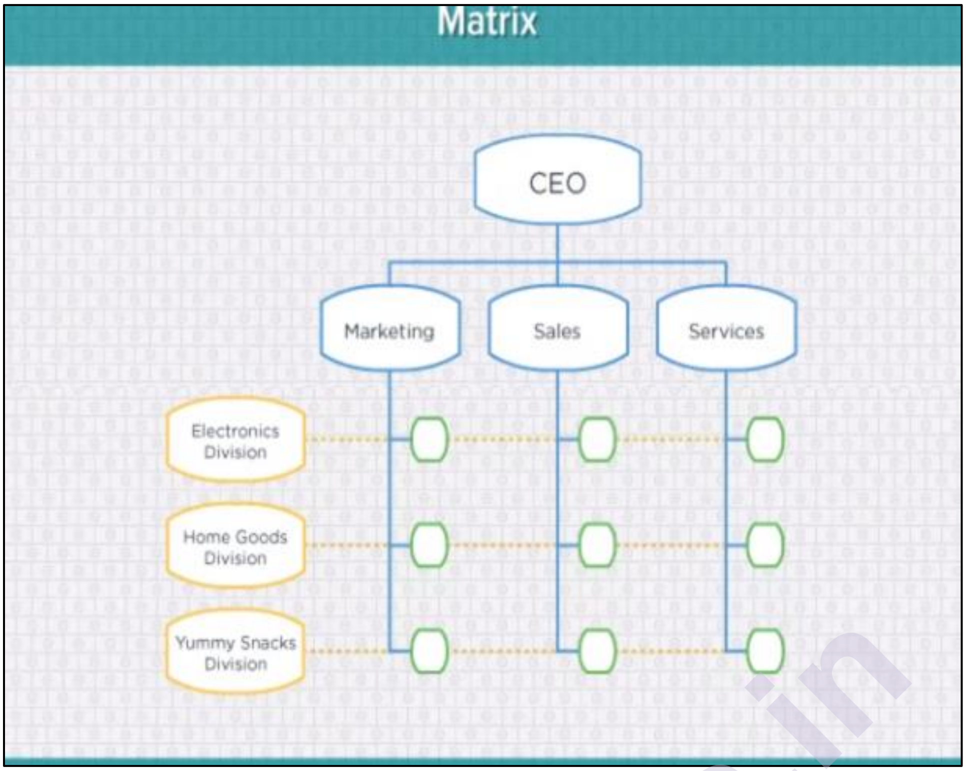
In a product matrix, by contrast, the project or product managers have primary authority and functional managers simply assign technical personnel to projects and provide advisory expertise as needed. For many organizations, one of these approaches works better than the balanced matrix with dual lines of authority.

Strengths and Weaknesses

The matrix structure is best when environmental change is high and when goals reflect a dual requirement, such as for both product and functional goals. The dual-authority structure facilitates communication and coordination to cope with rapid environmental change and enables an equal balance between product and functional bosses. The matrix facilitates discussion and adaptation to unexpected problems. It tends to work best in organizations of moderate size with a few product lines. The matrix is not needed for only a single product line, and too many product lines make it difficult to coordinate both directions at once.

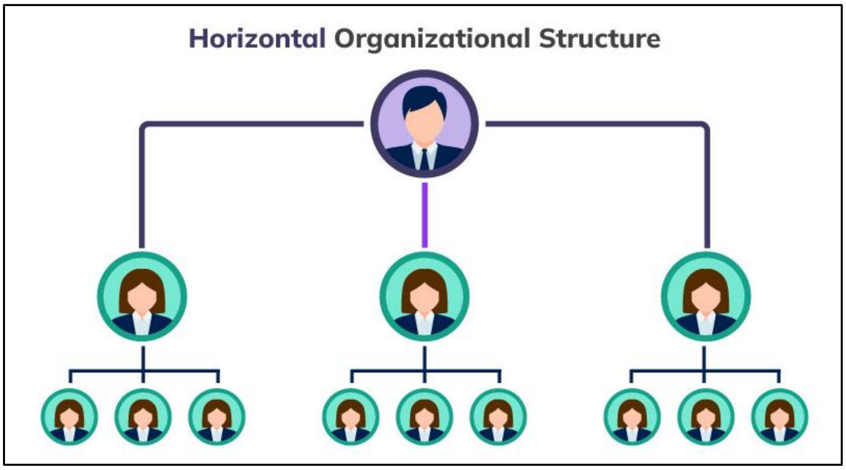
The strength of the matrix is that it enables an organization to meet dual demands from customers in the environment. Resources (people, equipment) can be flexibly allocated across different products, and the organization can adapt to changing external requirements. This structure also provides an opportunity for employees to acquire either functional or general management skills, depending on their interests.

One disadvantage of the matrix is that some employees experience dual authority, reporting to two bosses and sometimes juggling conflicting demands. This can be frustrating and confusing, especially if roles and responsibilities are not clearly defined by top managers. Employees working in a matrix need excellent interpersonal and conflict-resolution skills, which may require special training in human relations. The matrix also forces managers to spend a great deal of time in meetings. If managers do not adapt to the information and power sharing required by the matrix, the system will not work. Managers must collaborate with one another rather than rely on vertical authority in decision making.



3.6 HORIZONTAL STRUCTURE

A recent approach to organizing is the horizontal structure, which organizes employees around core processes. Organizations typically shift toward a horizontal structure during a procedure called reengineering. Reengineering, or business process reengineering, basically means the redesign of a vertical organization along its horizontal workflows and processes. A process refers to an organized group of related tasks and activities that work together to transform inputs into outputs that create value for customers. Examples of processes include order fulfillment, new product development, and customer service. Reengineering changes the way managers think about how work is done. Rather than focusing on narrow jobs structured into distinct functional departments, they emphasize core processes that cut horizontally across the organization and involve teams of employees working together to serve customers.



The horizontal structure virtually eliminates both the vertical hierarchy and old departmental boundaries. This structural approach is largely a response to the profound changes that have occurred in the workplace and the business environment over the past fifteen to twenty years. Technological progress emphasizes computer- and Internet-based integration and coordination. Customers expect faster and better service, and employees want opportunities to use their minds, learn new skills, and assume greater responsibility. Organizations mired in a vertical mindset have a hard time meeting these challenges. Thus, numerous organizations have experimented with horizontal mechanisms such as cross-functional teams to achieve coordination across departments or task forces to accomplish temporary projects. Increasingly, organizations are shifting away from hierarchical, function-based structures to structures based on horizontal processes.

Strengths and Weaknesses

The most significant strength of the horizontal structure is enhanced coordination, which can dramatically increase the company's flexibility and response to changes in customer needs. The structure directs everyone's attention toward the customer, which leads to greater customer satisfaction as well as improvements in productivity, speed, and efficiency. In addition, because there are no boundaries between functional departments, employees take a broader view of organizational goals rather than being focused on the goals of a single department. The horizontal structure promotes an emphasis on teamwork and cooperation, so that team members share a commitment to meeting common objectives. Finally, the horizontal structure can improve the quality of life for employees by giving them opportunities to share responsibility, make decisions, and contribute significantly to the organization.

A weakness of the horizontal structure is that it can harm rather than help organizational performance unless managers carefully determine which core processes are critical for bringing value to customers. Simply defining the processes around which to organize can be difficult. In addition, shifting to a horizontal structure is complicated and time consuming because it requires significant changes in culture, job design, management philosophy, and information and reward systems.

Traditional managers may balk when they have to give up power and authority to serve instead as coaches and facilitators of teams. Employees have to be trained to work effectively in a team environment. Finally, because of the cross-functional nature of work, a horizontal structure can limit in-depth knowledge and skill development unless measures are taken to give employees opportunities to maintain and build technical expertise.

3.7 MODULAR STRUCTURE

A modular organization is an organization structured via outsourcing where the organization's final product or service based on the combination of several companies' self-contained skills and business capabilities.

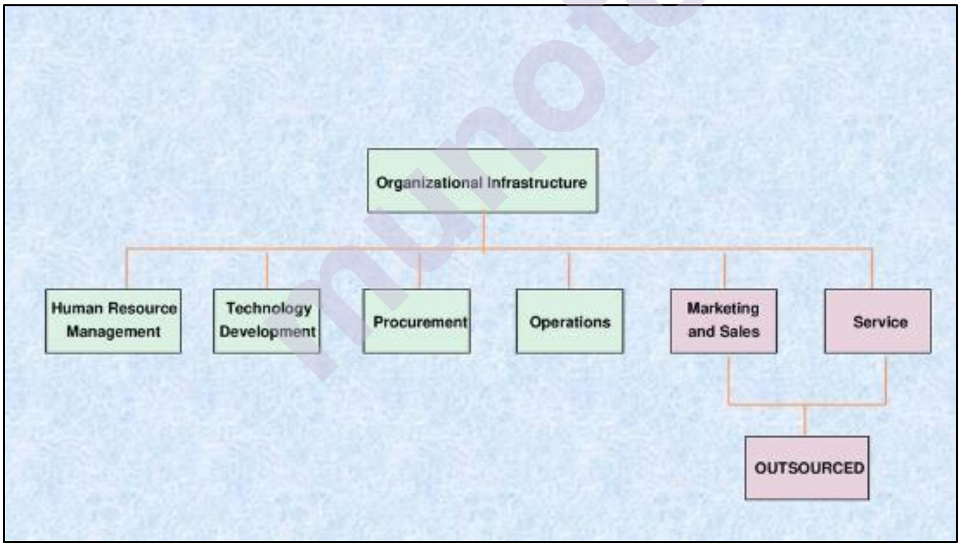
A modular organization is a business structure that can be separated and reunited for working more efficiently. Though computer, appliance, and automotive manufacturers have been experimenting with the modular study, this principle applies to any form of business, large or small.

A modular organization can include, match, mix, or even set aside its segment while focusing on its main business model. The concept is building characteristics of flexibility that can offer the organization abilities for keeping pace with the fluctuating economic climate, better capturing new opportunities, and creating room to restructure.

Sometimes, businesses find themselves missing the possibility of taking advantage of the big opportunity due to their lacking of required capability, or the fluctuating economic climate causing a deviation in business priorities or causing a deviation in their business model. To compete, businesses build a combination of core competencies, developing what it considers to be a suitable business model delivering value to their clients.

In a modular organization setup, businesses gain modularity by manipulating the following components.

- Enhancing the talent-skills of the employees
- Introducing a new process
- Expanding each asset's utility



Modular Structure

3.8 HYBRID STRUCTURE

A hybrid structure is a framework that employs multiple reporting structures in the organisation. A hybrid form of organization, for example, is created by combining functional and product structures. Employees are required to work on many projects and report to multiple managers under a hybrid organizational structure.

An engineer working on a project should, in an ideal world, report to his project manager. In the hybrid management structure, however, the engineer may be invited to work on another project for a limited time if a need develops, resulting in a situation in which he reports to both project managers.

The following are some hybrid business examples:

- Public service organisations founded by societal actors, such as most social housing providers, public schools, and hospitals (in the European setting);
- Organizations in the public sector that act like businesses, such as state-owned enterprises that compete in the marketplace;
- Franchises, joint ventures, and business groups are examples of private sector organisations.
- Associations, particularly trade associations, often combine impact-oriented operations (public relations, lobbying, special interest groups) with profit-oriented activities (e.g., events, seminars, consulting) through a subsidiary, usually a wholly-owned subsidiary.
- Microfinance institutions;
- Hybrid corporations that engage in corporate social entrepreneurship in order to advance social and environmental goals while also generating profits for shareholders.

What are the advantages of Hybrid Organization?

- **Increased efficiency:** The major advantage of hybrid structure is the increased efficiency. This structure makes sure that the right quantity of work is assigned at the right time to the right professionals, thus making the optimum use of resources and prevention of waste. This structure works very well even when the resources are scarce. As the specialized staff are readily available, projects are launched quickly, thus increasing the efficiency of the organisation.
- **Development of cross-functional skills:** In hybrid structures groups are formed considering the specializations as well as services. Thus employees with different skills are mingled together which gives an opportunity to learn and develop a variety of skills from many other participants. This is the main advantage of hybrid structure in terms of the personal growth of employees, which can be later utilised by the organisation. This also results in minimization of projects costs, as resources can be shared.
- **Flexibility:** The hybrid business structure is more flexible than divisional and functional structures. There exists a healthy relationship between the senior managers and junior employees. This helps in addressing all employee problems easily, thus increasing the effective output from the employees.

What are the disadvantages of Hybrid Organization?

- **Conflicts:** The major disadvantage of hybrid structure is the chance of having conflicts between corporate departments and divisions. There could be dilemmas among project managers and department managers regarding deadlines and resources. Many employees become very confused about the line of authority. There can also be confusion regarding the roles and responsibilities of each employee.

- **Too much administration overhead:** Waste of time and effort come into picture in case of hybrid organisations. To resolve the conflicts that happen between divisions and corporate departments, time and effort get wasted in the form of meetings. Meetings are also required for better utilization and coordination of staff in case of two or three concurrent projects.

3.9 SUMMARY

Organization structure must accomplish two things for the organization. It must provide a framework of responsibilities, reporting relationships, and groupings, and it must provide mechanisms for linking and coordinating organizational elements into a coherent whole. The structure is reflected on the organization chart. Linking the organization into a coherent whole requires the use of information systems and linkage devices in addition to the organization chart.

Organization structure can be designed to provide vertical and horizontal information linkages based on the information processing required to meet the organization's overall goal. Managers can choose whether to orient toward a traditional organization designed for efficiency, which emphasizes vertical linkages such as hierarchy, rules and plans, and formal information systems, or toward a contemporary organization designed for learning and adaptation, which emphasizes horizontal communication and coordination. Vertical linkages are not sufficient for most organizations today. Organizations provide horizontal linkages through cross-functional information systems, direct contact between managers across department lines, temporary task forces, full-time integrators, and teams.

Alternatives for grouping employees and departments into overall structural design include functional grouping, divisional grouping, multifocused grouping, horizontal grouping, and virtual network grouping. The choice among functional, divisional, and horizontal structures determines where coordination and integration will be greatest. With functional and divisional structures, managers also use horizontal linkage mechanisms to complement the vertical dimension and achieve integration of departments and levels into an organizational whole. With a horizontal structure, activities are organized horizontally around core work processes.

A virtual network structure extends the concept of horizontal coordination and collaboration beyond the boundaries of the organization. Core activities are performed by a central hub while other functions and activities are outsourced to contract partners.

The matrix structure attempts to achieve an equal balance between the vertical and horizontal dimensions of structure. Most organizations do not exist in these pure forms, using instead hybrid structures that incorporate characteristics of two or more types of structure.

Ultimately, managers attempt to find the correct balance between vertical control and horizontal coordination. Signs of structural misalignment include delayed decision making, lack of innovation, poor employee performance, and excessive conflict.

Finally, an organization chart is only so many lines and boxes on a piece of paper. The purpose of the organization chart is to encourage and direct employees into activities and communications that enable the organization to achieve its goals. The organization chart provides the structure, but employees provide the behavior. The chart is a guideline to encourage people to work together, but management must implement the structure and carry it out.

3.10 EXERCISES

Q.1 What is the definition of organization structure? Does organization structure appear on the organization chart? Explain.

Q.2 When is a functional structure preferable to a divisional structure?

Q.3 Large corporations tend to use hybrid structures. Why?

Q.4. What are the primary differences between a traditional organization designed for efficiency and a more contemporary organization designed for learning?

Q. 5. What is the difference between a task force and a team? Between liaison role and integrating role? Which of these provides the greatest amount of horizontal coordination?

Q.6. What conditions usually have to be present before an organization should adopt a matrix structure?

Q.7. Fill in the blanks and complete the following sentences:

a) __________ designates formal reporting relationships, including the number of levels in the hierarchy and the span of control of managers.

b) The organization should be designed to provide both vertical and horizontal ________ flow as necessary to accomplish the organization's overall goals.

c) _______ linkages are used to coordinate activities between the top and bottom of an organization and are designed primarily for control of the organization.

d) The first vertical device is the ______, or chain of command.

e) ______ and procedures provide a standard information source enabling employees to be coordinated without actually communicating .

f) A ______ is a temporary committee composed of representatives from each organizational unit affected by a problem.

g) A full-time ______ frequently has a title, such as product manager or project manager.

h) _____ are permanent task forces and are often used in conjunction with a full-time integrator.

i) _______ grouping means people are organized according to what the organization produces.

j) In a ______ structure, activities are grouped together by common function from the bottom to the top of the organization.

k) The term _______ structure is used here as the generic term for what is sometimes called a product structure or strategic business units.

l) The ______ can be used when both technical expertise and product innovation and change are important for meeting organizational goals.

m) A _______ structure, which organizes employees around core processes.

n) A _____ structure that combines characteristics of various approaches tailored to specific strategic needs.

3.11 SUGGESTED READING

Text books

Robins Khandwalla, P. N. Organizational design for excellence, New Delhi, Tata McGraw Hill, 1992

Reference books

Daft, R. L. Organization Theory and Design, Current Edition. Thomson Southwestern

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4

OPEN SYSTEM DESIGN ELEMENTS

Unit Structure :

4.0 OBJECTIVES

The purpose of this unit is to develop a framework for assessing environments and how organizations can respond to them. First, we identify the organizational domain and the sectors that influence the organization. Then, we explore two major environmental forces on the organization—the need for information and the need for resources. Organizations respond to these forces through structural design, planning systems, and attempts to adapt to and influence elements in the external environment.

4.1 THE EXTERNAL ENVIRONMENT

To succeed and thrive, organizations must adapt, exploit, and fit with the forces in their external environments. Organizations are groups of people deliberately formed together to serve a purpose through structured and coordinated goals and plans. As such, organizations operate in different external environments and are organized and structured internally to meet both external and internal demands and opportunities. Different types of organizations include not-for-profit, for-profit, public, private, government, voluntary, family owned and operated, and publicly traded on stock exchanges. Organizations are commonly referred to as companies, firms, corporations, institutions, agencies, associations, groups, consortiums, and conglomerates.

While the type, size, scope, location, purpose, and mission of an organization all help determine the external environment in which it operates, it still must meet the requirements and contingencies of that environment to survive and prosper.

The big picture of an organization's **external environment**, also referred to as the *general environment*, is an inclusive concept that involves all outside factors and influences that impact the operation of a business that an organization must respond or react to in order to maintain its flow of operations. There are different types of general macro environments and forces that are interrelated and affect organizations: sociocultural, technological, economic, government and political, natural disasters, and human-induced problems that affect industries and organizations. For example, economic environmental forces generally include such elements in the economy as exchange rates and wages, employment statistics, and related factors such as inflation, recessions, and other shocks—negative and positive. Hiring and unemployment, employee benefits, factors affecting organizational operating costs, revenues, and profits are affected by global, national, regional, and local economies. Other factors discussed here that interact with economic forces include politics and governmental policies, international wars, natural disasters, technological inventions, and sociocultural forces. It is important to keep these dimensions in mind when studying organizations since many if not most or all changes that affect organizations originate from one or more of these sources—many of which are interrelated.

Globalization is a combination of external forces shaping environments of organizations. Defined as the development of an integrated global economy and characterized by free trade, capital flows, communications, and cheaper foreign labor markets, the processes of globalization underlie the forces in the general international economic environment. This dimension continues to present opportunities and pressures to companies operating locally as well as globally. Globalization continues to affect industries and companies in ways that benefit some and not others. Amazon, for example, is thriving. The firm sells low-end products through its brand AmazonBasics. The company has individual retail websites for the United States, the United Kingdom and Ireland, France, Canada, Germany, Italy, Spain, the Netherlands, Australia, Brazil, Japan, China, India, and Mexico. Uber and Airbus represent some of the larger sharing-economy companies that operate internationally and have to date prospered in the so-called new but fragmenting global economy.

In general, countries that have gained from globalization include Japan, South Korea, Taiwan, Malaysia, Singapore, Hong Kong, Thailand, and China. China's markets and growing economic prowess have particularly been noticed. Corporations worldwide, large and small, online and land-based, strive to gain access to sell in China's vast markets. Any instability politically and economically with China could result in increasing inflation and interest rates in the U.S. economy that could, in turn, negatively affect U.S. businesses.

Economic forces

Economically, "The strategic challenge of the next decade is navigating a world that is simultaneously integrating and fragmenting. Stock markets have set new records and economic volatility has fallen to historic lows, while political shocks on a scale unseen for generations have taken place. Seemingly contradictory realities do co-exist." Overall, while economic data indicates that globalization has had a positive effect on the world economy, a dark side also shows that two-thirds of all households in 25 advanced-economy countries had incomes stagnate and/or decline between 2005 and 2014. Moreover, the U.K. and U.S. witnessed falling wages. Wealth distribution in these countries continues to decline. Income inequality globally is also rising.

Technological forces

Technological forces are another ubiquitous environmental influence on organizations. Speed, price, service, and quality of products and services are dimensions of organizations' competitive advantage in this era. Information technologies and social media powered by the Internet and used by sharing-economy companies such as Airbus and Uber have democratized and increased, if not leveled, competition across several industries, such as taxis, real estate rentals, and hospitality services. Companies across industry sectors cannot survive without using the Internet, social media, and sophisticated software in R&D (research and development), operations, marketing, finance, and sales. To manage and use big data in all these functional areas, organizations rely on technology.

Government and political forces

Government and political forces also affect industries and organizations. Recent events that have jarred the global economy—and are too early to predict the long-term outcomes of—are the United Kingdom's exit from the European Union, wars in the Middle East, policies that question and disrupt free trade, health-care reform, and immigration—all of which increase uncertainty for businesses while creating opportunities for some industries and instability in others.

Sociocultural forces

Sociocultural environmental forces include different generations' values, beliefs, attitudes, customs and traditions, habits, and lifestyles. More specifically, other aspects of societal cultures are education, language, religion, law, politics, and social organizations. The millennial (ages 20 to 35) workforce, for example, generally seeks work that engages and interests them. Members of this generation are also health conscious and eager to learn. Since this and the newer generation (Generation Z) are adept and accustomed to using technology—social media in particular—organizations must be ready and equipped to provide wellness, interesting, and a variety of learning and work experiences to attract and retain new talent. Millennials are also estimated to be the United States' largest living adult generation Because of immigration, millennials are estimated to increase.

Other general sociocultural trends occurring in the United States and internationally that affect organizations include the following: (1) Sexual harassment at work in the era of MeToo has pressured organizations to be more transparent about relationships between owners, bosses, and employees. Related to this trend, some surveys show new difficulties for men in workplace interactions and little effect on women's career opportunities taking place in the short term. (2) While fewer immigrants have been entering the United States in recent years, diversity in the U.S. workplace continues. For example, 20 million Asian Americans trace their roots to over 20 countries in East and Southeast Asia and the Indian subcontinent—"each with unique histories, cultures, languages and other characteristics. While women have made gains in the workplace, they still comprise a small share of top leadership jobs—across politics and government, academia, the nonprofit sector, and business. Women comprised only about 10% of CEOs (chief executive officers), CFOs (chief financial officers), and the next three highest-paid executives in U.S. companies in 2016–17. A 2018 study by McKinsey & Company "reaffirms the global relevance of the link between diversity—defined as a greater proportion of women and a more mixed ethnic and cultural composition in the leadership of large companies—and company financial outperformance." These and other related sociocultural trends impact organizational cultures and other dimensions involving human talent and diverse workforces.

Natural disasters and human-related problems

Natural disaster and human induced environmental problems are events such as high-impact hurricanes, extreme temperatures and the rise in CO_2 emissions as well as 'man-made' environmental disasters such as water and food crises; biodiversity loss and ecosystem collapse; large-scale involuntary migration are a force that affects organizations. The 2018 Global Risks Report identified risks in the environmental category that also affect industries and companies—as well as continents and countries. These risks were ranked higher than average for both likelihood and impact over a 10-year horizon. The report showed that 2017 was characterized by high-impact hurricanes, extreme temperatures, and the first rise in carbon dioxide emissions in four years; "man-made" environmental disasters; water and food crises; biodiversity loss and ecosystem collapse; and large-scale involuntary migration to name a few. Biodiversity is being lost at mass-extinction rates, agricultural systems are under strain and pollution of the air and sea has become an increasingly pressing threat to human health. Most vulnerable to rising seas are low-lying islands in the Indian and Pacific Oceans. The Republic of the Marshall Islands has more over 1,100 low-lying islands on 29 atolls that include island nations with hundreds of thousands of people. Predictions indicate that rising sea levels could reach 3 feet worldwide by 2300 or sooner. One report stated that in your child's lifetime, Miami, Florida, could be underwater. Large sections of Louisiana's marshes separating the ocean from the coastline are submerging. Oil producers and other related corporations are being sued by that state, claiming that fossil fuel emissions have contributed to natural disasters such as climate change. Many new companies in the United States are already constructing buildings to withstand increasing flooding and predicted rising water levels.

4.2 INTER-ORGANIZATIONAL RELATIONSHIPS

Interorganizational relationships are the relatively enduring resource transactions, flows, and linkages that occur among two or more organizations. Traditionally, these transactions and relationships have been seen as a necessary evil to obtain what an organization needs. The presumption has been that the world is composed of distinct businesses that thrive on autonomy and compete for supremacy. A company may be forced into interorganizational relationships depending on its needs and the instability and complexity of the environment.

Organizations are now evolving into business ecosystems. An organizational ecosystem is a system formed by the interaction of a community of organizations and their environment. An ecosystem cuts across traditional industry lines.

A company can create its own ecosystem. Apple, for instance, travels in several major industries, including consumer electronics, Internet services, mobile phones, personal computers, and entertainment. Its ecosystem also includes hundreds of suppliers and millions of customers across many markets. Google is getting into the entertainment business as well rolling out dozens of short cartoons by “Family Guy”.

Cable television companies are offering new forms of phone service, and telephone companies are getting into the television business. Today, successful companies develop relationships with numerous other organizations cutting across traditional business boundaries.

No company can go it alone under a constant onslaught of international competitors, changing technology, and new regulations. Organizations around the world are embedded in complex networks of confusing relationships—collaborating in some markets, competing fiercely in others. The number of corporate alliances has been increasing at a rate of 25 percent a year, and many of those have been between competitors.

These alliances influence organizations’ competitive behavior in varied ways. Traditional competition, which assumes a distinct company competing for survival and supremacy with other stand-alone businesses, no longer exists because each organization both supports and depends on the others for success, and perhaps for survival. However, most managers recognize that the competitive stakes are higher than ever in a world where market share can crumble overnight and no industry is immune from almost instant obsolescence.

In today’s world, a new form of competition is in fact intensifying. For one thing, companies now need to coevolve with others in the ecosystem so that everyone gets stronger. Consider the wolf and the caribou. Wolves cull weaker caribou, which strengthens the herd. A strong herd means that wolves must become stronger themselves. With coevolution, the whole system becomes stronger. In the same way, companies coevolve through discussion with each other, shared visions, alliances, and managing complex relationships.

Ecosystems constantly change and evolve, with some relationships growing stronger while others weaken or are terminated. The changing pattern of relationships and interactions in an ecosystem contributes to the health and vitality of the system as an integrated whole.

In an organizational ecosystem, conflict and cooperation exist at the same time. Mutual dependencies and partnerships have become a fact of life. Is competition dead? Companies today may use their strength to achieve victory over competitors, but ultimately cooperation carries the day.

Within business ecosystems managers learn to move beyond traditional responsibilities of corporate strategy and designing hierarchical structures and control systems. If a top manager looks down to enforce order and uniformity, the company is missing opportunities for new and evolving external relationships.

In this new world, managers think about horizontal processes rather than vertical structures. Important initiatives are not just top down; they cut across the boundaries separating organizational units. Moreover, horizontal relationships now include linkages with suppliers and customers, who become part of the team. Business leaders can learn to lead economic coevolution. Managers learn to see and appreciate the rich environment of opportunities that grow from cooperative relationships with other contributors to the ecosystem. Rather than trying to force suppliers into low prices or customers into high prices, managers strive to strengthen the larger system evolving around them, finding ways to understand this big picture and how to contribute.

This is a broader leadership role than ever before. Managers in charge of coordinating with other companies have to learn new executive skills. Most traditional managers are skilled in handling operations roles, which have traditional vertical authority and are accountable for business results primarily through direct control over people and resources. Collaborative roles, on the other hand, don't have direct authority over horizontal colleagues or partners, but are nonetheless accountable for specific business results. Managers in collaborative roles have to be highly flexible and proactive. They achieve results through personal communication and assertively seeking out needed information and resources.

The old way of managing relied almost exclusively on operations roles, defending the organization's boundaries and maintaining direct control over resources. Today, though, collaborative roles are becoming more important for success. When alliances fail, it is usually because of an inability of the partners to develop trusting, collaborative relationships rather than due to the lack of a solid business plan or strategy. In successful alliances, people work together almost as if they were members of the same company.

4.3 ORGANIZATION SIZE AND LIFE CYCLE AND DESIGN/STRUCTURE

Organization size is a contextual variable that influences organization design and functioning just as do the contextual variables - technology, environment and goals.

The question of big versus small begins with the notion of growth and the reasons

so many organizations feel the need to grow large. Recent economic woes and layoffs at many large firms have spurred budding entrepreneurs to take a chance on starting their own company or going it alone in a sole proprietorship. Yet despite the proliferation of new, small organizations, the giants such as Procter & Gamble, General Electric, Toyota, and Wal-Mart have continued to grow.

Companies in all industries, from retail, to aerospace, to media, strive for growth to acquire the size and resources needed to compete on a global scale, to invest in new technology, and to control distribution channels and guarantee access to markets. There are a number of other pressures for organizations to grow. Many executives have found that firms must grow to stay economically healthy. To stop growing is to stagnate. To be stable means that customers may not have their demands fully met or that competitors will increase market share at the expense of your company.

At Wal-Mart, managers have vowed to continue an emphasis on growth even though it means a decreasing return on investment (ROI). They are ingrained with the idea that to stop growing is to stagnate and die.

Large size enables companies to take risks that could ruin smaller firms, and scale is crucial to economic health in some industries. For marketing-intensive companies such as Coca-Cola, Procter & Gamble, greater size provides power in the marketplace and thus increased revenues. Companies striving to develop renewable-energy technology have found that "the biggest bang for the buck is to go large".

Many of the development costs for wind turbine and solar energy projects vary little whether the project is very large or very small, so increasing the size of the project makes it more cost-effective.

In addition, growing organizations are vibrant, exciting places to work, which enables these companies to attract and keep quality employees. When the number of employees is expanding, the company can offer many challenges and opportunities for advancement.

Dilemmas of Large Size

Organizations feel compelled to grow, but how much and how large? What size organization is better poised to compete in a fast-changing global environment?

Large: Huge resources and economies of scale are needed for many organizations to compete globally. Only large organizations can build a massive pipeline in Alaska.

Only a large Johnson & Johnson can invest hundreds of millions in new products such as bifocal contact lenses and a patch that delivers contraceptives through the skin. In addition, large organizations have the resources to be a supportive economic and social force in difficult times.

Large organizations also are able to get back to business more quickly following a disaster, giving employees a sense of security and belonging during an uncertain time.

Large companies are standardized, often mechanistically run, and complex. The complexity offers hundreds of functional specialties within the organization to perform multifaceted tasks and to produce varied and complicated products.

Moreover, large organizations, once established, can be a presence that stabilizes a market for years. The organization can provide longevity, raises, and promotions.

Small: The competing argument says small is beautiful because the crucial requirements for success in a global economy are responsiveness and flexibility in fast-changing markets. Small scale can provide significant advantages in terms of quick reaction to changing customer needs or shifting environmental and market conditions.

In addition, small organizations often enjoy greater employee commitment because it is easier for people to feel like part of a community. Employees typically work on a variety of tasks rather than narrow, specialized jobs. For many people, working in a small company is more exciting and fulfilling than working in a huge organization.

Many large companies have grown even larger through merger or acquisition in recent years, yet research indicates that few of these mergers live up to their expected performance levels.

Despite the increasing size of many companies, the economic vitality of the United States, as well as most of the rest of the developed world, is tied to small and mid-sized businesses. In addition, a large percentage of exporters are small businesses. The growth of the Internet and other information technologies has made it easier for small companies to compete with larger firms. And the growing service sector also contributes to a decrease in average organization size, as many service companies remain small to better serve customers.

Small organizations have a flat structure and an organic, free-flowing management style that encourages entrepreneurship and innovation. Today's leading biotechnology drugs, for example, were all discovered by small firms, such as Gilead Sciences, which developed anti-retroviral drugs to treat HIV, rather than by huge pharmaceutical companies such as Merck.

Moreover, the personal involvement of employees in small firms encourages motivation and commitment because employees personally identify with the company's mission.

Big-Company/Small-Company Hybrid: The paradox is that the advantages of small companies sometimes enable them to succeed and, hence, grow large. Small companies can become victims of their own success as they grow, shifting to a mechanistic structure emphasizing vertical hierarchy and spawning "organization men" rather than entrepreneurs. Giant companies are "built for optimization, not innovation". Big companies become committed to their existing products and technologies and have a hard time supporting innovation for the future.

The development of new organizational forms, with an emphasis on decentralizing authority and cutting out layers of the hierarchy, combined with the increasing use of information technology is making it easier than ever for companies to be simultaneously large and small, thus capturing the advantages of each. The shift can even be seen in the U.S. military. Unlike World War II, for example, which was fought with large masses of soldiers guided by decisions made at top levels, today's "war on terrorism" depends on decentralized decision making and smaller forces of highly skilled soldiers with access to up-to-the-minute information. Big companies also find a variety of ways to act both large and small. Small companies that are growing can also use these ideas to help their organizations retain the flexibility and customer focus that fueled their growth.

Organizational Life Cycle

A useful way to think about organizational growth and change is the concept of an organizational life cycle, which suggests that organizations are born, grow older, and eventually die. Organization structure, leadership style, and administrative systems follow a fairly predictable pattern through stages in the life cycle. Stages are sequential and follow a natural progression.

Stages of Life Cycle Development

Research on organizational life cycle suggests that four major stages characterize organizational development. Growth is not easy. Each time an organization enters a new stage in the life cycle, it enters a whole new ball game with a new set of rules for how the organization functions internally and how it relates to the external environment. For technology companies today, life cycles are getting shorter; to stay competitive, companies like eBay, Google, and MySpace have to successfully progress through stages of the cycle faster.

1. **Entrepreneurial stage:** When an organization is born, the emphasis is on creating a product or service and surviving in the marketplace. The founders are entrepreneurs, and they devote their full energies to the technical activities of production and marketing. The organization is informal and non-bureaucratic. The hours of work are long. Control is based on the owners' personal supervision. Growth is from a creative new product or service. For example, Jimmy Wales and Larry

Sanger co-founded Wikipedia in 2001 based on the idea of an open source, collaborative encyclopedia, open to contributions by ordinary people. They personally provided oversight of the project during its early years, with Wales acting as visionary leader and Sanger focused primarily on developing the new service. Apple (originally Apple Computer) was in the entrepreneurial stage when it was created by Steve Jobs and Stephen Wozniak in Wozniak's parents' garage.

Crisis - Need for leadership: As the organization starts to grow, the larger number of employees causes problems. The creative and technically oriented owners are confronted with management issues, but they may prefer to focus their energies on making and selling the product or inventing new products and services. At this time of crisis, entrepreneurs must either adjust the structure of the organization to accommodate continued growth or else bring in strong managers who can do so.

2. **Collectivity stage**: If the leadership crisis is resolved, strong leadership is obtained and the organization begins to develop clear goals and direction. Departments are established along with a hierarchy of authority, job assignments, and a beginning division of labor. Social networking company Facebook moved quickly from the entrepreneurial to the collectivity stage. Twenty-three-year-old founder Mark Zuckerberg knows his company has to "grow up at Internet speed," so he recruited a top Google executive, Sheryl Sandberg, to serve as chief operating officer. Facebook also hired other skilled executives to manage various functions such as marketing, legal, communications and public relations, and finance. In the collectivity stage, employees identify with the mission of the organization and spend long hours helping the organization succeed. Members feel part of a collective. Communication and control are mostly informal although a few formal systems begin to appear.

   Crisis - Need for delegation: If the new management has been successful, lower-level employees gradually find themselves restricted by the strong top-down leadership. Lower-level managers begin to acquire confidence in their own functional areas and want more discretion. An autonomy crisis occurs when top managers, who were successful because of their strong leadership and vision, do not want to give up responsibility. Top managers want to make sure that all parts of the organization are coordinated and pulling together. The organization needs to find mechanisms to control and coordinate departments without direct supervision from the top.

3. **Formalization stage**: The formalization stage involves the installation and use of rules, procedures, and control systems. Communication is less frequent and more formal. Engineers, human resource specialists, and other staff may be added. Top management becomes concerned with issues such as strategy and planning and leaves the operations of the firm to middle management. Product

groups or other decentralized units may be formed to improve coordination.

Incentive systems based on profits may be implemented to ensure that managers work toward what is best for the overall company. When effective, the new coordination and control systems enable the organization to continue growing by establishing linkage mechanisms between top management and field units.

Crisis - Too much red tape: At this point in the organization's development, the proliferation of systems and programs may begin to strangle middle-level executives. The organization seems bureaucratized. Middle management may resent the intrusion of staff. Innovation may be restricted. The organization seems too large and complex to be managed through formal programs.

4. **Elaboration stage:** The solution to the red tape crisis is a new sense of collaboration and teamwork. Throughout the organization, managers develop skills for confronting problems and working together. Bureaucracy may have reached its limit. Social control and self-discipline reduce the need for additional formal controls. Managers learn to work within the bureaucracy without adding to it. Formal systems may be simplified and replaced by manager teams and task forces. To achieve collaboration, teams are often formed across functions or divisions of the company. The organization may also be split into multiple divisions to maintain a small-company philosophy.

   Crisis - Need for revitalization: After the organization reaches maturity, it may enter periods of temporary decline. A need for renewal may occur every ten to twenty years. The organization shifts out of alignment with the environment or perhaps becomes slow moving and over bureaucratized and must go through a stage of streamlining and innovation. Top managers are often replaced during this period.

All mature organizations have to go through periods of revitalization or they will decline. Eighty-four percent of businesses that make it past the first year still fail within five years because they can't make the transition from the entrepreneurial stage. The transitions become even more difficult as organizations progress through future stages of the life cycle. Organizations that do not successfully resolve the problems associated with these transitions are restricted in their growth and may even fail. From within an organization, the life cycle crises are very real.

4.4 COMPARATIVE MANAGEMENT

Comparative management is the fact that focuses on the similarities and differences among business and management systems from different contexts. Comparative management is the study of various management principles, and how they apply from one situation to another. Such as with international companies run researches to compare their policies and strategies with others to be stronger in the competition.

Comparative management is the identifying measuring and interpreting the similarities and differences among managers behavior techniques flowed and practices applied as found in various countries. Comparative management can be viewed as the study and analysis of management in different environment and the reasons that enterprises show different results in various countries. Comparative Management means comparison between management practices in the some environment within a territory or region. Comparative Management focuses on the similarities and differences among business and management systems from different contexts.

Differences between Comparative and International Management

Comparative management is a broader concept it deals with overall management of all countries. On the other hand international management is the narrow concept it focuses on the operations of international funds/ multinational corporations. Comparative management is not a part of international management. Whereas international management is the part of comparative management. Comparative management does not need to especially aware of the local conditions of the country. International management must aware of the local conditions of a country.

Objectives of Comparative Management

Comparative management helps to know about different management techniques used in different countries. It determines the duties and responsibilities of international managers. It helps to compare different management styles used in different countries in the world. Comparative management helps international managers to cope with the changes of the management style of the developing countries. Comparative management helps to study cross cultural differences among the countries. Comparative management helps to develop prescriptive guideline that can serve as a base for effective action by management of enterprises.

Nature of Comparative Management

Advance managerial knowhow is much more important for economic growth and improve productivity. Technical knowledge is necessary for productivity improvement and fairly easy to transfer between countries. Designing a suitable approach or techniques of management lessons from other countries are useful. The fundamental functions of management are basically the same but the goals and the means flowed differ among countries. The skill and knowledge to manage can vary among various countries. The relative influence of each environmental factor varies insignificance in each country.

Reasons for studying Comparative Management

a. **Assessing the transferability and applicability of Management Knowhow:** Everyday new situations and problems are arising by studying comparative management we will able to acknowledge the management knowhow to handle those situations and resolve the problems as well.

b. **Identify, Describe, Explain and Predict the impact of the environmental constraint:** Comparative management helps us to Identify, Describe, Explain and Predict the impact of the environmental constraint of an organization. It helps us to cope with a new environment.

c. **Develop prescriptive guideline:** Comparative management helps to develop prescriptive guideline that can serve as a base for effective action by management of enterprises. Comparative management suggest to study other organizations strategy and form a new guideline.

d. **Formulate policies:** Comparative management helps formulate policies for direct foreign investment for multifunctional organizations and international businesses.

e. **Study cross cultural management:** Comparative management focuses on issues of cross-cultural leadership, employee attitudes of an organisation that compare how they are and how we are.

f. **To manage international technology transfer:** It is such a study which point out the technological differences between the organizations and between the countries.

g. **To seek new management Frontier:** Managing human resources is very challenging as compared to managing technology. Comparative management helps to seek management frontier.

h. **To gather experiences:** Comparative management helps to gather experiences from imagine economy.

i. **To forecast:** We study comparative management to forecast imagine issues in international management.

4.5 SUMMARY

Change and complexity in the external environment have major implications for organization design and management action. Organizations are open social systems. Most are involved with hundreds of external elements. Important environmental sectors with which organizations deal are the industry, raw materials, human resources, financial resources, market, technology, economic conditions, government, sociocultural, and international. Organizational environments differ in terms of uncertainty and resource dependence. Organizational uncertainty is the result of the stable–unstable and simple–complex dimensions of the environment. Resource dependence is the result of scarcity of the material and financial resources needed by the organization. Organization design takes on a logical perspective when the environment is considered. Organizations try to survive and achieve efficiencies in a world characterized by uncertainty and scarcity. Specific departments and functions are created to deal with uncertainties. The organization can be conceptualized as a technical core and departments that buffer environmental uncertainty. Boundary spanning roles bring information about the environment into the organization and send information about the organization to the external environment.

At one time organizations considered themselves autonomous and separate, trying to outdo other companies. Today more organizations see themselves as part of an ecosystem. The organization may span several industries and will be anchored in a dense web of relationships with other companies. In this ecosystem, collaboration is as important as competition. Indeed, organizations may compete and collaborate at the same time, depending on the location and issue. In business ecosystems, the role of management is changing to include the development of horizontal relationships with other organizations.

Four perspectives have been developed to explain relationships among organizations. The resource-dependence perspective is the most traditional, arguing that organizations try to avoid excessive dependence on other organizations. In this

view, organizations devote considerable effort to controlling the environment to ensure ample resources while maintaining independence. One key approach is to develop close relationships with suppliers through supply chain management. The collaborative-network perspective is an emerging alternative to resource dependence. Organizations welcome collaboration and interdependence with other organizations to enhance value for both. Many executives are changing mindsets away from autonomy toward collaboration, often with former corporate enemies. The new partnership mindset emphasizes trust, fair dealing, and achieving profits for all parties in a relationship. The population-ecology perspective explains why organizational diversity continuously increases with the appearance of new organizations filling niches left open by established companies. This perspective says that large companies usually cannot adapt to meet a changing environment; hence, new companies emerge with the appropriate form and skills to serve new needs. Through the process of variation, selection, and retention, some organizations will survive and grow while others perish. Companies may adopt a generalist or specialist strategy to survive in the population of organizations. The institutional perspective argues that interorganizational relationships are shaped as much by a company's need for legitimacy as by the need for providing products and services. The need for legitimacy means that the organization will adopt structures and activities that are perceived as valid, proper, and up to date by external stakeholders. In this way, established organizations copy techniques from one another and begin to look very similar. The emergence of common structures and approaches in the same field is called institutional similarity or institutional isomorphism. There are three core mechanisms that explain increasing organizational homogeneity: mimetic forces, which result from responses to uncertainty; coercive forces, which stem from power differences and political influences; and normative forces, which result from common training and professionalism.

Organizations experience many pressures to grow, and large size is crucial to economic health in some industries. Size enables economies of scale, provides a wide variety of opportunities for employees, and allows companies to invest in expensive and risky projects. However, large organizations have a hard time adapting to rapid changes in the environment. Large organizations are typically standardized, mechanistically run, and complex. Small organizations typically have a flatter structure and an organic, free-flowing management. They can respond more quickly to environmental changes and are more suited to encouraging innovation and entrepreneurship. Managers in large or growing firms try to find mechanisms to make their organizations more flexible and responsive. Organizations evolve through distinct life-cycle stages as they grow and mature. Organization structure, internal systems, and management issues are different for each stage of development. Growth creates crises and revolutions along the way toward large size. A major task of managers is to guide the organization through the entrepreneurial, collectivity, formalization, and elaboration stages of development. As organizations progress through the life cycle and grow larger and more complex, they generally take on bureaucratic characteristics, such as rules, division of labor, written records, hierarchy of authority, and impersonal procedures. Bureaucracy is a logical form of organizing that lets firms use resources efficiently. However, in many large corporate and government organizations, bureaucracy has come under attack with attempts to decentralize authority, flatten organization structure, reduce rules and written records, and create a small-company mindset. These companies are willing to trade economies of scale for responsive, adaptive organizations. Many companies are subdividing to gain small-company advantages. Another approach to overcoming the problems of bureaucracy is to use temporary systems, enabling the organization to glide smoothly between a highly formalized, hierarchical style that is effective during times of stability and a more flexible, loosely structured one needed to respond to unexpected or volatile environmental conditions. All organizations, large and small, need systems for control. Managers can choose among three overall control strategies: market, bureaucratic, and clan. Bureaucratic control relies on standard rules and the rational-legal authority of managers. Market control is used where product or service outputs can be priced and competition exists. Clan control, and more recently self-control, are associated with uncertain and rapidly changing organization processes. They rely on commitment, tradition, and shared values for control. Managers may use a combination of control approaches to meet the organization's needs. Many organizations have stopped growing, and some are declining. Organizations go through stages of decline, and it is the responsibility of managers to detect the signs of decline, implement necessary action, and reverse course. One of the most difficult decisions pertains to downsizing the workforce. To smooth the downsizing process, managers can communicate with employees and provide as much information as possible, provide assistance to displaced workers, and remember to address the emotional needs of those who remain with the organization.

Comparative management means identifying, measuring and interpreting the common things and differences between behavior of managers, their techniques and practices adopted in different countries. It focuses on business and management from various aspects. It is the study of principles of management, and their application in various situations. International companies use different policies and strategies for comparison to remain in the competition. It is defined as the study of management in different nature and various environments which show different observations in different countries.

Even if there is need for innovation, in recent years, comparative management has always accelerated due to advancement of technology, and the growing competition in the world. It depends on the ability of the management to understand the potential opportunities they have and optimum use of valuable resources. It is an important factor for the organization to gain competitive advantage. On this basis, it can be said that an organization's competitiveness is based on the capacity of its management and how well its strategies of comparative management are.

Over the last few decades, scope of strategic alliances is growing because it is not only the most common method used for international trade but it also helps the organization in gaining more knowledge and utilizing it fully. These alliances can be used for comparative management, for two or more organizations who needs to run their business globally by using technology, skills, and knowledge of each other and increasing of learning process for the development. It is done to assess the transferability and application of management and developing prescriptive guidelines and policies.

It is the field of inquiry which focus on the variations in management and the organizations of the different countries. It is necessary to study the need of relationship of management and organization of different countries. It is also useful to compare and understand the phenomenon which is identified as a tool for doing research. It helps in designing various policies for the management from other various countries but the skills and knowledge of each country may differ from each other. The basic principles of management may be same but the goals and the way of doing business can be different. Due to different environmental factors, results are different. The ability of seeing the differences and how to behave in different situations becomes effective and the political conflicts between various multinational companies and their countries can be resolved and the healthy relationship can be maintained. Management is the most important factor for the growth of economy and improvement in production. Therefore, comparative management includes analyzing and comparing of various fundamental functions for determining environment of foreign country.

4.6 EXERCISES

1. Define the components of the internal and the external business environments.

2. What factors within the economic environment affect businesses?

3. Why do demographic shifts and technological developments create both challenges and new opportunities for business?

4. Define organizational environment. Would the task environment of a new Internet-based company be the same as that of a large government agency? Discuss.

5. What are some forces that influence environmental uncertainty? Which typically has the greatest impact on uncertainty—environmental complexity or environmental change? Why?

6. Name some factors causing environmental complexity for an organization of your choice. How might this environmental complexity lead to organizational complexity? Explain.

7. Discuss the importance of the international sector for today's organizations, compared to domestic sectors.

8. What are some ways in which the international sector affects organizations in your city or community?

9. Why do large organizations tend to have larger ratios of clerical and administrative support staff? Why are they typically more formalized than small organizations?

10. Apply the concept of life cycle to an organization with which you are familiar, such as a local business. What stage is the organization in now? How did the organization handle or pass through its life cycle crises?

11. Fill in the blanks in the below sentences:

    a) To succeed and thrive, organizations must adapt, exploit, and fit with the forces in their ______ environments.

    b) Organizations are groups of people deliberately formed together to serve a purpose through structured and ________ goals and plans.

    c) Organizations operate in different external environments and are organized and structured internally to meet both external and internal demands and _____.

    d) Different types of organizations include not-for-profit, for-profit, public, private, government, ______, family owned and operated, and publicly traded on stock exchanges.

e) Organizations are commonly referred to as companies, firms, corporations, institutions, agencies, associations, groups, consortiums, and _______.

f) __________ relationships are the relatively enduring resource transactions, flows, and linkages that occur among two or more organizations.

g) The world is composed of distinct businesses that thrive on autonomy and compete for ______.

h) A company may be forced into relationships depending on its needs and the instability and _______ of the environment.

i) Organization _____ is a contextual variable that influences organization design and functioning just as do the contextual variables - technology, environment and goals.

j) Many organizations feel the need to grow _____.

k) Recent economic woes and ______ at many large firms have spurred budding entrepreneurs to take a chance on starting their own company.

4.7 SUGGESTED READING

Text books

Robins Khandwalla, P. N. Organizational design for excellence, New Delhi, Tata McGraw Hill, 1992

Reference books

Daft, R. L. Organization Theory and Design, Current Edition. Thomson Southwestern

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5

ORGANIZATION CULTURE

Unit Structure :

5.0 OBJECTIVES

After going through this unit you will be able to understand the concepts on organization culture, ethics and organization leadership and design issues.

5.1 ORGANIZATIONAL CULTURE

The popularity of the organizational culture topic raises a number of questions. Can we identify cultures? Can culture be aligned with strategy? How can cultures be managed or changed? The best place to start is by defining culture and explaining how it is reflected in organizations.

What Is Culture?

Culture is the set of values, norms, guiding beliefs, and understandings that is shared by members of an organization and taught to new members as the correct way to think, feel, and behave. It represents the unwritten, feeling part of the organization. Everyone participates in culture, but culture generally goes unnoticed. It is only when managers try to implement new strategies or programs that go against basic cultural norms and values that they come face to face with the power of culture.

Organizational culture exists at two levels. On the surface are visible artifacts and observable behaviors—the ways people dress and act, the type of control systems and power structures used by the company, and the symbols, stories, and ceremonies organization members share. The visible elements of culture, however, reflect deeper values in the minds of organization members. These underlying values, assumptions, beliefs, and thought processes operate unconsciously to define the true culture. The attributes of culture display themselves in many ways but typically evolve into a patterned set of activities carried out through social interactions. Those patterns can be used to interpret culture.

Culture provides people with a sense of organizational identity and generates in them a commitment to beliefs and values that are larger than themselves. Though ideas that become part of the culture can come from anywhere within the organization, an organization's culture generally begins with a founder or early leader who articulates and implements particular ideas and values as a vision, philosophy, or business strategy. When these ideas and values lead to success, they become institutionalized, and an organizational culture emerges that reflects the vision and strategy of the founder or leader.

Cultures serve two critical functions in organizations: (1) to integrate members so that they know how to relate to one another, and (2) to help the organization adapt to the external environment. Internal integration means that members develop a collective identity and know how to work together effectively. It is culture that guides day-to-day working relationships and determines how people communicate within the organization, what behavior is acceptable or not acceptable, and how power and status are allocated. External adaptation refers to how the organization meets goals and deals with outsiders. Culture helps guide the daily activities of workers to meet certain goals. It can help the organization respond rapidly to customer needs or the moves of a competitor.

The organization's culture also guides employee decision making in the absence of written rules or policies. Thus, both functions of culture are related to building the organization's social capital, by forging either positive or negative relationships both within the organization and with outsiders.

Interpreting Culture

To identify and interpret culture requires that people make inferences based on observable artifacts. Artifacts can be studied but are hard to decipher accurately. An award ceremony in one company may have a different meaning than in another company. To understand what is really going on in an organization requires detective work and probably some experience as an insider. Important observable aspects of organizational culture include rites and ceremonies, stories and myths, symbols, organization structures, power relationships, and control systems.

Rites and Ceremonies: Cultural values can typically be identified in rites and ceremonies, the elaborate, planned activities that make up a special event and are often conducted for the benefit of an audience. Managers hold rites and ceremonies to provide dramatic examples of what a company values. These are special occasions that reinforce specific values, create a bond among people for sharing an important understanding, and anoint and celebrate heroes and heroines who symbolize important beliefs and activities.

For example, one type of rite that appears in organizations is a *rite of passage,* which facilitates the transition of employees into new social roles. Another type often used is a *rite of integration,* which creates common bonds and good feelings among employees and increases commitment to the organization.

Consider the following example:

➢ One major energy company hired new college graduates and enrolled them in a "cadet" training program. Each cadet was rotated on assignments through each of the company's major departments, such as marketing, human resources, etc.

At the successful conclusion of each rotation, the cadets were invited to have lunch with senior executives at the "BUG" club, an invitation-only club where senior managers frequently ate lunch. This is a rite of passage.

➢ Whenever a Wal-Mart executive visits one of the stores, he or she leads employees in the Wal-Mart cheer: "Give me a W! Give me an A! Give me an L! Give me a squiggly! (All do a version of the twist.) Give me an M! Give me an A! Give me an R! Give me a T! What's that spell? Wal-Mart! What's that spell? Wal-Mart! Who's No. 1? THE CUSTOMER!" The cheer strengthens bonds among employees and reinforces their commitment to common goals. This is a rite of integration.

Stories and Myths: Stories are narratives based on true events that are frequently shared among employees and told to new employees to inform them about an organization. Many stories are about company heroes who serve as models or ideals for serving cultural norms and values. Some stories are considered legends because the events are historic and may have been embellished with fictional details. Other stories are myths, which are consistent with the values and beliefs of the organization but are not supported by facts.16 Stories keep alive the primary values of the organization and provide a shared understanding among all employees.

Examples of how stories shape culture are as follows:

➢ A story is told at Ritz-Carlton hotels about a beach attendant who was stacking chairs for the evening when a guest asked if he would leave out two chairs. The guest wanted to return to the beach in the evening and propose to his girlfriend.

Although the attendant was going off duty, he not only left out the chairs, he stayed late, put on a tuxedo, and escorted the couple to their chairs, presenting them with flowers and champagne and lighting candles at their table. The story is firmly entrenched in Ritz-Carlton's folklore and symbolizes the value of going above and beyond the call of duty to satisfy guests.

➢ Employees at IBM often hear a story about the female security guard who challenged IBM's chairman. Although she knew who he was, the guard insisted that the chairman could not enter a particular area because he wasn't carrying the appropriate security clearance. Rather than getting reprimanded or fired, the guard was praised for her diligence and commitment to maintaining the security of IBM's buildings. By telling this story, employees emphasize both the importance of following the rules and the critical contributions of every employee from the bottom to the top of the organization.

Symbols: Another tool for interpreting culture is the symbol. A symbol is something that represents another thing. In one sense, ceremonies, stories, and rites are all symbols because they symbolize deeper values. Another symbol is a physical artifact of the organization. Physical symbols are powerful because they focus attention on a specific item. Examples of physical symbols are as follows:

- At the headquarters of Mother, a small London-based advertising agency known for its strong culture and offbeat ads, there are no private offices. In fact, except for the restrooms, there are no doors in the whole place. This headquarters design symbolizes and reinforces the cultural values of open communication, collaboration, creativity, and equality.

- Symbols can also represent negative elements of corporate culture. At Enron, premium parking spots were symbols of power, wealth, and winning at any cost.

Organization Structures: A strong reflection of the culture is how the organization is designed. Does it have a rigid *mechanistic* structure or a flexible *organic* structure? Is there a tall or a flat hierarchy? The way in which people and departments are arranged into a whole, and the degree of flexibility and autonomy people have, tells a lot about which cultural values are emphasized in the organization. Here are a couple of examples:

- Nordstrom's structure reflects the emphasis the department store chain puts on empowering and supporting lower-level employees. Nordstrom is known for its extraordinary customer service. Its organization chart symbolizes that managers are to support the employees who give the service rather than exercise tight control over them.

- Steelmaker Nucor pushes work that is typically done by supervisors down to line workers and work that is typically done by plant managers down to the supervisors, thus keeping levels of the hierarchy to a minimum. This flat organization structure symbolizes Nucor's emphasis on a team-oriented, egalitarian culture.

Power Relationships: Looking at power relationships means deciphering who influences or manipulates or has the ability to do so. Which people and departments are the key power holders in the organization? In some companies, finance people are quite powerful, whereas in others engineers and designers have the most power.

Another aspect is considering whether power relationships are formal or informal, such as whether people have power based primarily on their position in the hierarchy or based on other factors, such as their expertise or admirable character.

Consider these examples:

- An investment firm in Atlanta, Georgia, has an "inner sanctum" with special offices, restrooms, and a dining room for senior executives. The entry door has an electronic lock which only members can access. Mid-level managers hold the title of "director" and eat in a separate dining room. First-level supervisors and other employees share a general cafeteria. Dining facilities and titles signal who has more power in the vertical hierarchy of the organization.

- At W. L. Gore, few people have titles, and no one has a boss. Rather than people having power based on their position, leaders emerge based on who has a good idea and can recruit people to work on it.

Control Systems: The final element relates to control systems, or the inner workings of how the organization controls people and operations. This includes looking at such things as how information is managed, whether managers apply behavior or outcome control related to employee activities, quality control systems, methods of financial control, reward systems, and how decisions are made.

An example of how control systems reflect culture is:

- Netflix lets employees make most of their own choices—even in how to compensate themselves and how much vacation to take. This freedom combined with responsibility reflects what marketing manager Heather McIlhany refers to as a tough, fulfilling, "fully-formed adult" culture.

Culture exists at two levels—the underlying values and assumptions and the visible artifacts and observable behaviors. The rites and ceremonies, stories, symbols, organization structures, power relationships, and control systems just described are visible manifestations of underlying company values. These visible artifacts and behaviors can be used to interpret culture, but they are also used by managers to shape company values and to strengthen the desired corporate culture.

5.2 ORGANIZATION DESIGN AND CULTURE

Managers want a corporate culture that reinforces the strategy and structural design that the organization needs to be effective within its environment. For example, if the external environment requires flexibility and responsiveness, such as the environment for Internet-based companies like Twitter, Netflix, Facebook, or Flickr, the culture should encourage adaptability. The correct relationship among cultural values, organizational strategy and structure, and the environment can enhance organizational performance.

Cultures can be assessed along many dimensions, such as the extent of collaboration versus isolation among people and departments, the importance of control and where control is concentrated, or whether the organization's time orientation is short range or long range.

Here, we will focus on two specific dimensions:

(1) the extent to which the competitive environment requires flexibility or stability; and

(2) the extent to which the organization's strategic focus and strength are internal or external.

Four categories of culture associated with these differences, are adaptability, mission, clan, and bureaucratic. These four categories relate to the fit among cultural values, strategy, structure, and the environment. Each can be successful, depending on the needs of the external environment and the organization's strategic focus.

The Adaptability Culture

The adaptability culture is characterized by strategic focus on the external environment through flexibility and change to meet customer needs. The culture encourages entrepreneurial values, norms, and beliefs that support the capacity of the organization to detect, interpret, and translate signals from the environment into new behavior responses. This type of company, however, doesn't just react quickly to environmental changes—it actively creates change. Innovation, creativity, and risk taking are valued and rewarded.

A good illustration of the adaptability culture is Google, a company whose values promote individual initiative, experimentation, risk-taking, and entrepreneurship. With rapid growth, Google's culture is beginning to show signs of strain. The company zoomed from a few hundred people at headquarters to more than 20,000 in locations scattered around the world, and the processes needed to manage a large corporation hinder some of its creativity and flexibility. In addition, a global economic downturn has led to stronger top-down management and more control of risks and costs. Leaders are scaling back the anything-goes culture as they look for ways to ensure the company continues to thrive during hard times. Nevertheless, they are also consciously trying to keep the heart of the culture intact.

Most Internet-based companies, like Google, use the adaptability type of culture, as do many companies in the marketing, electronics, and cosmetics industries, because they must move quickly to satisfy customers.

The Mission Culture

An organization concerned with serving specific customers in the external environment, but without the need for rapid change, is suited to the mission culture. The mission culture is characterized by emphasis on a clear vision of the organization's purpose and on the achievement of goals, such as sales growth, profitability, or market share, to help achieve the purpose.

Individual employees may be responsible for a specified level of performance, and the organization promises specified rewards in return. Managers shape behavior by envisioning and communicating a desired future state for the organization.

Because the environment is stable, they can translate the vision into measurable goals and evaluate employee performance for meeting them. In some cases, mission cultures reflect a high level of competitiveness and a profit-making orientation.

Professionalism, ambition, and aggressiveness are key values. Managers keep employees focused on achieving high sales and profit levels, and those who meet the demanding goals are handsomely rewarded. Bonuses and promotions are based on performance, not seniority, and top executives are unapologetic about giving special treatment to high achievers.

The Clan Culture

The clan culture has a primary focus on the involvement and participation of the organization's members and on rapidly changing expectations from the external environment.

More than any other, this culture focuses on meeting the needs of employees as the route to high performance. Involvement and participation create a sense of responsibility and ownership and, hence, greater commitment to the organization.

In a clan culture, an important value is taking care of employees and making sure they have whatever they need to help them be satisfied as well as productive. Companies in the fashion and retail industries often adopt this culture because it releases the creativity of employees to respond to rapidly changing tastes.

The Bureaucratic Culture

The bureaucratic culture has an internal focus and a consistency orientation for a stable environment. This type of culture supports a methodical approach to doing business. Symbols, heroes, and ceremonies reinforce the values of cooperation, tradition, and following established policies and practices as ways to achieve goals.

Personal involvement is somewhat lower here, but that is outweighed by a high level of consistency, conformity, and collaboration among members. This organization succeeds by being highly integrated and efficient. Today, most managers are shifting away from bureaucratic cultures because of a need for greater flexibility.

Some people like the order and predictability of a bureaucratic culture, whereas other people would feel stifled and constrained by too much discipline and would be happier working in some other type of culture.

Culture Strength and Organizational Subcultures

Culture strength refers to the degree of agreement among members of an organization about the importance of specific values. If widespread consensus exists about the importance of those values, the culture is cohesive and strong; if little agreement exists, the culture is weak.

A strong culture is typically associated with the frequent use of ceremonies, symbols, and stories, as described earlier, and managers align structures and processes to support the cultural values. These elements increase employee commitment to the values and strategy of a company. However, culture is not always uniform throughout the organization, particularly in large companies. Even in organizations that have strong cultures, there may be several sets of subcultures. Subcultures develop to reflect the common problems, goals, and experiences that members of a team, department, or other unit share. An office, branch, or unit of a company that is physically separated from the company's main operations may also take on a distinctive subculture.

For example, although the dominant culture of an organization may be a mission culture, various departments may also reflect characteristics of adaptability, clan, or bureaucratic cultures. The manufacturing department of a large organization may thrive in an environment that emphasizes order, efficiency, and obedience to rules, whereas the research and development (R&D) department may be characterized by employee empowerment, flexibility, and customer focus.

Subcultures typically include the basic values of the dominant organizational culture plus additional values unique to members of the subculture. However, subcultural differences can sometimes lead to conflicts between departments, especially in organizations that do not have strong overall corporate cultures. When subcultural values become too strong and outweigh the corporate cultural values, conflicts may emerge and hurt organizational performance.

5.3 CULTURE AND THE LEARNING ORGANIZATION

Culture can play an important role in creating an organizational climate that enables learning and innovative response to challenges, competitive threats, or new opportunities. A strong culture that encourages adaptation and change enhances organizational performance by energizing and motivating employees, unifying people around shared goals and a higher mission, and shaping and guiding behavior so that everyone's actions are aligned with strategic priorities. Thus, creating and influencing an adaptive culture is one of a manager's most important jobs. The right culture can drive high performance.

A number of studies have found a positive relationship between culture and performance. The companies that intentionally managed cultural values outperformed similar companies that did not. Some companies have developed systematic ways to measure and manage the impact of culture on organizational performance.

Strong cultures that don't encourage adaptation, however, can hurt the organization. A danger for many successful organizations is that the culture becomes set and the company fails to adapt as the environment changes. When organizations are successful, the values, ideas, and practices that helped attain success become institutionalized. As the environment changes, these values may become detrimental to future performance. Many organizations become victims of their own success, clinging to outmoded and even destructive values and behaviors. Thus, the impact of a strong culture is not always positive. Typically, healthy cultures not only provide for smooth internal integration but also encourage adaptation to the external environment. Non-adaptive cultures encourage rigidity and stability.

Strong adaptive cultures often incorporate the following values:

1. The whole is more important than the parts, and boundaries between parts are minimized. People are aware of the whole system, how everything fits together, and the relationships among various organizational parts. All members consider how their actions affect other parts and the total organization. This emphasis on the whole reduces boundaries both within the organization and with other companies. Although subcultures may form, everyone's primary attitudes and behaviors reflect the organization's dominant culture. The free flow of people, ideas, and information allows coordinated action and continuous learning.

2. Equality and trust are primary values. The culture creates a sense of community and caring for one another. The organization is a place for creating a web of relationships that allows people to take risks and develop to their full potential. The emphasis on treating everyone with care and respect creates a climate of safety and trust that allows experimentation, frequent mistakes, and learning. Managers emphasize honest and open communications as a way to build trust.

3. The culture encourages risk taking, change, and improvement. A basic value is to question the status quo. Constant questioning of assumptions opens the gates to creativity and improvement. The culture rewards and celebrates the creators of new ideas, products, and work processes. To symbolize the importance of taking risks, an adaptive culture may also reward those who fail in order to learn and grow.

4. In adaptive cultures, managers are concerned with customers and employees as well as with the internal processes and procedures that bring about useful change. Behavior is flexible, and managers initiate change when needed, even if it involves risk. In unadaptive cultures, managers are more concerned about themselves or their own special projects, and their values discourage risk taking and change. Thus, strong, healthy cultures help organizations adapt to the external environment, whereas strong, unhealthy cultures can encourage organizations to march resolutely in the wrong direction.

5.4 ETHICAL VALUES IN ORGANIZATIONS

Of the values that make up an organization's culture, ethical values are now considered among the most important. Widespread corporate accounting scandals and ethical lapses among leaders in business and government have filled the news in recent years. A study of business news related to the 100 largest U.S. corporations found that a whopping 40 percent of them have recently been involved in activities that can be considered unethical. And the problem isn't limited to the United States. Business leaders in countries such as Germany and Japan have also been reeling in recent years from one headline-grabbing scandal after another. Top corporate managers are under scrutiny from the public as never before, and even small companies are finding a need to put more emphasis on ethics to restore trust among their customers and the community.

Sources of Individual Ethical Principles

Ethics refers to the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong. Ethical values set standards as to what is good or bad in conduct and decision making. Ethics are personal and unique to each individual, although in any given group, organization, or society there are many areas of consensus about what constitutes ethical behavior.

Each person is a creation of his or her time and place in history. National culture, religious heritage, historical background, and so forth lead to the development of societal morality, or society's view of what is right and wrong. Societal morality is often reflected in norms of behavior and values about what makes sense for an orderly society. Some principles are codified into laws and regulations, such as laws against drunk driving, robbery, or murder.

These laws, as well as unwritten societal norms and values, shape the local environment within which each individual acts, such as a person's community, family, and place of work. Individuals absorb the beliefs and values of their family, community, culture, society, religious community, and geographic environment, typically discarding some and incorporating others into their own personal ethical standards. Each person's ethical stance is thus a blending of his or her historical, cultural, societal, and family backgrounds and influences.

It is important to look at individual ethics because ethics always involve an individual action, whether it be a decision to act or the failure to take action against

Wrong doing by others. In organizations, an individual's ethical stance may be affected by peers, subordinates, and supervisors, as well as by the organizational culture. Organizational culture often has a profound influence on individual choices and can support and encourage ethical actions or promote unethical and socially irresponsible behavior.

Managerial Ethics

Many of the recent scandals in the news have dealt with people and corporations that broke the law. But it is important to remember that ethical decisions go far beyond behaviors governed by law. The rule of law arises from a set of codified principles and regulations that describe how people are required to act, that are generally accepted in society, and that are enforceable in the courts.

Ethical standards for the most part apply to behavior not covered by the law, and the rule of law applies to behaviors not necessarily covered by ethical standards. Current laws often reflect combined moral judgments, but not all moral judgments are codified into law. The morality of aiding a drowning person, for example, is not specified by law, and driving on the right-hand side of the road has no moral basis; but in acts such as robbery or murder, rules and moral standards overlap. Many people believe that if you are not breaking the law, then you are behaving in an ethical manner, but this is not always true. Many behaviors have not been codified, and managers must be sensitive to emerging norms and values about those issues. Managerial ethics are principles that guide the decisions and behaviors of managers with regard to whether they are right or wrong.

Examples of the need for managerial ethics are as follows:

- Top executives are considering promoting a rising sales manager who consistently brings in million a year and has cracked open new markets in places like Brazil and Turkey that are important for international growth. However, female employees have been complaining for years that the manager is verbally abusive to them, tells offensive jokes, and throws temper tantrums if female employees don't do exactly as he says.

- The manager of a beauty supply store is told that she and her salespeople can receive large bonuses for selling a specified number of boxes of a new product, a permanent-wave solution that costs nearly twice as much as what most of her salon customers typically use. She orders her salespeople to store the old product in the back and tell customers there's been a delay in delivery.

- A North American manufacturer operating abroad was asked to make cash payments (a bribe) to government officials and was told it was consistent with local customs, despite being illegal in North America.

As these examples illustrate, ethics is about making decisions. Managers make choices every day about whether to be honest or deceitful with customers and suppliers, treat employees with respect or disdain, and be a good or a harmful corporate citizen. Some issues are exceedingly difficult to resolve and often represent ethical dilemmas. An ethical dilemma arises in a situation concerning right and wrong in which values are in conflict. Right or wrong cannot be clearly identified in such situations. For example, for a salesperson at the beauty supply store, the value conflict is between being honest with customers and adhering to the boss's expectations.

The manufacturing manager may feel torn between respecting and following local customs in a foreign country or adhering to U.S. laws concerning bribes. Sometimes, each alternative choice or behavior seems undesirable. Ethical dilemmas are not easy to resolve, but top executives can aid the process by establishing organizational values that provide people with guidelines for making the best decision from a moral standpoint.

Corporate Social Responsibility

The notion of corporate social responsibility (CSR) is an extension of the idea of managerial ethics and refers to management's obligation to make choices and take action so that the organization contributes to the welfare and interest of all organizational stakeholders, such as employees, customers, shareholders, the community, and the broader society.

CSR was once seen as the purview of small, offbeat companies, but it has moved firmly into the mainstream of organizational thinking and behavior. Ernst & Young lends out employees to provide free accounting services to nonprofit organizations or struggling small businesses around the world, paying their salaries and travel expenses. Burger King has made a commitment to begin buying eggs, pork, and poultry from companies that use humane methods of raising and slaughtering animals. Giant corporations from Wal-Mart to General Electric have announced ambitious environmental responsibility goals. More than 1,000 companies around the world have published reports proclaiming their concern for employees, the environment, and their local communities.

Does It Pay to Be Good?

Why are so many companies embracing CSR? For one thing, customers and the public are paying closer attention than ever before to what organizations do, and managers recognize that being a good corporate citizen can enhance their firm's reputation and even its profitability. The relationship of an organization's ethics and social responsibility to its performance concerns both managers and organization scholars. Studies have provided varying results but generally have found that there is a positive relationship between ethical and socially responsible behavior and financial results. Long-term organizational success relies largely on social capital, which means companies need to build a reputation for honesty, fairness, and doing the right thing. There is evidence that people prefer to work for companies that demonstrate a high level of ethics and corporate social responsibility, so these companies can attract and retain high-quality employees.

Customers pay attention to a company's ethics and social responsibility too. Companies that put ethics on the back burner in favor of fast growth and short term profits ultimately suffer. To gain and keep the trust of employees, customers, investors, and the general public, organizations must put ethics and social responsibility first.

5.5 LEADERSHIP AND CULTURE AND ETHICS

In a study of ethics policy and practice in successful, ethical companies such as Johnson & Johnson and General Mills, no point emerged more clearly than the role of top management in providing commitment, leadership, and examples for ethical behavior. The CEO and other top managers must be committed to specific ethical values and provide constant leadership in tending and renewing the values. Values can be communicated in a number of ways—speeches, company publications, policy statements, and, especially, personal actions. Top leaders are responsible for creating and sustaining a culture that emphasizes the importance of ethical behavior for every employee.

However, it is important to remember that employees are often influenced most by the managers and supervisors they work with closely, rather than by distant top leaders. Managers throughout the organizations need to espouse and model ethical values. Formal ethics programs are worthless if leaders do not live up to high standards of ethical conduct.

Values-Based Leadership

The underlying value system of an organization cannot be managed in the traditional way. Issuing an authoritative directive, for example, has little or no impact on an organization's value system. Organizational values are developed and strengthened primarily through values-based leadership, a relationship between a leader and followers that is based on shared, strongly internalized values that are advocated and acted upon by the leader.

Every act and statement of managers has an impact on culture and values as employees are acutely aware of their bosses' ethical lapses. Something as simple as having a secretary notarize a document without witnessing the signature may seem insignificant, but it communicates that the manager doesn't value honesty. Employees learn about values, beliefs, and goals from watching managers, just as students learn which topics are important for an exam, what professors like, and how to get a good grade from watching professors. Actions speak louder than words, so values based leaders "walk their talk". This approach to leadership creates an emotional bond with employees that builds mutual trust and respect. Employees learn from and model the behaviors of people they admire. In many cases, employees look up to their managers, so values-based leaders serve as ethical role models.

Structure: Top executives can assign responsibility for ethical values to a specific position. This not only allocates organization time and energy to the problem but symbolizes to everyone the importance of ethics. One example is an ethics committee, which is a cross-functional group of executives who oversee company ethics. The committee provides rulings on questionable ethical issues and assumes responsibility for disciplining wrongdoers. By appointing top-level executives to serve on the committee, the organization signals the importance of ethics.

Today, many organizations are setting up ethics departments that manage and coordinate all corporate ethics activities. These departments are headed by a chief ethics officer, a high-level company executive who oversees all aspects of ethics, including establishing and broadly communicating ethical standards, setting up ethics training programs, supervising the investigation of ethical problems, and advising managers on the ethical aspects of corporate decisions. The title of chief ethics officer was almost unheard of a decade ago, but recent ethical and legal problems have created a growing demand for these specialists.

Ethics offices sometimes also work as counseling centers to help employees resolve tricky ethical dilemmas. The focus is as much on helping employees make the right decisions as on disciplining wrongdoers. Most ethics offices have confidential ethics hotlines that employees can use to seek guidance as well as report questionable behavior. One organization calls its hotline a “Guide Line” to emphasize its use as a tool for making ethical decisions as well as reporting lapses.

Disclosure Mechanisms: A confidential hotline is also an important mechanism for employees to voice concerns about ethical practices. Holding organizations accountable depends to some degree on individuals who are willing to speak up if they suspect illegal, dangerous, or unethical activities. Whistle-blowing is employee disclosure of illegal, immoral, or illegitimate practices on the part of the organization. As ethical problems in the corporate world increase, many companies are looking for ways to protect whistle-blowers. In addition, calls are increasing for stronger legal protection for those who report illegal or unethical business activities. When there are no protective measures, whistle-blowers suffer, and the company may continue its unethical or illegal practices.

Many whistle-blowers suffer financial and personal loss to maintain their personal ethical standards. Many governments, including the United States and Japan, have passed laws aimed at protecting whistle-blowers. But that isn’t enough. Enlightened companies strive to create a climate and a culture in which employees feel free to point out problems and managers take swift action to address concerns about unethical or illegal activities.

Code of Ethics: A code of ethics is a formal statement of the company’s values concerning ethics and social responsibility; it clarifies to employees what the company stands for and its expectations for employee conduct. The code specifies the types of behaviors expected to honor these values and encourages employees to use available company resources to help make ethical choices and decisions. Codes of ethics may cover a broad range of issues, including statements of the company’s guiding values; guidelines related to issues such as workplace safety, the security of proprietary information, or employee privacy; and commitments to environmental responsibility, product safety, and other matters of concern to stakeholders.

Some companies use broader values statements within which ethics is a part. These statements define ethical values as well as corporate culture and contain language about company responsibility, quality of product, and treatment of employees. A formal statement of values can serve as a fundamental organizational document that defines what the organization stands for and clarifies the expected ethical behaviors and choices. Although written codes of ethics and value statements are important, it is essential that top managers support and reinforce the codes through their actions, including rewards for compliance and discipline for violations. Otherwise, a code of ethics is nothing more than a piece of paper.

Training Programs: To ensure that ethical issues are considered in daily decision making, many companies supplement a written code of ethics with employee training programs. In an important step, some training programs also include frameworks for ethical decision making. Learning these frameworks helps employees act autonomously and still think their way through a difficult decision. In a few companies, managers are also taught about the stages of moral development, which helps to bring them to a high level of ethical decision making. This training has been an important catalyst for establishing ethical behavior and integrity as critical components of strategic competitiveness.

These formal systems and structures can be highly effective. However, they alone are not sufficient to build and sustain an ethical company. Leaders should integrate ethics into the organizational culture, as well as support and renew ethical values through their words and actions. Only when employees are convinced that ethical values play a key role in all management decisions and actions can they become committed to making them a part of their everyday behavior.

5.6 SUMMARY

This unit covered a range of material on corporate culture, the importance of cultural and ethical values, and techniques managers can use to influence these values. Cultural and ethical values help determine the organization's social capital, and the right values can contribute to organizational success.

Culture is the set of key values, beliefs, and norms shared by members of an organization. Organizational cultures serve two critically important functions—to integrate members so that they know how to relate to one another and to help the organization adapt to the external environment. Culture can be interpreted by looking at the organization's rites and ceremonies, stories, symbols, structures, control systems, and power relationships. Managers can also use these elements to influence culture.

Organizational culture should reinforce the strategy and structure that the organization needs to be successful in its environment. Four types of culture that may exist in organizations are adaptability culture, mission culture, clan culture, and bureaucratic culture. When widespread consensus exists about the importance of specific values, the organizational culture is strong and cohesive. However, even in organizations with strong cultures, several sets of subcultures may emerge, particularly in large organizations.

Strong cultures can be either adaptive or nonadaptive. Adaptive cultures have different values and different behavior patterns than nonadaptive cultures. Strong but unhealthy cultures can be detrimental to a company's chances for success. On the other hand, strong adaptive cultures can play an important role in creating high performance and innovative responses to challenges, competitive threats, or new opportunities.

An important aspect of organizational values is managerial ethics, which is the set of values governing behavior with respect to what is right or wrong. Corporate social responsibility (CSR) is an extension of managerial ethics and refers to management responsibility to make choices that contribute to the welfare of society as well as the organization. CSR has become a critical business issue for organizations.

The unit also discussed how leaders shape culture and ethics. One important idea is values-based leadership, which means leaders define a vision of proper values, communicate it throughout the organization, and institutionalize it through everyday behavior, rituals, ceremonies, and symbols.

The unit also discussed formal systems that are important for shaping ethical values. Formal systems include an ethics committee, an ethics department, disclosure mechanisms for whistle-blowing, ethics training programs, and a code of ethics or values statement that specifies desired ethical values and behaviors.

As business increasingly crosses geographical and cultural boundaries, leaders face difficult challenges in establishing strong cultural and ethical values with which all employees can identify and agree. Companies that develop global cultures emphasize multicultural values, base status on merit rather than nationality, are excited about new cultural environments, remain open to ideas from other cultures, and are sensitive to different cultural values without being limited by them. Social audits are important tools for companies trying to maintain high ethical standards on a global basis.

5.7 EXERCISES

Q.1. How much do you think it is possible for an outsider to discern about the underlying cultural values of an organization by analyzing symbols, ceremonies, dress, or other observable aspects of culture, compared to an insider with several years of work experience?

Q.2. Can a strong bureaucratic culture also be an adaptive culture? Discuss.

Q.3. Why is values-based leadership so important to the influence of culture? Does a symbolic act communicate more about company values than an explicit statement? Discuss.

Q.4. Can you recall a situation in which either you or someone you know was confronted by an ethical dilemma, such as being encouraged to inflate an expense account or trade answers on a test? Do you think the decision was affected more by individual moral values or by the accepted values within the team or company? Explain.

Q.5. What importance would you attribute to leadership statements and actions for influencing ethical values and decision making in an organization?

Q.6. Why has globalization contributed to more complex ethical issues? Do you think it's possible for a company operating in many different countries to have a cohesive corporate culture? To have uniform ethical values?

Q.7. Codes of ethics have been criticized for transferring responsibility for ethical behavior from the organization to the individual employee. Do you agree? Do you think a code of ethics is valuable for an organization?

Q.8. Fill in the blanks and complete the below sentences:

a) _______ is the set of values, norms, guiding beliefs, and understandings that is shared by members of an organization.

b) _______ can be studied but are hard to decipher accurately.

c) A rite of _____, which facilitates the transition of employees into new social roles.

d) Looking at _____ relationships means deciphering who influences or manipulates or has the ability to do so.

e) _____systems, or the inner workings of how the organization controls people and operations.

f) The ________ culture is characterized by strategic focus on the external environment through flexibility and change to meet customer needs.

g) The _____ culture is characterized by emphasis on a clear vision of the organization's purpose.

h) The _____ culture has a primary focus on the involvement and participation of the organization's members.

i) The ______ culture has an internal focus and a consistency orientation for a stable environment.

j) ______ refers to the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong.

k) The notion of _________ is an extension of the idea of managerial ethics and refers to management's obligation to make choices.

l) A code of ethics is a formal statement of the company's values concerning ______ and _________ responsibility.

5.8 SUGGESTED READING

Text books

Robins Khandwalla, P. N. Organizational design for excellence, New Delhi, Tata McGraw Hill, 1992

Reference books

Daft, R. L. Organization Theory and Design, Current Edition. Thomson Southwestern

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6

INNOVATION, CHANGE AND ORGANIZATIONAL DESIGN

Unit Structure :

6.0 OBJECTIVE

- This chapter explores the strategic role of change, elements of successful change, new products and services, technology change, strategy and structure change, culture change, and strategies for implementing change.
- This chapter helps us to understand how in today's dynamic and rapidly evolving business -landscape, innovation, change, and organizational design have become essential components of driving growth and sustainability.
- In this chapter we will learn, organizations that embrace change and innovation are better equipped to adapt to market shifts, respond to emerging trends, and maintain a competitive edge.

6.1 INTRODUCTION

For businesses to survive, innovation is essential. Employees' ability to develop new strategies to enhance productivity and organizational performance is known as organizational innovation. Innovation can boost productivity and corporate success, but it also brings about change, and people naturally resist change. Managers need to encourage innovation and manage the change that comes with it.

Change is inevitable. The only thing that is constant is change. Management must do a good job of managing change. Organizations must closely monitor their environment and make the necessary modifications and changes as needed. Change is a constant occurrence. Organizations must be proactive in affecting change. Change is required in even the most stable of organizations just to maintain the level of stability. Technology, commercial pressures, and socioeconomic factors are the main environmental elements that make the change necessary. It is undesirable to resist change. It is harmful in nature and counterproductive to growth. Managers must evolve policies to affect change. According to Barney and Griffin, “the primary reason cited for organizational problems is the failure by managers to properly anticipate or respond to forces for change.”

6.2 THE STRATEGIC ROLE OF CHANGE

Change is a strategic imperative for organizations that seek to maintain relevance, competitiveness, and profitability. Organizations that do not embrace change risk stagnation, market irrelevance, and ultimately, failure. Change is not just about adapting to external pressures or market shifts; it is also about creating and shaping the future. Organizations that can anticipate future trends and adapt quickly are more likely to seize opportunities, create new markets, and gain a competitive edge. The strategic role of change is to enable organizations to navigate the challenges and uncertainties of the business environment, capitalize on new opportunities, and create sustainable growth.

1) **The importance of change management :** Change management is critical to achieving strategic objectives because it helps organizations to adapt to changes in their environment. The business environment is dynamic and constantly evolving, and organizations must be able to adapt to these changes to remain relevant. Change management helps organizations to identify and respond to changes in their environment by providing a structured approach to change.

2) **Challenges organizations face when implementing change:** Implementing change in organizations can be challenging. Some of the challenges organizations face include resistance to change, lack of resources, inadequate communication, and lack of support from leadership. Resistance to change is a common challenge because change can be disruptive and can cause uncertainty. Lack of resources can also be a challenge because implementing change can be costly.

Inadequate communication can also be a challenge because employees may not understand why the change is necessary, leading to resistance. Lack of support from leadership can also be a challenge because leaders are critical to the success of change management initiatives.

3) **Key success factors for effective change management:** Effective change management requires a structured approach and the involvement of all stakeholders. Some of the key success factors for effective change management include effective communication, engagement of employees, strong leadership, and a clear vision. Effective communication is critical to ensuring that employees understand the change and why it is necessary. Engaging employees is also critical because they are the ones who will be implementing the change. Strong leadership is also important because leaders are responsible for driving change and ensuring that it is successful. A clear vision is also critical because it provides direction and helps to align stakeholders around a common goal.

4) **Impact of change on organizational culture:** Change can have a significant impact on organizational culture. Organizational culture is the shared values, beliefs, and behaviors that shape how work is done in an organization. Change can impact organizational culture by changing the way work is done and by changing the values and beliefs of employees. Successful change management initiatives are those that are able to align the culture of the organization with the change being implemented.

6.3 ELEMENTS OF SUCCESSFUL CHANGE

When a business is in the midst of changing the way work is done and asking its people to change ingrained behaviours, confusion, fear and frustration are among the most frequently experienced emotions. However, the likelihood of a successful change is considerably increased with the right combination of vision, skills, incentives, resources and an action plan.

Thus, the these five elements - vision, skills, incentives, resources and an action plan – must be in place for successful change to occur.

1) **Vision: A Clear and Compelling Future:** The willingness to let go of the present is a function of how clear and compelling the future is to which one is drawn. Without a clear and compelling vision, resources, incentives, skills and well-planned actions lead to a sense of confusion. “Why are we being asked to change?” will be heard in the hallways and at the coffee machines. A vision not only inspires creative thinking, it provides a sense of direction.

2) **Skills:** The next necessary element is skills. What skills are needed? Do staff members have expertise or training in what they are being

asked to do? If not, will it be provided from someone they trust? Feeling as if skill or training is lacking may lead to anxiety.

3) **Incentive: Compensation Makes It Work:** Employees typically also need incentives to make a change. How will it benefit them? There is nothing worse than feeling as if time is being wasted. Everyone must see the value in the change before it can happen. Incentives is the piece that can either build consensus or build resistance among staff. Incentives can be tangible such as monetary, or intangible such as personal achievement or prestige. And it's important to create them with consistency and direct linkage to the vision.

4) **Resources: Turning Vision into Reality:** Without the resources to turn the vision into reality, all those involved will see the projects as an exercise in frustration. "We know what needs to be done, if only we had the time to do it," or "They want us to do more with less" is an often heard sentiment.

What resources are readily available? Are they appropriate? Are there in-house people who are resources? Is the distribution of resources fair? What resources are needed and how will you get them? Finding answers to all these questions is an important step in implementing change successfully.

5) **Action Plan: Actions Are Important:** The final element required for change is an **action plan**. The action plan for change should be clear and developed by a representation of all stakeholders. Without it, staff may feel as if they are running in place and not moving forward. They feel like they are going round and round without any clear direction even though they are working diligently. Without a plan, gaining traction and moving forward is impossible.

There is no better opportunity to involve stakeholders than in defining the expected project outcomes, approach and milestones. Take the time for consultation sessions and be open to modifying the approach based on their input. Good planning with those whose support is most needed and this help in avoiding false starts.

Take a moment to view the diagrams below. You will probably recognize some of these feelings as they relate to you or your organization. When you are feeling confused, it is probably because you do not have a well-defined direction in which to proceed. Is confusion something you or your organization is experiencing? If so, then it may be time to develop a clear vision statement, before the anticipated change can occur.

See if you can identify with the emotion attributed to each of the following:

Without a vision or direction - there is confusion.

Without the skills necessary to create or implement change - there is anxiety.

Without incentives or reasons to continue, then there is resistance.

Without resources - the capital or assistance to continue, then there is frustration.

Without an action plan - it seems like one is repeating the same thing over and over again without results.

Thus, the change process model contends that if all things remained the same and the 'x' box was solved, change will occur successfully.

6.4 NEW PRODUCTS AND SERVICES

New products and services are critical drivers of innovation, growth, and competitive advantage. Organizations that can develop and launch new products and services quickly and effectively are better positioned to meet customer needs, capture market share, and stay ahead of competitors. New product development requires a systematic approach that includes market research, ideation, prototyping, testing, and launch. Successful product development also requires cross-functional collaboration, effective project management, and agile processes that can adapt to changing customer needs and market dynamics.

For example, Apple's iPod, iPhone, and iPad products revolutionized the music, mobile phone, and tablet markets, respectively, by introducing innovative features, sleek design, and seamless integration.

The impact of introducing new products and services, can be both positive and negative and it is essential for organizations to understand them to make informed decisions about new product development.

<u>Positive Impact:</u>

- **Increased Revenue:** The introduction of new products and services can increase revenue for organizations. By offering new products and services, organizations can attract new customers and expand their customer base, leading to increased sales and revenue. Additionally, new products and services can help organizations to upsell and cross-sell to existing customers, increasing the average transaction value.

- **Competitive Advantage:** New products and services can give organizations a competitive advantage. By offering unique and innovative products and services, organizations can differentiate themselves from their competitors and gain a competitive edge in the market. This can help organizations to attract and retain customers and increase market share.

- **Improved Reputation:** Introducing new products and services can enhance an organization's reputation. By offering high-quality, innovative, and customer-centric products and services, organizations can build a positive brand image and enhance their reputation in the market. This can help to attract new customers and retain existing ones, leading to increased revenue and profitability.

Negative Impact:

- **Increased Costs:** Introducing new products and services can be expensive for organizations. Development costs, production costs, and marketing costs can add up quickly, leading to increased expenses for the organization. If the product or service does not sell as expected, the organization may incur losses, impacting profitability.

- **Cannibalization:** Introducing new products and services can cannibalize existing products and services. If the new product or service is too similar to existing offerings, customers may switch from existing products or services, leading to a decline in revenue. Additionally, if the new product or service is not priced appropriately, it may reduce the revenue generated by existing products or services.

- **Operational Disruptions:** Introducing new products and services can cause operational disruptions for organizations. New products and services may require changes to production processes, supply chain management, and inventory management, leading to disruptions and delays. Additionally, introducing new products and services may require employees to be trained, leading to a temporary reduction in productivity.

Thus, by understanding the potential positive and negative impacts, organizations can make informed decisions about new product development. To maximize the benefits and minimize the risks, organizations must carefully evaluate the market, develop a sound product development strategy, and manage costs and risks effectively. Successful new product development can help organizations to increase revenue, gain a competitive advantage, and enhance their reputation in the market.

6.5 TECHNOLOGY CHANGE

Technology change has become an integral part of business operations in the modern era, affecting various aspects of organizations, including operations, productivity, customer experience, and competitiveness. Organizations that can adopt and integrate new technologies effectively are better positioned to optimize processes, enhance productivity, and drive growth. Technology change includes hardware, software, and systems upgrades, as well as the adoption of new digital tools and platforms such as cloud computing, artificial intelligence, and the Internet of Things. Successful technology change requires a comprehensive approach that includes assessment, planning, implementation, training, and support.

The impact of technology change can be both positive and negative, and it is essential for organizations to understand and manage these impacts effectively to derive maximum benefits.

Positive Impact:

- **Increased Efficiency and Productivity:** One of the most significant benefits of technology change is increased efficiency and productivity. With the help of new technologies, organizations can automate repetitive tasks, streamline processes, and reduce manual errors. This, in turn, can increase productivity, reduce costs, and improve overall business performance.

- **Improved Customer Experience:** Technology change can help organizations to improve the customer experience. With the help of new technologies, organizations can offer personalized services, respond to customer queries and complaints more efficiently, and provide seamless customer experiences across multiple channels. This can lead to increased customer satisfaction, loyalty, and retention.

- **Competitive Advantage:** Technology change can provide organizations with a competitive advantage. By adopting new technologies, organizations can differentiate themselves from their competitors and gain a competitive edge in the market. This can help organizations to attract and retain customers, increase market share, and improve profitability.

Negative Impact:

- **Increased Costs:** Technology change can be expensive for organizations. Investments in new technologies, infrastructure, and training can add up quickly, leading to increased expenses. Additionally, technology change may require organizations to replace existing systems and equipment, leading to additional costs.

- **Security Risks:** Technology change can also pose security risks to organizations. With the increasing use of cloud-based systems and the internet of things (IoT), organizations may be vulnerable to cyber-attacks, data breaches, and other security threats. This can result in loss of sensitive data, reputation damage, and financial losses.

- **Employee Resistance:** Technology change can face resistance from employees who may be hesitant to adopt new technologies or may feel threatened by automation. This can lead to a temporary reduction in productivity, decreased morale, and increased employee turnover.

Thus, to maximize the benefits and minimize the risks, organizations must carefully evaluate the need for new technologies, develop a sound technology adoption strategy, and manage costs and risks effectively.

6.6 STRATEGY AND STRUCTURE CHANGE

6.6.1 What is Strategy?

Strategy is the action steps a business takes to reach its goals. This is typically part of the business plan, which is a document detailing a business's goals and approaches. A business strategy can detail many company elements, including:

- Marketing plan
- Branding ideas
- Price models
- Growth plans
- Market analysis
- Cost, profits and revenue requirements
- Potential business risks

6.6.2 Why is strategy important?

A business strategy can help companies plan their growth and meet their goals. Creating a strategy can help business owners in the following ways:

- **Set specific goals:** A clear strategy can help businesses set specific, actionable goals. Business owners may create milestones or performance indications in their strategy to help them measure and track their progress.

- **Increase efficiency:** By researching the current market and drafting a business plan, a company may increase its efficiency. Business owners or financial managers can assess a strategy to find areas to improve or adjust to improve production.

- **Identify strengths and weaknesses:** A business strategy can help professionals analyze a company's strengths and weaknesses. By assessing risks and analyzing the market, business owners can discover areas where they can improve to increase revenues.

- **Increase market advantages:** Creating a business strategy could help businesses reach their goals and compete with other companies in their industry.

- **Build a company reputation:** Part of a business's strategy is the branding and marketing plan. A company's brand is the message or personality they want to reflect. Creating a strategy can help them design a stronger brand, which could help them attract new customers or investors.

6.6.3 What is structure?

An organization's structure reflects the overall company formation. The organizational structure describes many components within the business, including:

- People in the company
- Leadership positions and teams
- Job positions and number of employees
- Technical procedures
- Business methods
- Operational processes
- Technology
- Company culture
- Mission statement and values

There are many different types of organizational structures. Each one has its own benefits and possibilities. The structure you choose could affect your strategy. Alternatively, the strategies you choose might affect the structure you use. Some companies change or refine their structure over time. Here are a few common structure types:

1) **Hierarchal:** In a hierarchal structure, the company divides employees into groups. Each group has a designated manager or leader. These leaders report to another manager and the middle-managers report to upper-managers or executives. This structure may increase communication and show employees a clear line of advancement opportunities.

2) **Functional:** A functional structure is a common formation in modern businesses. In this structure, the company groups the employees into teams based upon their responsibilities. For example, there might be a marketing team, a sales team or a technology team within a financial business. This structure can increase collaboration and productivity.

3) **Matrix:** In a matrix structure, employees belong to groups based on their skills. They report to multiple managers, such as a functional manager and a project manager for new tasks. This type of structure promotes communication and can create a more flexible work environment.

4) **Divisional:** Division structures separate employees into different categories based on their location, products or services. For example, a company with multiple locations may have a division for each country they work in. This structure is most common in large or global companies. It can help companies track their progress and productivity for certain locations or services.

5) **Flat:** In a flat structure, employees have more decision-making power. They report directly to upper-management and may have more responsibility. This structure is common for new businesses or start-ups. It can reduce costs and improve colleague relationships.

6.6.4 Why is structure important?

Organizational structure is an important part of a company's operation and growth. An organizational structure can help businesses achieve the following:

- **Increased employee performance:** With a clear organizational structure, employees know more about their responsibilities. This can help improve employee performance and increase collaboration within teams.

- **Improved efficiency:** An organizational structure can show the different departments and teams, which can increase a business's efficiency. With a structure plan, teams have a designated leader who can delegate tasks.

- **Better communication and culture:** An organizational plan can show employees where to go for certain information. This can help improve communication within teams and between departments. It can also help improve the workplace culture.

6.6.5 Strategy and structure change

Strategy and structure change involves rethinking and revising an organization's overall direction and operating model to respond to changing market conditions, competitive pressures, or customer needs. Strategy and structure change can include a range of initiatives such as mergers and acquisitions, diversification, reorganization, and strategic partnerships. Successful strategy and structure change requires a clear understanding of the organization's core competencies, strengths, and weaknesses, as well as an assessment of market trends and competitive pressures. It also requires effective stakeholder engagement, strong leadership, and effective communication.

For example, when Microsoft realized that its core business of personal computers was declining, it shifted its focus to cloud computing, which has become one of its primary growth engines. This strategic shift required significant changes in its structure, including reorganization and a shift in talent development.

6.6.6 Strategy Change

Strategic change involves making changes to the overall goals, purpose, strategy or mission of an organization to boost competitive advantage or achieve another significant objective. The responsibility to guide strategic change typically falls to upper management or executive staff members. Once leaders identify their desired goals or missions, they must perform the change management process in a structured manner. The use of change management models, such as Kotter's 8-step change model, can help organizations implement plans thoughtfully.

Importance of Strategy Change

- **Increased Focus:** Changing an organization's strategy can help to increase its focus. By redefining its objectives, an organization can align its resources, processes, and people to achieve its goals more effectively. This can help to improve business performance, increase market share, and enhance competitiveness.

- **Improved Innovation:** Changing an organization's strategy can also help to improve innovation. By focusing on new markets, products, or services, organizations can introduce innovative solutions to meet changing customer needs and preferences. This can help to differentiate the organization from its competitors and increase its competitive advantage.

- **Enhanced Risk Management:** Changing an organization's strategy can help to enhance risk management. By analyzing and understanding the potential risks associated with different strategies, organizations can develop contingency plans to mitigate those risks. This can help to reduce uncertainty, improve decision-making, and increase the likelihood of success.

6.6.7 Structure Change:

Structural changes are those changes made to the organization's structure that might stem from internal or external factors a typically affect how the company is run. Structural change includes the change in organizational hierarchy, chain of command, management systems, job structure, or administrative procedures. A merger is the most common cause of a structural change in an organization.

For example, let's say Company **A** decided to merge with Company **B**, and as a part of that merger, many changes need to be made. Job functions need to be realigned to fit the new organization's structure, new policies and procedures need to be implemented, duplicate departments need to be eliminated, employees may need to be relieved or reassigned to new positions, managers may acquire new employees, new departments may need to be created, etc.

Another example of structural change is relocating the office to accommodate new staff, save costs, and move closer to customers or employees.

Thus it can be said that circumstances that usually create the need for structural change includes Merges and Acquisition, Job Duplication, Changes in the market, and Processes and Policy changes.

Importance of Structure Change:

- **Increased Agility:** Changing an organization's structure can help to increase agility. By creating a more flexible and adaptable structure, organizations can respond more quickly to changing market conditions and customer needs. This can help to improve business performance, increase customer satisfaction, and enhance competitiveness.

- **Improved Collaboration:** Changing an organization's structure can also help to improve collaboration. By creating cross-functional teams and reducing silos, organizations can improve communication, knowledge-sharing, and teamwork. This can help to enhance productivity, reduce costs, and improve decision-making.

- **Enhanced Accountability:** Changing an organization's structure can help to enhance accountability. By clarifying roles, responsibilities, and decision-making authority, organizations can improve performance management, reduce duplication of efforts, and increase accountability at all levels. This can help to improve business performance, reduce costs, and enhance overall organizational effectiveness.

6.7 CULTURE CHANGE

Cultural change occurs when an organization sets out to align the internal culture to its vision and core values. This process, also referred to as cultural transformation, helps the business to achieve new objectives.

An organization's culture, or the beliefs and behaviors that influence how people act within that organization, plays a major role in a company's success or failure. As such, more and more businesses are paying attention to the impact of their culture. This provides a unique leadership opportunity for HR professionals to determine how to implement organizational culture change.

Company culture is something that is felt more than measured. In essence, an organization's culture is the shared perception of "how things are done". This perception may or may not match stated policy, values, or mandates. Good HR departments have a pulse on how employees are feeling, and can therefore be on the front line for managing and influencing culture.

However, as businesses that struggle with their culture will tell you, organizational cultural management can be challenging. And it can be especially difficult when there's the need for a change. In part, this is because an organization's culture encompasses several components that intertwine and impact each other: values, goals, roles, processes, communications practices, and attitudes.

Changing organizational culture is a large-scale undertaking that takes careful strategy and planning. It holds the unique requirement of both starting at the top and also being an organization-wide process. But first, you must determine when a cultural change is necessary. Then you can decide how to influence culture change.

Culture change involves transforming an organization's underlying values, beliefs, and norms to create a more collaborative, innovative, and agile workplace. Culture change is often driven by a need to adapt to market shifts or to address cultural barriers that may be impeding growth and innovation. Successful culture change requires a comprehensive approach that includes leadership commitment, communication, employee engagement, and continuous improvement. For example, when IBM was struggling to compete with more agile startups, it underwent a cultural transformation to become more entrepreneurial and innovative. The transformation involved a shift in leadership style, a focus on collaboration, and the creation of a more entrepreneurial culture.

6.8 STEPS INVOLVED IN MANAGING CHANGE

Organizations must plan to implement change in a systematic manner. It must identify the field in which the change is required whether it is strategic, structural, process – oriented or cultural change. Changes can also be affected in all the areas concurrently, but it must be managed appropriately so that there is no bottleneck effect. Once the need for change is identified and the area in which it is to be implemented, the following steps have been suggested by Greiner.

(a) **Develop new goals and objectives:** Objectives and goals are derived out of mission statements, objects may need revision due to change in external or internal forces.

(b) **Select an agent for change:** It is the responsibility of the management to entrust execution of change to appropriate authority. A manager may be given this responsibility. Outside change agent can also be employed for the purpose. A specialist or a consultant can be brought in to suggest change and monitor implementation. He is also called a facilitator.

(c) **Diagnose the problem:** Diagnosis is the first step to implement change. If an organization has a large number of employee turnover then the data must be collected and made available to the consultant so that the reasons for turnover can be identified and appropriate corrective measures taken. The process of identification of problem is not simple as it appears. This itself may need a research.

(d) **Select Methodology:** It is comparatively easy to implement material change as a part of change of a system. What is important is to protect the emotions they must be made party to select methods so that it is easier to implement at a later stage.

(e) **Develop Pan:** If the organization wants to reduce employee turnover, it may like to carry out comparative study of other organizations in respect of job content, reward system, employee performance, appraisal system, promotion criteria, training & development and the strategy adopted by the organization for its growth. Based on examination of these factors, consultant would be able to develop a plan for change. It may require to introduce a new training and development policy that may reduce employee turnover. While developing a plan, various other factors must also be reviewed. Plan should not be finalized in isolation. All departmental heads must be co-opted in the exercise.

(f) **Strategy for implementation:** Timings of implementation of change is very crucial. A deliberate decision must be taken in this regard like hike in price of a product, the decision to implement change is critical. If the change is related to internal employees, it must be communicated at an appropriate time so that there is no resistance to planned change.

(g) **Implementation of Plan:** Once the decision to implement the plan and communication through which the plan is to be implemented is decided, it is the responsibility of the various departments to implement the same. This may need notification, briefing sessions or in-house seminars so as to ensure acceptance of all the members of the organizations specially those who are likely to get affected. Implementation may be for a short duration as one time change of system or process but its aftermath is of great value. Employee reactions in attitudes, aspirations, emotions and behaviour must be canalized in positive directions due to change.

(h) **Evaluation & Feedback:** The result of the change must be evaluated and suitable feedback obtained. If modification to training & development causes decrease in employee turnover, the objective of change would deemed to have been achieved. If the results are contrary to the expectation, then a new change may be required to diagnose cause.

6.9 STRATEGIES FOR IMPLEMENTING CHANGE

To carry out a major change within your organization, you can take a few different approaches. Here are eight strategies you can implement during your next major change to help things go more smoothly:

1) **Plan out the change:** The best strategy for implementing change in your organization is to create a plan. You should detail everything about the change before you get started on the process. Some of the questions you will want to answer during your planning include:

Who does the change impact?

What size does the change need to be?

What is the timeline of the change?

What steps are involved in the change?

What will the change cost?

Who is responsible for implementing the change?

Answering these types of questions before you start offers several benefits. For example, it allows you to identify potential issues before they arise so that you can better prepare for them. It can also help your organization implement the change more easily and quickly.

2) **Strive for regular changes:** It is often easier to implement change within an organization when employees experience changes regularly. Changes that come infrequently are more jarring and, therefore, more challenging to adapt to. As a leader in your organization, you should always be on the lookout for ways to improve your business through change so that your team members do not become too accustomed to their current ways.

   Your goal is to have employees who are comfortable with change, and you can reach this goal by implementing change more frequently. However, all changes should be done for a reason. So, even if they are minor, only make changes that can help improve your business processes.

3) **Create stability:** While change is good, it needs a solid foundation to rest on. There should be certain foundational things about your business that remain consistent. For example, you can keep your organization's values and mission statements the same while changing how employees operate. After making a change, your organization's employees should feel like they are working for the same company, just in a different way.

   Before making a change, you should write down your organization's core principles. Keep these in mind as you implement any change, as they will help determine how you carry out the process.

4) **Let others have a say:** People have an easier time adapting to change when they play a role in creating that change. Whenever your organization needs to make a change, it's a good idea to include more people in the decision-making process. Ask for advice on what changes to make or the best ways to implement those changes. This will not only help others feel more involved with the change, but it may open you up to ideas you had not previously considered.

5) **Give reasons for the change:** When making a change within your organization, it's important the supply your colleagues with reasons for that change. This will help them understand the reasoning behind it and make your decision seem less arbitrary. You can start by providing the logical reasons for the changes, such as increasing revenue, decreasing costs or improving productivity.

   Besides the logical reasons, also provide some emotional reasons. Talk about the benefits employees can expect to see from these changes, such as exciting new projects, a more creative atmosphere or closer team relationships. The logical reasons help employees understand why a change is needed, while the emotional reasons can help them embrace this change as something positive to look forward to.

6) **Offer incentives:** A good way to get more employees excited about an organizational change is by offering incentives. Incentives encourage employees to try out the change sooner and start adapting to it. For example, you could offer a party at the end of the week if each employee uses your new project management tracking system each day. Other incentives could include paid time off, gift cards, awards or small prizes.

7) **Package the change:** How you present the change to employees in your organization will impact how quickly they embrace it. Aim to present the change in a fun or interesting way to help people remember it. For example, you could order lunch for the group and provide a personal demonstration of new software rather than sending out a mass email with instructions. If you discuss the change in person, you can also explain the benefits and answer any questions people may have about it. Some people can be resistant to change, so it is crucial to present changes effectively.

8) **Lead by example:** To get others to embrace a change, you need to embrace it yourself. Talk about the change with a positive attitude, and demonstrate the change yourself whenever you can. For example, if you are training new employees in your department, you should take the initiative to get to know them and make them feel comfortable with the current processes and procedures.

   Participating in the change can help encourage others to join in. Additionally, employees are less likely to feel like you are forcing a change upon them and may instead believe that you are making a positive change that impacts everyone, including yourself.

6.9 SUMMARY

Innovation, change, and organizational design are essential components of driving growth and sustainability in today's business environment. Organizations that can embrace change, develop new products and services, adopt new technologies, revise their strategies and structures, and transform their cultures are better positioned to succeed in a dynamic and rapidly evolving market. Successful change requires a comprehensive approach that includes clear vision and objectives, effective communication, strong leadership, stakeholder engagement, continuous improvement, and a range of strategies and techniques that address the specific needs and challenges of the organization. By embracing innovation, change, and organizational design, organizations can create a more agile, resilient, and competitive future.

6.10 EXERCISES

Q.1 State and Explain in detail the elements of successful change.

Q.2 What is the impact of Technology Change?

Q.3 What is strategy? State the importance of strategy.

Q.4 What is structure? State the importance of structure.

Q.5 Write short note on strategies for implementing change.

Q.6 State whether True or False:

1. In order to respond effectively to opportunities and threats, the organization may need to make changes to its current products, markets or processes. The environment can act as a trigger for change in organizations. (T)

2. It is very hard to ignore the impact of change on contemporary businesses. Implementing and managing change is often an integral part of strategy implementation. (T)

3. Change management can be defined as 'the continuous process of aligning an organization with its marketplace and doing it more responsively and effectively than competitors'. (T)

Q.7 Multiple Choice Questions:

1. The exact triggers for change will depend on the context of an organization and its industry. Identify from the following that could act as change triggers:

   A. Arrival of new entrants into the market, or mergers/acquisitions between existing competitors in the industry.

   B. Changes in level or intensity of competition (prompting a need to gain or protect market share).

   C. New laws or regulations affecting an industry; or changes in government legislation more generally.

   D. **All of the above**

2. One useful way of prioritizing change triggers – and strategic uncertainties more generally – is in relation to their impact and immediacy. The impact (importance) of a strategic uncertainty is related to:

   A. The extent to which it involves trends or events that will impact the organization

   B. The importance to the organization of the business units or products affected by the uncertainty/trigger

   C. The number of business units or products potentially affected by the uncertainty; i.e. the scale of the impact on the organization

   D. All of the above

3. Which of the following is correct?

   A. Once it has identified the opportunities and threats present in its environment, an organization has to decide how to respond to them, and which of them need to be given the highest priority.

   B. The organization's response to opportunities and threats could then act as trigger for organizational change.

   C. Both A&B

   D. None

4. For an organization to respond to the need for change, it needs a way of planning for, and implementing changes. Organizations may need to make strategic changes for lots of different reasons. For example:

   A. Dealing with changes in the global economy and global markets

   B. Allowing an organization to grow, either organically or through mergers or acquisition

   C. Restructuring or reorganizing the business

   D. Implementing new technologies and business processes

   E. All of the above

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7

DECISION MAKING PROCESS

Unit Structure :

7.0 OBJECTIVE

- The objective of this chapter is to provide a comprehensive overview of the decision-making process in an organization.
- This chapter covers various approaches and perspectives on decision-making, including the rational approach, bounded rationality perspective, organizational decision-making, the learning organization, contingency decision-making perspective, and special decision circumstances.
- In this chapter, we will explore different approaches and perspectives on decision-making and how they can be applied in an organizational context.

7.1 INTRODUCTION

Decision making is widely considered as one of the most important, if not the most important, of all managerial activities. Management theorists and researchers agree that decision making represents one of the most common and most crucial of all work activities. In fact, the famous organizational scientist Herbert Simon, who won a Nobel Prize for his work on decision making, has described decision making as synonymous with managing. Every day, people in organizations make decisions about a wide variety of things ranging from mundane to monumental.

Understanding how these decisions are made and how they can be improved is a major goal of the field of organizational behavior. It is the process of choosing the best alternative among the available options in a given situation. The quality of decision-making affects the success or failure of an organization.

7.2 TYPES OF DECISIONS

Decisions are made at all levels in the organization. Some of these decisions are routine and common while the others are new and complex. Even though the value of improving any one of these decisions may not be significant, improving hundreds of thousands of these small decisions ultimately adds up to a huge yearly value.

The organization consists typically of three levels of management. These levels are (i) senior or strategic management, (ii) middle or tactical management, and (iii) operational management. Each of these levels has diverse information needs in order to support decision making and is also responsible for different kinds of decisions.

Decisions can also be categorized as structured, semi-structured, and unstructured.

- Structured decisions are those which are recurring and regular decisions, where decision makers can follow a predefined procedure in order to handle them properly and efficiently.

- Semi-structured decisions are those in which only a portion of the problem has an obvious solution offered by an approved process.

- The unstructured decisions are described as new and non-routine decisions with a high degree of uncertainty. Such decisions need decision makers to provide judgment, assessment, and insight to solve the problem.

The unstructured type of decisions is normally associated with specific management levels. For example, the operational management level typically consists of thousands of structured decisions, which are routine and repetitive and have a predefined procedure for handling them efficiently. The tactical management level on the other hand, consists of hundreds of semi structured decisions, where only a part of the problem has a clear cut solution. However, the strategic management level consists of a number of unstructured decisions, which are new and non-routine with a high degree of uncertainty.

7.3 THE DECISION-MAKING PROCESS

The process of decision making tends to follow the eight steps outlined here. The running example illustrates how a problem, insufficient funds to meet payroll obligations, can be applied to each step.

First Step: The first step in decision making is identifying the problem. To decide how to solve a problem, one must first recognize and identify it. For example, an executive may identify as a problem the fact that the company cannot meet its payroll obligations. This step isn't always as easy as it sounds. People frequently distort, omit, ignore, and/or discount information around them that provides important cues regarding the existence of problems. This, of course, is problematic.

After all, a problem cannot be solved if it is never recognized.

Second Step: After a problem is identified, the second step is defining the objectives to be met in solving it. It is important to conceive of problems in such a way that possible solutions can be identified. The problem identified in our example may be defined as "inadequate cash flow." By looking at the problem in this way, the objective is clear: increase available cash reserves. Any possible solution to the problem should be evaluated relative to this objective.

Third Step: The third step in the decision-making process is making a pre-decision. A pre-decision is a decision about how to make a decision. By assessing the type of problem in question and other aspects of the situation, managers may opt to make a decision themselves, delegate the decision to another, or have a group make the decision. Pre-decisions should be based on research that tells us about the effectiveness of decisions made under different circumstances. For many years, managers have been relying on their own intuition or empirically based information about organizational behavior for the guidance needed to make pre-decisions. However, these days we have computer programs that are developed to summarize much of this information in a form that gives managers ready access to a wealth of social science information that may help them decide how to make decisions. Such decision support systems (DSS), as they are known, can only be as good as the information that goes into developing them. Research has shown that DSS techniques are generally quite effective in helping people make decisions about solving problems.

Fourth Step: The fourth step in the process is generating alternatives, the stage in which possible solutions to the problem are identified. Whenever possible, in attempting to come up with solutions, people tend to rely on previously used approaches that may provide ready-made answers. In our example, some possible ways of solving the revenue shortage problem include reducing the work force, liquidating unnecessary equipment, and increasing sales.

Fifth Step: Because all these possibilities may not be equally feasible, the fifth step calls for evaluating alternative solutions. Which solution is best? What would be the most effective way of raising the revenue needed to meet the payroll? The various alternatives need to be identified. Some may be more effective than others, and some may be more difficult to implement than others. For example, although increasing sales would certainly help, that is much easier said than done. It is a solution, but not an immediately practical one.

Sixth Step: Next is the sixth step, making a choice. After several alternatives are evaluated, one that is considered acceptable is chosen. As we will describe shortly, different approaches to decision making offer different views of how thoroughly people consider alternatives and how optimal their chosen alternatives are. Choosing which course of action to take is the step that most often comes to mind when we think about the decision-making process.

Seventh Step: The seventh step calls for implementing the chosen alternative—that is, carrying out the chosen alternative.

Eighth Step: The eighth and final step is following up. Monitoring the effectiveness of the decisions put into action is important to the success of organizations. Does the problem still exist? Have any new problems been caused by implementing the solution? It is important to seek feedback about the effectiveness of any attempted solution. If the solution works, the problem may be considered solved and the process ends. If not, a new solution will have to be attempted and the process continues.

7.4 DIFFERENT APPROACHES OF DECISION MAKING

Decision making is choosing among alternative courses of action, including inaction. Structured decision-making processes include rational decision making, bounded rationality, intuitive, and creative decision making. Each of these can be useful, depending on the circumstances and the problem that needs to be solved.

7.4.1 Rational Approach

The rational approach is a systematic and logical approach to decision-making. It involves gathering all relevant information, analyzing and evaluating alternative courses of action, selecting the best option, and implementing it. Thus, rational decision making is a precise analytical process that companies use to come up with a fact based decision. This approach assumes that decision-makers are rational and have complete information about the problem and available options.

Example: A company needs to choose between two different suppliers for raw materials. The decision-makers gather all relevant information, such as price, quality, and delivery time, and analyze and evaluate the alternative courses of action. They then select the supplier that offers the best value for money and meets their quality and delivery requirements.

Steps involved in Rational Approach of Decision Making:

1) **Identify Problem** - Problems or potential problems may present themselves or become evident through appropriate monitoring. In carrying out this process, managers should identify goals at the outset of the decision-making process.

2) **Decision Criteria** - Managers should identify criteria for potential solutions - as this will help you avoid bias in choosing an alternative.

3) **Allocate Weights** - Some criteria will be more important to some stakeholders than others. The decision-making process necessary includes considering the interest of stakeholders. In some instances, it involves seeking stakeholder input.

4) **Develop Alternatives** – It is important to develop as wide an array of potential solutions as possible.

5) **Analyze Alternatives** - You will need to determine which criteria are most important and to what extent it is necessary to sacrifice one for another.

6) **Select an Alternative** - After diligent evaluation of the alternatives, the manager must select an option to deal with the problem or situation.

7) **Implement the Decision** - Selecting an approach is only part of the manager's responsibility. Then comes the process of overseeing the implantation of the solution.

8) **Evaluate the Effect** - Finally, the manager must evaluate the progress and effectiveness of the approach.

7.4.2 Bounded Rationality

Another theory that suggests a modification of pure rationality is known as bounded rationality. This concept revolves on a recognition that human knowledge and capabilities are limited and imperfect. The following three specific limitations are generally enumerated:

i. Decision makers do not have access to all possible information relevant to the decision, and the information they do have is often flawed and imperfect.

ii. Decision makers have limited analytical and computational abilities. They are not capable of judging their information and alternatives perfectly. They will inevitably make misjudgments in the evaluation process.

iii. Decision makers do not have unlimited time to make decisions. Real-life situations provide time constraints in which decisions must be made.

In light of these limitations, the theory of bounded rationality suggests that decision makers must be willing to adapt their rational approach. For example, they must determine how much information is reasonable to pursue during the information-gathering stage; they cannot reasonably expect to gather and analyze all possible information.

Similarly, decision makers must content themselves with a consideration of only a certain number of alternative solutions to the decision.

Also, decision makers being far from perfect in their abilities to evaluate potential solutions must inevitably affect their approach. They must be aware of the possibility that their analysis is wrong and be willing to accept evidence to this effect. This especially includes situations in which they're relying on predictions of an uncertain future. Uncertainty and inaccuracy often arise in efforts to predict the future. The bounded rationality perspective focuses on satisficing, which means selecting the first acceptable option rather than the best option.

Example: A marketing manager needs to choose between two different advertising campaigns for a new product launch. The decision-maker has limited information about the effectiveness of each campaign and the target audience's preferences. They select the campaign that is most likely to achieve their objectives, even if it is not the best option.

7.4.3 Intuitive Decision Making

Intuitive decision making, as the name implies, relies on intuition in making a decision. An unconscious process created out of distilled experience. That is, decisions often arrive at a decision to address a problem or situation without conscious reasoning. Instead, decisions are based on experience, feeling, and accumulated judgment. Managers routinely face decisions in challenging contexts, such as environmental uncertainty, stakeholder interests, time pressures, and the fallout from the decision.

This reality can limit the ability to follow the rational decision-making process. Intuitive decision-makers will use environmental scanning to identify patterns based upon prior experience or knowledge. This allows the decision-maker to develop a course of action. The decision-making process is replaced by the individuals understanding of the situation. Importantly, the decision-maker evaluates one choice at a time.

Generally, a decision-maker who lacks sufficient experience or acquired knowledge is unable to make such intuitive decisions.

<u>Conditions Favoring Intuitive Decision Making</u>

- A high level of uncertainty exists
- There is little precedent to draw on

- Variables are less scientifically predictable
- "Facts" are limited
- Facts don't clearly point the way
- Analytical data are of little use
- Several plausible alternative solutions exist
- Time is limited and pressing for the right decision

7.4.4 Creative Decision Making

Creativity concerns the ability to come up something novel and useful. This includes the generation of new ideas or alternatives to address a problem. The five steps to creative decision making are as follows:

- **Problem Identification** - The decision-maker becomes aware of a situation or problem that needs to be addressed.
- **Immersion** - During this phase, the decision-maker gathers information and seeks to fully understand the situation. The phase often relies heavily upon the experience and knowledge of the decision-maker.
- **Incubation** - This phase requires concerted evaluation and thinking about the situation.
- **Illumination** - This is the stage in which the decision-maker identifies the most appropriate solution to the problem or situation.
- **Verification Stage** - This is when the decision-maker verifies the feasibility and implements the decision.

Three factors generally contribute to the level of creativity in decision-making:

- Fluency - How many ideas generated?
- Flexibility - How diverse are the ideas generated?
- Originality - How unique are the ideas generated? (refers to an idea's uniqueness)

Creativity is thought to occur as an interaction among three dimensions:

- Personality traits - Ones openness to experience and risk-taking. Openness to experience, conscientiousness, self-acceptance, and impulsivity are indicators of creativity.
- Decision Maker Attributes - Ones expertise, imagination, and motivation.
- Context - To what extent is the support and buy-in from others, time pressure, and physical structures.

7.5 ORGANIZATIONAL DECISION-MAKING

Organizational decision making is the process by which one or more organizational units make a decision on behalf of the organization. The decision making unit can be as small as an individual, e.g., a manager, or as large as the entire organizational membership. Even though organizational decisions are frequently influenced by personal goals, the decisions themselves are legitimized to other units and agencies as fulfilling organizational requirements. It is frequently being said that the organizational decisions do not relate to personal purposes, but for the organizational purposes. The organizational decision-making process can be affected by organizational culture, power structures, and group dynamics.

The distinction between individual decision making and the organizational decision making is that individuals make decisions based on their own values and beliefs and whether something is appropriate or not, whereas organizations have different stakeholders and different sets of values which are incorporated in their process of decision making.

Example: A team of managers from different departments is tasked with making a decision about expanding the company's product line. The team members collaborate and share their ideas and perspectives, and then select the option that best aligns with the company's overall strategy.

In organizational decision making, it is basic to involve stakeholders and uncover and reconcile their considerations or concerns. Devising search tactics and considering a range of alternatives is also important as is brainstorming. Such practices can help produce better organizational decisions.

Decision making is an important aspect of any organizational operations and marketing strategy. Organizations are faced with thousands of decisions on a daily basis, and how they handle and process these decisions can have substantial impact on their performance. For this reason, it is imperative that the organization has efficient, well organized procedures in place to handle such decisions. The organizational management is also to make a genuine effort to enhance the overall efficiency and quality of the decision making processes.

Organization can also strive to incorporate and adopt a number of best decision making practices in the operations and business strategy. The process of decision making consists of a delicate and complicated procedure which needs the organization to put a lot of thought and consideration into how it is to be designed. Organizations with good, efficient and well organized processes for producing decisions are more likely to generate better decisions, and as a result improve their productivity and performance. Such organizations have to closely monitor the decision making processes, as the quality of these processes can have a substantial effect on the overall effectiveness and efficiency.

7.5.1 Organizational decision making models

There are four organizational decision making models. These are known as (i) rational model, (ii) political model, (iii) garbage can model, and (iv) process or programme model.

(i) **The rational model** describes an environment where organizational entities use information in a designed and rational approach to make selections on the part of the organization resulting in organizational decisions being made. Even though the rational model is an extremely important model, since it is publicly ascribed to and because it is frequently the target of those who support alternative models, it is simple to overlook that it is merely a model, an incomplete representation of what actually occurs.

(ii) **The political or competitive model** describes a setting where decisions are the results of the implementation of tactics and strategies by entities seeking to manipulate and persuade decision procedures in directions which lead to selections favourable to themselves. The political model highlights the fact that different participants in the decision process frequently have different goals and targets in mind.

(iii) The core of **the garbage can model** is that organizational decisions are consequences of interactions of problems searching for solutions, solutions searching for problems, and opportunities for making decisions. In other words, decisions in this model are made at random. The garbage can model highlights the roles of chance and timing in determining organizational choices.

(iv) **The process or programme model** depicts a setting where organizational decisions are the results of the processes and procedures of the departments involved. Seeing that the organization programmes and processes are slow to change, and since the effects of programming are hard to erase, decisions in this model can be predicted at any point in time.

7.6 THE LEARNING ORGANIZATION

The learning organization is an approach that emphasizes continuous learning and improvement. In this approach, decision-making is not viewed as a one-time event but as an ongoing process of learning and adaptation. The learning organization approach recognizes that organizations must learn from their past decisions and experiences to make better decisions in the future.

Example: A company conducts a post-mortem analysis of a failed project to identify the factors that led to the failure. The company then uses this knowledge to make better decisions in future projects.

In this approach, the process managers seek out to improve decision making ability of employees and enhance organizational efficiency and effectiveness. Thus, the following two concepts are adopted by the managers in learning organization approach:

- **Exploration** is exploring the environment by trying random actions in order to find more information about the environment.

- **Exploitation** is exploiting known information to maximize the reward.

7.6.1 The five disciplines of learning organizations

An organization where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free and where people are continually learning how to learn together.

The (Peter) Senge's five disciplines of learning organizations or Senge's learning organization describes how to manage the success and development of an organization and how employees give the extra mile that goes beyond the expectations of the company.

The five disciplines of learning organizations are as follows:

1. Building a Shared vision
2. Systems Thinking
3. Mental Models
4. Team Learning
5. Personal Mastery

1. **Building a Shared vision:** In learning organizations, the vision should be created through interaction with the employees in the enterprise. Many leaders have personal visions that lack transferring them to a shared vision. The only way to create a shared vision is by compromising the organization's and individual's visions. People who do not share the same vision might not contribute as much to the organization. The effect of sharing the same vision is that employees do tasks because they want to do so instead of they are told to do so. It changes the relationship with the company, and it turns its performances in a learning mechanism.

2. **Systems Thinking:** Instead of focusing on individual issues, systems thinking reflects the observational process of an entire system. Managers have to understand that every action and consequence is correlated with another. Many times it happens that managers focus on individual actions, and therefore, forget about seeing the big picture. When the correlation is understood, it enables us to see interrelationships and patterns of change in particular situations. Managers will be able to determine cause and effect.

3. **Mental Models:** According to Peter Senge, the employees must identify the values of the company and what the business is all about.

A correct understanding of who we are will enable us to visualize where to go and how to develop further. The organization has to be flexible in accepting changes to new mental models and a new image of the company. The most successful companies are those who can learn and adapt to new models to become faster than its competitors.

4. **Team Learning:** To accomplish excellent functional team dynamics, team-learning is a primary importance. It is the discipline by which personal mastery and shared vision are brought together. It is crucial for the workforce to consider its colleagues as team members instead of rivals. It is the first step to set up dialogues wherein people dare to be vulnerable and express their real personality. The working environment should be safe where honest mistakes are forgiven. Otherwise, no learning can be experienced.

5. **Personal Mastery:** Personal mastery occurs when an individual has a clear vision of a goal, combined with an accurate perception of reality. The gap between the vision and reality drives the employee to practice all necessary related activities to realize the vision. This creative tension depends on a clear understanding of current reality. For this reason, for personal mastery and the related discipline of a shared vision, looking at, and sharing the truth is a crucial fundamental.

However, employees could believe they lack the competencies to achieve their goals. A vicious circle might have established and could be difficult to remove. According to Peter Senge, we should train our subconscious mind because it can handle more complex problems quicker than what our consciousness can. When people believe in their own powerlessness, it will hold them back from realizing their vision. For this reason, we should train the subconscious mind to tackle the stress and problems in reality.

7.7 CONTINGENCY DECISION-MAKING PERSPECTIVE

The contingency decision-making perspective suggests that there is no one-size-fits-all approach to decision-making. The contingency approach recognizes that different situations require different decision-making approaches. This approach involves analyzing the specific situation and selecting the best decision-making approach based on the circumstances.

The contingency theory investigates two types of motivation: task motivation and relational motivation. A basic tenet of contingency management is that no single management strategy will work for every company. Three separate possibilities are identified by the theory: favorable, unfavorable, and intermediate. These are the three outcomes that could occur.

Assumptions in contingency theory include that there is no single ideal way to organize and that all ways of organizing are not equally successful in any given circumstance. In this context, contingency refers to the immediate conditions. The planning, organizing, leading, and controlling processes of successful organizations must be adapted to the unique circumstances of each business.

- **Organizational Decisions :** Contingency theory maintains there is no universal way to set up a business or company successfully. The design of the corporate structure and culture must be in line with its various environments: economic, social and physical. The subsystems of a business also influence successful organizational planning. For example, an information technology business will have different upper-management structure because of the need for a collaborative, cooperative work force that may not thrive under traditional, hierarchical structures.

- **Leadership Decisions:** Applying contingency theory to leadership, management style changes with different organizational situations. A leader's behavior is dependent on three factors that define a favorable leadership situation. Leader-member relations describe the dynamic with staff. Task structure refers to how rigid work assignments are. Position power dictates how able a leader is to exercise authority on a group. In a small business, this could mean an owner's style may need to be fluid with even a single change to her staff.

- **Task Decisions:** When applied to decision-making, the effectiveness of the decision in question depends on a balance of how important the decision is, how complete the decision makers' and the subordinates' information is on the subject, and the likelihood of acceptance of the decision by subordinates. Changing the nature of any one factor alters the relationship with the other two. This may require the small business owner to share more information about an unpopular decision to increase the chances her staff will accept the changes.

- **Other Constraints:** Factors that alter balances in contingency theory relationships are widespread. Any influence on a business or process may change the way a decision is made, or even the need for a decision at all. Some common constraints include: The size of an organization, differences between senior and operational management styles, socioeconomic conditions, government regulations, technologies, attitudes between workers and managers, inherited corporate cultures. Your small business will have its own unique constraints based on type of business, your community, staff and the current economic climate in general.

7.7.1 Characteristics of Contingency Theory

Contingency theory's most salient features are as follows:

- The nature of management is that it is situational. The complexity of the circumstance dictates the management strategy. One approach to management is known as "if and then," in which "if" stands for an independent factor and "then" stands for the dependent management element.

- Although management principles are not universal, there is no one-size-fits-all approach. Situational management means that managerial decisions are based on the current conditions of a given situation.

- Organizational complexity can be better understood by focusing on the multivariate nature of organizations. With it, organizations are able to operate in a variety of environments. There is not a single answer but rather a set of guidelines based on the context in which an issue arises.

- An organization's ability to adapt to both its internal and external environments can be seen using this method. Internal and exterior environments need to be compatible.

7.8 SPECIAL DECISION CIRCUMSTANCES

Special decision circumstances refer to situations where the decision-making process is affected by external factors such as crisis, uncertainty, and risk. In these situations, decision-makers may have limited information and time to make a decision. Special decision circumstances may require a different decision-making approach that emphasizes flexibility, adaptability, and risk management. Few of such special circumstances are explained below:

Crisis Management: Crisis situations can arise in any organization and can have significant impacts on the organization's stakeholders. In such situations, decision-making must be swift and effective to minimize the potential damage. Crisis management requires a different decision-making approach, which includes identifying the crisis, assessing its impact, and formulating a plan to manage the crisis. For example, during the 2008 financial crisis, banks had to make quick decisions on whether to invest in certain securities or not to prevent further damage to their organizations.

Ethical Decision-Making: Organizations must make ethical decisions to ensure that they operate within the boundaries of acceptable ethical behavior. Ethical decision-making requires a different approach, which includes identifying the ethical dilemma, analyzing the situation, identifying possible solutions, and selecting the most ethical solution. For example, a company may have to decide whether to continue doing business with a supplier that engages in unethical practices or to sever the relationship.

Cross-Cultural Decision-making: In today's global economy, organizations are increasingly interacting with individuals from different cultures. Cross-cultural decision-making involves understanding the cultural differences that impact decision-making and adapting decision-making approaches to accommodate those differences. For example, an organization operating in China may need to adapt its decision-making process to account for cultural differences such as the importance of relationships and hierarchy.

Risk Management: Risk management involves identifying, assessing, and mitigating potential risks to the organization. Risk management requires a different approach to decision-making, which includes identifying potential risks, assessing their likelihood and impact, and formulating a plan to manage or mitigate the risk. For example, a company may have to decide whether to invest in a new technology or not, considering the potential risks associated with the investment.

7.9 SUMMARY

In this chapter, we explored different approaches and perspectives on decision-making in an organizational context. We discussed the rational approach, bounded rationality perspective, organizational decision-making, the learning organization, contingency decision-making perspective, and special decision circumstances. Each approach offers a unique set of tools and frameworks that decision-makers can use to make better decisions in different situations. By understanding the different approaches and perspectives on decision-making, organizations can improve their decision-making processes and outcomes.

7.10 EXERCISE

Q.1 State and Explain different steps in Decision Making Process.

Q.2 State and Explain the different Approaches of Decision Making

Q.3 Write Short Notes on:

a) Organizational decision-making

b) Learning organizations

c) Contingency decision-makingperspective

d) Special decision circumstances

Q.4 Explain the Bounded Rationality perspective in Decision Making?

Q.5 State whether True or False:

a) Under the condition of uncertainty, we do not know what the outcome of a decision will be but we do have enough information to estimate the probability of certain outcomes. (F)

b) Everybody uses the same kind of information when making decisions. (F)

c) Decision rules can be explicit or implicit. (T)

d) Rational decision-making model evaluates options, and chooses an acceptable solution. (T)

e) It is very uncommon for people to come up with a set of decision-making criteria that does not consider all the key stakeholders. (F)

f) Decision-making without action wastes people's time and energy. (T)

g) Organizational managers prefer to decide on matters based on emotions, pressure, or social concerns. (F)

h) Bounded rationality means that although we may want to make a rational decision, we cannot because of our information processing limits. (T)

i) In the practical approach to decision making, a few options are evaluated, rather than all the options likely to be considered in the rational decision making approach. (T)

Q.6 Multiple-Choice Questions:

a) Which of the following is a step decision makers go through?

1) Examining options

2) Predicting outcomes

3) Taking in information

4) All of the above

b) Which of the following is NOT a way for decision makers to deal with uncertainty?

1) Make a guess

2) Rely on their past experiences

3) Use intuition

4) Pass the decision making burden to someone else

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8

CONFLICT, POWER AND POLITICS

Unit Structure :

8.0 OBJECTIVE

- This chapter provides a comprehensive overview of the literature on intergroup conflict in organizations.
- This chapter also examines the interplay between power, politics, and collaboration in organizational dynamics and structure.
- It explores how the distribution of power affects collaboration and teamwork, the role of politics in shaping organizational culture, and the importance of collaboration in promoting organizational effectiveness.

8.1 INTRODUCTION

In all organizations, including Google, some conflict is inevitable. Simply making a decision to do A instead of B often alienates the supporters of B, despite the soundness of the reasons behind the decision. Moreover, the consequences of conflict (and failed negotiations) can be costly to an organization, whether the conflict is between labor and management, groups, individuals, or nations. In an era of increasing business competition both from abroad and at home, reducing conflict is important. For these reasons, contemporary managers need a firm grasp of the dynamics of intergroup and inter-organizational conflict and of negotiation processes.

Power and politics are the lifeblood of most organizations, and, as a result, informed managers need to understand power dynamics. In fact, organizations are composed of coalitions and alliances of different parties that continually compete for available resources. As such, a major influence on how decisions are made is the distribution of power among the decision makers. Unequal distribution of power in organizations can have a critical impact on many aspects of work life, including employee motivation, job satisfaction, absenteeism and turnover, and stress. Hence, an awareness of the nature and pervasiveness of power and politics is essential for a better understanding of these other behavioral processes.

8.2 WHAT IS CONFLICT?

Conflict is a process in which one party perceives that its interests are being opposed or negatively affected by another party. Conflict is perception so it exists whenever someone believes or feels that another person or group might obstruct its efforts.

Shift in views on Conflict: It was viewed that conflicts were undesirable and as such, they should be avoided. But, managers of late realized conflicts result in constructive competition and they enhance individual as well as organizational competitive ability and as such they are desirable up to certain extent. The present day organizations realized that they can increase the value to the individuals, groups and to themselves by encouraging conflicts to a moderate degree. Organizations, however, should discourage and reduce the dysfunctional conflicts as they reduce the values.

8.3 SHIFT IN VIEWS ON CONFLICT

Traditional View	Modern View
1. Conflicts leads to loss of individual and group temperaments, energies etc.	1. Conflicts encourage competition. They result in enhancing competency of individuals, groups and organizations.

Traditional View	Modern View
2. Conflicts are the result of improper policies unreasonable goals and dreams.	2. Conflicts are the result of the natural course of living of people, existence of teams and organizations. Therefore, they are the result of challenging goals which is the order of the day of global competition.
3. Conflicts impose ceiling on human potentialities as they affect the human psychology and hurt the feeling of individuals.	3. Conflicts tap the unused human potentialities.
4. Conflicts destroy assets and waste the resources and erode the value of existing assets.	4. Conflicts create the value, enhance the value and create assets. They lead to organizational and country's effectiveness.
5. Conflicts are undesirable. Therefore they should be avoided	5. Conflicts to a moderate extent are highly desirable. Therefore they should be encouraged to a moderate extent.

8.4 TYPE OF CONFLICTS

Conflicts are of different types. They are intra-personal, interpersonal/intragroup, intergroup organizational conflict.

8.4.1 Intra-Personal (or) Intra-Individual Conflict

These conflicts take place within one individual and within every person. These conflicts arise due to:

- A number of competing needs and roles;
- A variety of different ways that drives and roles can be expressed;
- Various barriers which can occur between the drive and the goal;
- Both positive and negative aspects attached to desired goals.

Intrapersonal Conflicts take any of the following forms:

1) **Conflict Due to Frustration:** Frustration occurs when a motivated drive is blocked before a person reaches a desired goal. The barriers which block may be outward or inward. Frustration normally triggers the *defense mechanism* in a person. The defense mechanisms include: aggression, withdrawal, fixation and compromise.

2) **Goal Conflict:** Another common source of conflict for a person is a goal which has both positive and negative features or two or more competing goals. Three separate types of goal conflicts are normally identified:

(a) **Approach-Approach Conflict:** A person is motivated to approach two or more positive but mutually exclusive goals.

(b) **Approach-Avoidance Conflict:** A person is motivated to approach a goal and at the same time is motivated to avoid it. The single goal contains both positive and negative features. Trying for promotion and at the same time avoiding it if the promotion is accompanied by transfer to a remote place is an example of approach-avoidance conflict.

(c) **Avoidance-Avoidance Conflict:** A person is motivated to avoid two or more negative but mutually exclusive goals. The person may not choose either of them and simply leave the situation.

3) **Role Conflict:** Role is defined as the action performed by the person to indicate the occupation of this position. Keith Davis view role as the pattern of action expected of a person in activities involving others.

Role reflects a person's position in the social system with its accompanying rights and obligations, power and responsibility. People need some method to anticipate other's behaviour in order to be able to interact with each other. Role performs this function in the social system.

A person has several roles in the society like occupational role as a worker, family role as a parent, social role as a club member, religious role as a disciple, role in marketing as a consumer etc.

(a) Role Perceptions: Activities of employees are guided by their views about their behaviour, i.e., how they think about their behaviour at work. In other words, they are guided by their imagination about their own roles in reaction to the roles of others at work. This is called *perception* of employees about their own roles.

Employees must be highly adaptable to different situations in order to change from one role to the other without any delay as they perform difficult roles in dynamic situations. Managers have to essentially change the roles quickly as they work with different levels and types of people like their superiors, subordinates, colleagues, and field supervisors, technical and non-technical employees. Thus for each manager there are 3 different roles viz superior, subordinate and colleague. Obviously, one cannot meet the needs of the other employees, unless one can perceive what they expect.

Each manager experiences conflict of different roles as employees, managers, customers and government officials perceive and expect differently from his role and he cannot meet all his expectations without limiting/resisting others. This is mainly because a human being has limited resources and time. Thus, every employee has a role conflict.

(b) ***Role Ambiguity:*** It exists in organizations when roles are either defined inadequately or substantially unknown. In this situation, employees are not quite sure of playing their roles. Role ambiguity and role conflict reduce job satisfaction and need fulfillment.

8.4.2 Inter–personal / Intra group Conflicts

Interpersonal conflict arises when two or more individuals interact with one another. These conflicts are also called intra-group conflicts.

8.4.3 Intergroup Conflicts

Conflict between two groups or departments in an organization refers to intergroup conflict. Conflict between production department and quality control department is an example of this conflict. This type of conflict can arise due to a variety of factors, including differences in values, beliefs, interests, goals, and resources. Intergroup conflict can have significant negative impacts on individuals, teams, and the organization as a whole. It can lead to decreased job satisfaction, productivity, and innovation, as well as increased turnover and absenteeism. Therefore, it is essential for organizations to understand the causes, consequences, and management strategies of intergroup conflict.

1) <u>Causes of Intergroup Conflict:</u>

- Intergroup conflict can arise due to various reasons, including competition for resources, power struggles, perceived injustice, and cultural differences.
- When two or more groups are competing for the same resources, such as funding, personnel, or equipment, this can lead to intergroup conflict.
- Power struggles can also lead to intergroup conflict, as groups may attempt to assert their dominance over others.
- Perceived injustice, such as unequal treatment or discrimination, can also lead to intergroup conflict.
- Cultural differences, such as language, customs, and beliefs, can also lead to intergroup conflict when they are not properly understood or respected.

2) <u>Consequences of Intergroup Conflict:</u>

Intergroup conflict can have significant negative impacts on individuals, teams, and the organization as a whole. Individuals who experience intergroup conflict may suffer from decreased job satisfaction, increased stress, and decreased motivation. Teams that experience intergroup conflict may suffer from decreased productivity, decreased innovation, and increased turnover. The organization as a whole may suffer from decreased morale, decreased reputation, and decreased profitability.

3) Management Strategies for Intergroup Conflict:

There are several management strategies that organizations can use to effectively address and resolve intergroup conflict. One such strategy is to promote intergroup contact and communication. By providing opportunities for individuals from different groups to interact and communicate, organizations can increase understanding and respect between groups. Another strategy is to use mediation or conflict resolution techniques. Mediation involves a neutral third party who helps facilitate a conversation between groups to reach a mutually beneficial solution. Conflict resolution techniques involve identifying the underlying causes of conflict and developing solutions to address those causes. Other management strategies include creating a diverse and inclusive workplace culture, promoting teamwork and collaboration, and establishing clear guidelines and policies for addressing conflict.

8.5 CONFLICT MANAGEMENT

For effective conflict management, we should learn to apply different conflict management styles to different situations.

1] **Collaborating:** Collaboration in trying to find a mutually beneficial solution for both parties through problem solving. An important feature of collaboration is information sharing so that both parties can identify common ground and potential solutions that satisfy both (or all) of them.

2] **Avoiding Competition:** It is trying to smooth over or avoid conflict situations altogether. For example, some employees will rearrange their work area or tasks to minimize interaction with certain co-workers.

3] **Competing:** Competition in trying to win the conflict at the other's expense. This style has the strongest win-lose orientation because it has the highest level of assertiveness and lowest level of cooperativeness.

4] **Accommodating:** Accommodation involves giving in completely to the other side's wishes, or at least cooperating with little or no attention to your own interests.

5] **Compromising:** Compromise is trying to strive a golden means with the other party. You look for a position in which your losses are offset by equally valued gains.

8.6 WHAT IS POWER?

The concept of power is closely related to the concepts of authority and leadership. In fact, power has been referred to by some as "informal authority," whereas authority has been called "legitimate power." However, these three concepts are not the same, and important differences among the three should be noted.

Power is the capacity of a person, team or organization to influence others. Power is not the act of changing other's attitudes or behaviour; it is only the potential to do so. People frequently have power they do not use; they might not even know that they have the power. The most basic prerequisite of power is that one person or group believes it is dependent on another person or group for something of value. You might have power over others by controlling a desired job assignment, important resources, useful information, etc. However, parties are interdependent. Executives have power over their subordinates; however, subordinates also have counter power by controlling the ability to work productively.

8.6.1 Social power and empowerment

- Power must be used because managers must influence those they depend on.
- Power also helps develop self-confidence in the manager and willingness to support subordinates.
- It is powerlessness rather than power that undermine the effectiveness of an organization.
- Social power: ability to marshal the human, informational, and material resources to get something done.

8.6.2. Types of Power

If power is the ability to secure compliance by others, how is such power exercised and on what is it based? At least two efforts have been made to identify the bases of power. One model has been proposed by Etzioni, identifying three types of power. It is argued that organizations can be classified according to which of the three types of power is most prevalent.

1) **Coercive power** involves forcing someone to comply with one's wishes. A prison organization is an example of a coercive organization.

2) **Utilitarian power** is power based on performance-reward contingencies; for example, a person will comply with a supervisor in order to receive a pay raise or promotion. Business organizations are thought to be essentially utilitarian organizations.

3) **Normative power** rests on the beliefs of the members in the right of the organization to govern their behavior. An example here would be a religious organization.

Although useful for comparative analysis of divergent organizations, this model may have limited applicability, because most business and public organizations rest largely on utilitarian power. Instead, a second model, developed by French and Raven, of the bases of power may be more helpful. French and Raven identified five primary ways in which power can be exerted in social situations.

8.6.3 Bases of power

1. **Reward power:**

   - Reward power exists when person A has power over person B because A controls rewards that B wants. These rewards can cover a wide array of possibilities, including pay raises, promotions, desirable job assignments, more responsibility, new equipment, and so forth.
   - Derived from the person's ability to control the allocation of rewards valued by others and to remove negative sanctions.
   - Managers have power due to their position to give rewards, promotions, etc.
   - Employees have power over their bosses during 360 degree appraisals.
   - Example: salary and promotion among most blue-collar workers is based on a labor contract and not on performance appraisal.

2. **Legitimate power:**

   - Legitimate power exists when person B submits to person A because B feels that A has a right to exert power in a certain domain.
   - Legitimate power differs from reward and coercive power in that it depends on the official position a person holds, and not on his or her relationship with others.
   - Agreement among organization members that people in certain positions can request certain behaviours of others.
   - The power depends more on job descriptions.
   - It also depends on mutual agreement from those expected to abide by this authority.

3. **Coercive power:**

   - Coercive power is based primarily on fear.
   - Coercive power is demonstrated person A has power over person B because A can administer some form of punishment to B.

- These bases provide the individual with the means to physically harm, bully, humiliate, or deny love to others.
- Employees also have coercive power when they threaten colleagues to conform with the majority.
- Example of coercive power in organizations include the ability (actual or implied) to fire or demote people, transfer them to undesirable jobs or locations, or strip them of valued perquisites.

4. Expert power:

- Originates from within the person.
- An individual's or work unit's capacity to influence others by possessing knowledge or skills that they value.
- Owners of companies or organizations dependent on their employee's expertise to survive.
- Expert power is demonstrated when person A gains power because A has knowledge or expertise relevant to B.
- Example: For instance, professors presumably have power in the classroom because of their mastery of a particular subject matter.

5. Referent power:

- Often related to charismatic leadership.
- People depend on the role model and do what the model requests.
- Referent power has also been called charismatic power, because allegiance is based on interpersonal attraction of one individual for another.
- Referent power is demonstrated when Person B looks up to or admires person A, and, as a result, B follows A largely because of A's personal qualities, characteristics, or reputation. In this case, A can use referent power to influence B.
- Examples of referent power can be seen in advertising, where companies use celebrities to recommend their products; it is hoped that the star appeal of the person will rub off on the products.

8.6.4 Contingencies of power

The sources of power operate only under certain conditions.

Four important contingencies are: substitutability; centrality; discretion and visibility.

1. **Substitutability**: refers to the availability of alternatives.
   - Power is the strongest when someone has a monopoly over a valued resource.
   - Power decreases as the number of alternative sources of the critical resource increases.
   - Non substitutability is strengthened by controlling access to the resource.
2. **Centrality**: refers to the degree and nature of interdependence between the power holder and others. If you have high centrality many people would be affected by your absence.
3. **Discretion:** The freedom to exercise judgment – to make decisions without referring to a specific rule or receiving permission from someone else.
4. **Visibility:** Power does not flow to unknown people in the organization.
   - You need to be visible for your potential power bases to be activated.
   - Networking and power: "It's not what you know but who you know that counts".
   - People get ahead not just by developing their competencies but also by networking.

8.7 WHAT IS POLITICS?

If power is a force, a store of potential influence through which events can be affected, politics involves those activities or behaviors through which power is developed and used in organizational settings. Power is a property of the system at rest; politics is the study of power in action. An individual, subunit or department may have power within an organizational context at some period of time; politics involves the exercise of power to get something accomplished, as well as those activities which are undertaken to expand the power already possessed or the scope over which it can be exercised.

In other words, from this definition it is clear that political behavior is activity that is initiated for the purpose of overcoming opposition or resistance. In the absence of opposition, there is no need for political activity. Moreover, it should be remembered that political activity need not necessarily be dysfunctional for organization-wide effectiveness. In fact, many managers often believe that their political actions on behalf of their own departments are actually in the best interests of the organization as a whole. Finally, we should note that politics, like power, is not inherently bad. In many instances, the survival of the organization depends on the success of a department or coalition of departments challenging a traditional but outdated policy or objective. That is why an understanding of organizational politics, as well as power, is so essential for managers.

8.7.1 Organizational politics

Political processes in organizations refer to the ways in which power is distributed, negotiated, and exercised within the workplace.

- Organization politics involves intentional acts of influence to enhance or protect the self-interest of individuals or groups.
- The emphasis is on self-interest.
- Managers are endlessly challenged to achieve a workable balance between employee's self-interest and organizational interests.
- Understanding political processes is essential for managers and employees alike, as it can impact decision-making, influence organizational culture, and ultimately affect organizational outcomes.
- When a proper balance exists, the pursuit of self-interest may serve the organization's interests.
- Political behaviour becomes a negative force when self-interests erode or defeat organizational interests.
- Political behaviour is triggered by uncertainty.
- Five common sources of uncertainty within organizations are:
    - Unclear objectives
    - Vague performance measures.
    - Ill-defined decision processes.
    - Strong individual or group competitions.
    - Any type of change.

A typology of when political behavior would generally be greatest and least is shown in the *Figure 8.(1).* As can be seen, we would expect the greatest amount of political activity in situations characterized by high uncertainty and complexity and high competition among employees or groups for scarce resources. The least politics would be expected under conditions of low uncertainty and complexity and little competition among employees over resources.

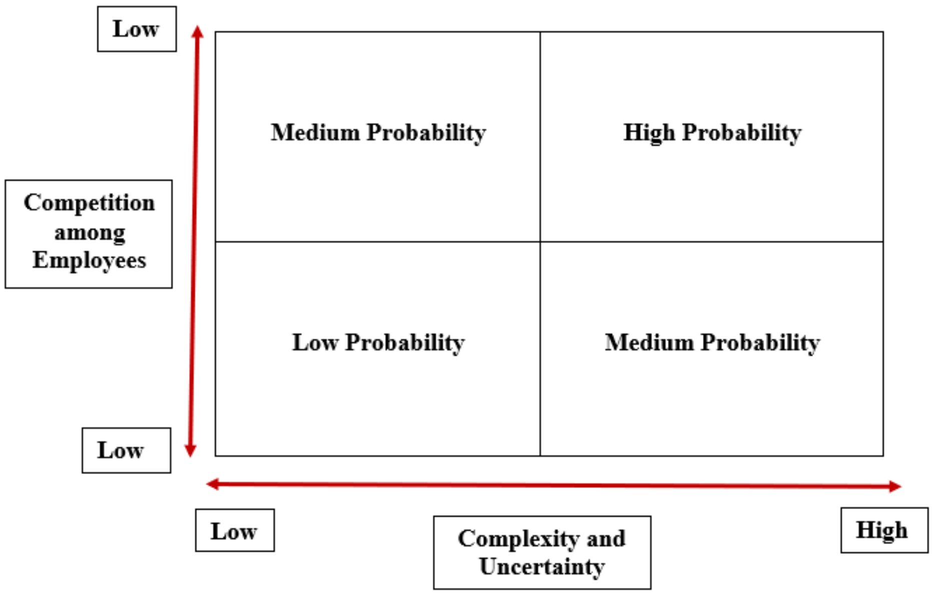

Figure 8.(1): Probability of Political Behavior in an Organization

Source: Adapted from "The Use and Abuse of Corporate Politics" by Don R. Beeman and Thomas W. Sharkey. Reprinted from *Business Horizons,* March–April 1987. (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

8.7.2 Dynamics of Political Behavior

Political behavior refers to actions taken by individuals to influence or control decisions within an organization. Political behavior can be overt or covert, and it can be positive or negative. Positive political behavior involves activities such as networking, coalition building, and advocating for a particular position. Negative political behavior involves activities such as withholding information, spreading rumors, and manipulating others for personal gain. The dynamics of political behavior can be complex, and they can have significant implications for organizational culture and outcomes.

8.7.3 Implications for Effective Management

Understanding political processes in organizations is essential for effective management. Managers must be able to recognize and respond to political behavior, while also creating a culture that values transparency, fairness, and accountability. Effective management also involves creating a system of checks and balances that ensures power is distributed equitably and that decision-making is based on merit rather than personal gain. By recognizing and responding to political behavior, creating a culture of transparency and accountability, and promoting a system of checks and balances, managers can create a positive and productive work environment that values fairness and equity.

8.8 THE INTERPLAY OF POWER, POLITICS, AND COLLABORATION IN ORGANIZATIONAL DYNAMICS AND STRUCTURE

The distribution of power and the influence of politics can have a profound impact on organizational dynamics, shaping the behavior and performance of individuals and groups. Collaboration is essential for promoting teamwork and achieving organizational goals. Understanding how power, politics, and collaboration interact is crucial for promoting a positive and productive work environment.

- **The Impact of Power on Collaboration:**

  When power is concentrated in a few individuals or groups, collaboration may be hindered, as individuals may be reluctant to challenge those in power. On the other hand, when power is distributed more equitably, collaboration may be enhanced, as individuals are more likely to feel empowered to contribute to decision-making and problem-solving.

- **The Impact of Politics on Collaboration:**

  Politics can have a significant impact on organizational culture, shaping the values, beliefs, and behaviors of individuals and groups. Positive political behavior, such as networking and coalition building, can promote collaboration and teamwork. However, negative political behavior, such as backstabbing and manipulation, can undermine collaboration and create a toxic work environment. Understanding the role of politics in shaping organizational culture is essential for promoting a positive and productive work environment.

- **The Importance of Collaboration in Promoting Organizational Effectiveness:**

  Collaboration is essential for promoting teamwork and achieving organizational goals. It involves working together to solve problems, make decisions, and achieve common objectives. Collaboration can be hindered by power imbalances and negative political behavior. However, by promoting a culture of transparency and collaboration, organizations can create a positive and productive work environment that values teamwork and innovation. Collaboration is also essential for promoting organizational effectiveness, as it enables individuals and groups to leverage their strengths and achieve shared objectives.

8.9 SUMMARY

Intergroup conflict is a prevalent issue in organizations that can have significant negative impacts on individuals, teams, and the organization as a whole. Understanding the causes, consequences, and management strategies of intergroup conflict is essential for organizations to effectively address and resolve this issue.

Political processes are an inevitable part of organizational life. Understanding the nature of power, the dynamics of political behavior, and the implications for effective management is essential for navigating the complexities of decision-making and influence within the workplace.

Organizational dynamics and structure play a crucial role in shaping the behavior and performance of individuals and groups within an organization. The interplay between power, politics, and collaboration is essential for promoting a positive and productive work environment. By understanding the impact of power on collaboration, the role of politics in shaping organizational culture, and the importance of collaboration in promoting organizational effectiveness, managers can create a culture of transparency, fairness, and collaboration that values teamwork and innovation.

8.10 EXERCISE

Q.1 What is Conflict? State and explain different types of conflict.

Q.2 What is Power? State different types of power.

Q.3 State and explain the different bases of power.

Q.4 Write Short Notes on:

(a) Conflict Management

(b) Role Conflict

(c) Organizational politics

(d) The Interplay of Power, Politics, and Collaboration

Q.5 Choose the correct option:

a) Which term is defined as the behavior that occurs among organizational groups when participants identify with one group and perceive that other groups may block their group's goal achievement or expectation?

1) Goal incompatibility

2) Intergroup conflict

3) Political conflict

4) Strategic contingencies

b) Which of the following is probably the greatest cause of intergroup conflict in organizations?

1) Goal incompatibility

2) Differentiation

3) Task interdependence

4) Limited resources

c) ________________ refers to the degree and nature of interdependence between the power holder and others.

1) Substitutability
2) Centrality
3) Discretion
4) Visibility

d) ________________ in trying to find a mutually beneficial solution for both parties through problem solving. An important feature of collaboration is information sharing so that both parties can identify common ground and potential solutions that satisfy both (or all) of them.

1) Collaborating
2) Avoiding Competition
3) Competing
4) Accommodating

e) A person holds_____ power when he influences others by coercing, threatening, harming and irritating.

1) Reward
2) Coercive
3) Normative
4) Expert

f) Research and investigation can be examples of sources of _________power.

1) Expert
2) Reward
3) Normative
4) Democratic

g) The form of negotiation in which the negotiation is facilitated by a neutral third party is ______________.

1) Mediation
2) Agent or advocate-assisted negotiation
3) Nonbinding evaluation
4) Arbitration

8.11 REFERENCES

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