MANGALAYATAN
U N I V E R S I T Y

Learn Today to Lead Tomorrow

Organizational Theory Design and Development

MGO-2203

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UNIT 1: ORGANISATION AND ITS ENVIRONMENT

STRUCTURE

1.1 INTRODUCTION.

Organisations are social system and they play a major and continuing role in lives. We live in an organisational world. Organisations of one form or another are a necessary part of our society and they serve many important needs. Because from birth to death and from dawn to dusk we live, work, grow, and are educated in and by organisations. Performance of an organisation is the result of the interaction of physical, financial and human resources.

1.2 DEFINITIONS OF ORGANISATION

Organisation as a purposeful system with several subsystems where individuals and activities are organised to achieve certain predetermined goals through division of labour and co-ordination of activities. Division of labour refers to how the work is divided among the employees and co-ordination refers to how all the various activities performed by the individuals are integrated or brought together to accomplish the goals of the organisation. The term organising is used to denote one aspect of the managerial activities when someone is preparing and scheduling the different tasks that need to be completed for the job to be done.

The authorities on management science consider organisation as the practical side of business administration. Organisation refers to the way in which the component parts of an enterprise are put into working order so as to achieve the definite objectives of the firm.

According to Koontz, "It is the grouping of activities necessary to attain the goals of the enterprise and the assignment of each grouping to a manager with authority necessary to supervise it."

According to Scheim E.H., "The organisation is the rational co-ordination of the activities of a number of people for the achievement of some common explicit purpose or goal."

1.3   NEED FOR THE EXISTENCE OF ORGANISATION

Effective organisation is the means to achieve the objectives of the enterprise. It is the basic function of management. Organisation makes the proper arrangements of the requisite resources and make its most useful and efficient application. It provides right direction to the efforts of individuals and groups. The organisation structure results in the proper, balanced, coordinated and controlled development of the enterprise. It is the only means to achieve the maximum objective of the business at minimum sacrifice and wastages.

No doubt, organisation is an important tool to achieve the objectives of the enterprise, which can be proved by the following facts:

1. **Benefits of division of work and specialisation.** Organisation makes clear division of work. Every job is assigned to the right person. The duty, authority and responsibility of every employee is predetermined which enables easy control of business affairs. The scientific analysis and classification of job results in specialisation and its related advantages.

2. **Clarity in working relationship.** A good organisation structure honours the principle of the unity of command which specifies that every employee has to receive orders from the one specific person and he is responsible for his work given to him only. This enables proper execution of work and at the same time eliminates confusion, duplication and misunderstanding. The principle of unity of direction makes provision of the equal authority and responsibility at all uniform levels, so the employees feel that they are not subject to injustice and inequality.

3. **Optimum utilisation of resources.** Organising enables the enterprise to make optimum utilisation of physical and human resources. An effective organisation reduces the wastages of physical and human resources and makes their most economical use resulting in reduction of the cost of production.

4. **Adaption to change.** Elasticity in the organisation helps in the requisite changes in the organisation structure and also in the introduction of new plans and appointment of technocrats.

5. **Development of personnel.** The training facilities enable the employees to make the optimum use of business resources economically, otherwise the employees would have adopted 'trial and errors method' and caused a lot of wastage of resources.

6. **Effective administration.** An effective organisation integrates and coordinates the efforts of individuals and departments. The coordination results in the achievement of the maximum business objectives at minimum sacrifice. Thus, it brings effectiveness in administration.

7. **Expansion and growth.** Organisation helps in the growth and diversification of an enterprise by enabling it to deviate from existing rules and regulation and taking up new challenges.

K.C. Towe rightly says, A *sound organisation, is the answer to every business problem, that a poor organisation could run a good product into the ground and that a good organisation with a poor product could run a good product out of the market.*

1.4 ORGANISATIONAL EFFECTIVENESS

Organisational effectiveness is called as organisational success or growth is defined and conceptualized in difference ways and no unanimity is found in different approaches. Though a large volume of literature is available on the concept and working of organisational effectiveness, there is often contradiction in the various approaches. The various approaches are judgmental and open to question. Thus, various terms are often used interchangeably, such as, efficiency, productivity, profitability, organisational growth to denote organisational effectiveness.

1.5 DEFINITIONS OF OE

According to Campbell, "Effectiveness may be defined as the degree to which an organisation realizes its goals".

According to Hummel, "Effectiveness of an organisation can be seen in terms of the survival of the organisation".

1.6 APPROACHES TO OE

There are many approaches to conceptualize the organisational effectiveness. Such approaches are given below:

1. Goal Attainment Approach.
2. System Approach.
3. Strategic Constituencies Approach.
4. Behavioural Approach.

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                    │ OE Approaches│
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│ Goal    │ │ System  │ │ Strategic    │ │ Behavioural │
│ Attain- │ │ Approach│ │ Constituencies│ │ Approach   │
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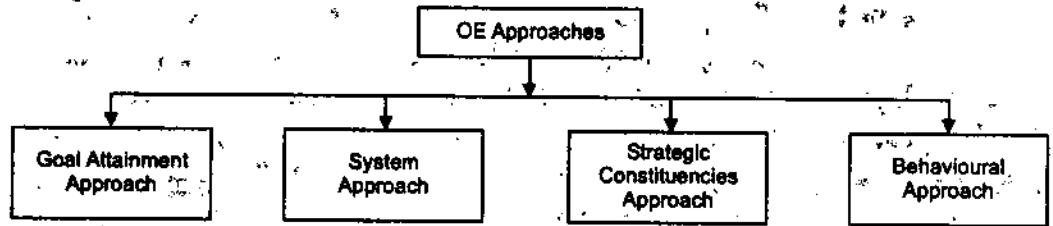
Fig. 1.1

1. Goal Attainment Approach

Organisations are created to achieve one or more goals. Hence, it should not come as no surprise then to find that goal attainment is one of the most widely used of effectiveness. Organisations consider goals or ends to which they are created to achieve. In goal attainment approach, achieving set goals is the bottom line that counts.

The goal attainment approach of organisational effectiveness assumes that:

(a) Organisation must have ultimate goals.

(b) Goals must be identified to be understood.

(c) Goals must be few enough to be manageable.

(d) There must be general agreement on these goals.

(e) Goals must be measurable.

Limitations of Goal Attainment Approach

1. Organisation's official goals do not always reflect the organisation's actual goals. This is because official goals at times are influenced by some factors like social desirability.

2. An organisation's short-term goals differ from its long-term goals.

3. Sometimes organisation's multiple goals compete with each other and sometimes are even incompatible.

4. It is very difficult to apply goal attainment approach in service organisations such as clubs, schools, hospitals etc. because their goals are intangible.

2. System Approach

This approach is based upon the open system model as applied to social organisations. An organisation is a social system, which is a part of the environmental system. This model emphasizes the interdependence between the organisation and its environment. An organisation takes inputs from the environment, converts them into output and returns the output to the environment. An organisation will be effective so long as it uses its recourse in an efficient manner and continues to contribute to the environment.

Bennis has clearly explained OE based on system approach involving the following criteria:

(i) Adaptability

The ability to solve problems and to react with flexibility to changing environment demands.

(ii) A Sense of Identity

Knowledge and insight on the part of the organisation of what it is, what its goals are and what it is do.

(iii) Capacity to Test Reality

The ability to search out, accurately perceive and correctly interpret the real properties of the environment, particularly those that have relevance for the functioning of the organisation.

(iv) Integration

It is integration among the sub-parts of the total organisation, such that the parts are not working at cross-purposes.

System approach emphasizes criteria that will increase the long-term survival of the organisation such as the organisation's ability to acquire resources, maintain itself internally as a social organism and interact successfully with its external environment.

The System Approach to OE Assumes that

1. Organisations are made up of interrelated sub-parts. Performance of one part affects the performance of other parts as well.

2. Effectiveness requires both awareness and successful interactions with environmental constituents.

3. Survival requires a steady replenishment of resource consumed by the organisation. Failure to replenish will result in the organisation's decline and ultimately, death.

Limitations of System Approach

1. The acquisition of resource from the environment is based upon the official goals of the organisation. The operative goals may sometimes be in conflict with some of the official goals. In such a case, operative goals may be used for determining effectiveness.

2. The acquisition of resources ultimately related to some goals, which are difficult to be measured as, explained in the goals attainment approach.

3. Strategic Constituencies Approach

The strategic constituencies approach is defined as the application of the technique of management by exception to systems approach to achieve organisational effectiveness. This approach proposes that an effective organisation is one that satisfies the demands of those constituencies in its environment from whom it requires support for its continued survival. This approach differs from the system approach in the neither sense that it did nor concern with the organisation's entire environment, but seeks to appease only those constituencies in the environment who can threaten the organisation's survival.

Limitations

1. To difficult to find out the critical constituencies.
2. To find out the constituencies which are almost critical.
3. The incompatibility among competing expectations may create further problems.
4. With the environment changes, the constituencies also keep on changing. What is the critical today may not be critical tomorrow. In such case, a again the need will arise to identify new set of critical constituencies and the whole process will start again.

4. Behavioural Approach

Behavioural approach of measuring organisational effectiveness takes into account the behaviour of people in the organisation, which ultimately determines the degree of goal achievement by an organisation.

Behavioural Approach is base on two Assumptions

1. Organisations as collectivity of people have one set of goals and people as individuals have another set of goals.
2. Degree of organisational effectiveness depends on the degree of integrations of organisational and individuals goals.

The integration of individuals and organisational goals affects organisational effectiveness because each individual tries to satisfy his needs by working in the organisation. Thus, he may try to satisfy his own needs without taking into account the organisational needs if he is not able to satisfy only his own needs without regard to organisational needs.

1.7   TYPICAL OF OE CRITERIA

Identifies a list of strategic constituencies a business firm might confront and the typical organisational effectiveness criteria each constituency is to use.

Table 1.1 Typically OE of Criteria of Selected Strategic Constituencies

Constituency	Typical of OE criteria
1. Owners	Return on investment growth in earning.
2. Employees	Compensation fringe benefits satisfaction with working conditions.
3. Customers	Satisfaction with price quality service.
4. Suppliers	Satisfaction with payments future sales potential.
5. Creditors	Ability to pay indebtedness.
6. Unions	Competitive wages and benefits satisfactory working conditions, willingness to bargain fairly.
7. Local community	Involvement of organisation members in local official's affairs lack of damage to the community environment.
8. Government	Compliances with laws: avoidance of penalties agencies and reprimands.

1.8 COMPARISON OF FOUR OE APPROACHES

We have presented four different approaches as useful ones in their own ways now, we are answering under which conditions each approach is preferred. Look at Table 1.2, it will help you identify what each approach uses to define effectiveness and under which conditions each approach is most useful.

Table 1.2

Approach	Definition	When useful
Goal attainment	An organisation is effective to the extent that....	The approach is preferred when....
Systems	It accomplishes its started goals.	Goals are clear, time bound and measurable.
Strategic	It acquires needed resources.	A clear connection exist between inputs and outputs.
Constituencies	At least minimally satisfied.	Influence on the organisation and the organisation must respond to demands.
Competing values	The emphasis of the organisation in the four major areas matches constituent preference.	The organisation is unclear about its own emphases or changes in criteria overtime are of interest.

Adapted from Kim S. Cameron "The effectiveness of Ineffectiveness" in B.M. Staw and L.L. Cummings eds., Research in Organisational Behaviour.

1.9 FACTORS INFLUENCES IN ORGANISATIONAL EFFECTIVENESS

Each and every individual's effectiveness is significant but perhaps the most important aspect of effectiveness is its relationship to the entire organisation. From this point of view there are numerous variables. These variables have been classified by three groups.

1. Causal Variables.
2. Intervening Variables.
3. End-result Variables.

Grouping variables these categories aids greatly in the correct interpretation of the date and their use for diagnostic and other purpose.

1. Causal Variables

Causal variables are those factors that influence the course of development within an organisation and its results. Causal variables are independent variables, which determine the course of

developments within an organisation and the result achieved by the organisation. These casual variables include only those independent variables, which can be changed by the organisation and its management. Causal variables include the structure of the organisation and management's policies, decisions, business and leadership strategies and skills.

Casual Variables	Intervening variables	End result
• Leadership strategies • Management decision • Organisational objective • Organisational structure	• Communications • Conflict resolution • Decision-making • Problems solving	• Production • Cost • Sales • Earnings
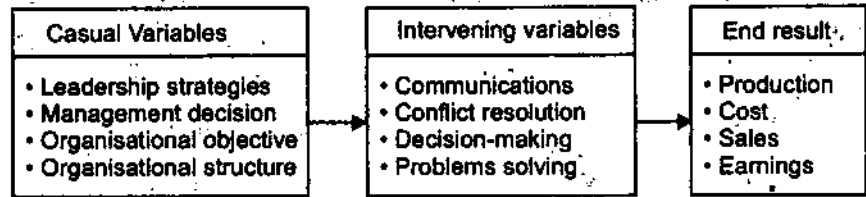
Fig. 1.2

2. Intervening Variables

Intervening variables are those factors, which are reflecting as the internal state of organisation. Many of those variables are causal variables. The intervening variables are reflect the internal states and health of the organisation e.g., the loyalties, attitudes, motivations, performance goals, communication and decision-making.

3. End-result Variables

End-result variables are those factors, which are caused by casual and intervening variables and are often in terms of the factor in which managers are interested or, measure their effectiveness. The end-result variables are the dependent variables which reflect the achievements in the organisation, such as its productivity, costs and earning.

1.10 FACTORS CAUSING INEFFECTIVENESS

There are some factors which cause ineffectiveness:

1. Failure of managers to act when they need to.
2. Delay in taking actions.
3. Taking the wrong actions.
4. Lack of sufficient efforts.
5. Excessive effort in relation to the need.
6. Wasted efforts.

1.11 SUMMARY

- Organisations are social system and they play a major and continuing roles in lives.
- Organisational defined as the degree to which an organisation attains its short and long-term goals, the selection of which reflects strategic constituencies, the self-interest of the evaluator, and the life stage of the organisation.
- Organisations consider goals or ends to which they are created to achieve. In goal attainment approach, achieving set goals is the bottom line that counts. The strategic constituencies approach is defined as the application of the technique

of management by exception to systems approach to achieve organisational effectiveness.

- Behavioural approach of measuring organisational effectiveness takes into account the behaviour of people in the organisation, which ultimately determines the degree of goal achievement by an organisation.

1.12 REVIEW QUESTIONS

1. What do you mean by organisation?
2. Define Organisational Effectiveness. Why it's relevant in the study of organisational behaviour?
3. What criteria are used for judging the effectiveness of an organisation?
4. What are the various factors for achieving organisational effectiveness?
5. Explain the Likert's model of effectiveness.
6. What are the different approaches which have been developed to study organisational effectiveness?

1.13 CRITICAL THINKING QUESTIONS

1. Do you agree with the view that it is difficult for organisations to be effective?
2. How does the degree of intension of goals affect organisational accomplishment?
3. There seems to be little agreement on the critical of organisational effectiveness. Do you agree? Discuss.
4. Give the examples of organisational effectiveness criteria that are consistent with the goal-attainment approach.
5. Measuring effectiveness is a critical but problematic issue in the study of organisation-Discuss.

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1.15 CASE STUDY

Mark Colvard a United Parcel Manager in San Ramon, California, recently faced a difficult decision. One of his drivers asked for 2 week off to help an ailing family member. But company rules said this driver wasn't eligible. If Colvard went by the book, the driver would probably take the days off anyway and be fired. On the other hand, Colvard chose to give the driver the time off. Although he took some heat for the decision, he also kept a valuable employee.

Had Colvard been faced with this decision 6 months earlier, he says he would have gone the other way. What changed his thinking was a month he spent living in McAllen, Texas. It was part of a UPS management training experience called the Community Internship Program (CIP). During his month in McAllen, Colvard built housing for the poor, collected clothing for the Salvation Army, and worked in a drug rehab Center. Colvard gives the program credit for helping him empathize with employees facing crises back home. And he says that CIP has made him a better manager. "My goal was to make the numbers, and in some cases that meant not looking at the individual but looking at the bottom line. After that one month stay, I Immediately started reaching out to people in a different way".

CIP was established by UPS in the late 1960s to help open the eyes of the company's predominantly white managers to the poverty and inequality in many cities. Today, the program takes 50 of the company's most promising executives each summer and brings them to cities around the country. There they deal with a variety of problems from transportation to housing, education, and health care. The company's goal is to awaken these managers to the challenges that many of their employees face, bridging the cultural divide that separates a white manager from an African American driver or an upper-income suburbanite from a worker raised in the rural South.

Questions

1. Do you think individuals can learn empathy from something like a 1-month CIP experience? Explain why or why not.

2. How could UPS's CIP help the organisation better manage work life conflicts?

3. How could UPS's CIP help the Organisation improve its response to diversity?

4. What negatives, if any can you envision resulting from CIP?

5. UPS has 2,400 managers. CIP includes only 50 each year. How can the program make a difference if it include only 2 per cent of all managers? Does this suggest that the program is more public relations than management training?

6. How can UPS justify the cost of a program like CIP if competitors like FedEx, DHL, and the U.S. Postal Service don't offer such programs? Does the program increase costs or reduce UPS profits?

UNIT 2: ORGANISATION STRUCTURE AND DESIGN

2.1 INTRODUCTION

Great organisations are not built overnight. They are born out of a dream and they are usually built around people. People, for all practical purposes, are the backbone of a company. Any organisation, for that matter, does not consist of land, buildings and equipment. It consists of people—who are young, dynamic and fired by a lofty, pious goal. For people to achieve such a dream they need a structure. They need resources to work with. And they need to think and act like members of a well knit team. Small wonder, the word organisation is put to multiple interpretations. It means different things to different people. Currently, the following uses of the term are popular:

- A group of people who are united by a common purpose
- An entity, an ongoing business unit engaged in utilizing resources to create a result.
- A structure of relationships between various positions in an enterprise.
- A process by which employees, facilities and tasks are related to each other, with a view to achieve specific goals.

The static (as a structure) and dynamic (as a process) interpretations of the term organisation are quite commonly used and these are explained below:

2.2 ORGANISATION AS A STRUCTURE

According to classical theorists (Fayol, Taylor, Weber) structure is essential for achieving stated goals. The manager determines the work activities to get the job done, writes job descriptions, puts people into groups and assigns them to superiors. He then fixes goals and deadlines and establishes standards of performance. Operations are controlled through a reporting system. The whole structure takes the shape of a pyramid. Thus the team Organisation Structure describes the organsiation's framework. It reveals the established pattern of relationships among the constituent parts of the organisation. It is nothing but a chart of relationships. However, organisation is much more than a network of formal, superior-subordinate relationship. Informal relationships also play an important role in processing work. Organisation, as a structure, has the following features:

Features of Organisation (as a Structure)

- *Two or More Persons:* Organisation is a form of human association for achieving common goals. The human association consists of two or more persons.
- *Common Goals:* The organisation exists to achieve some common goals. Structure ensures the smooth achievement of goals.
- *Cooperative Efforts:* Structure permits members to work in a cooperative way, without any friction. The members combine their efforts with a view to achieve goals.
- *Division of Work:* The work is divided into small parts and assigned to people working at various levels. This ensures speedy execution of work.
- *Communication:* People communicate along specified routes. Mainly downward communication takes place in the form of superiors issuing commands, orders, directives, etc.
- *Rules and Regulations:* Rules and regulations define the territorial jurisdiction of members. Members have to observe and implement these rules consistently.
- *Pyramidal Shape:* Organisation structure takes a pyramidal shape generally. Each superior will have a limited number of people reporting to him at any point of time.
- *People:* Human beings are the most dynamic elements of an organisation. They convert organisational resources into useful, products.
- *Resources:* Organisations strike a harmonious balance between people, resources, tasks and technology. Without adequate resources, organisations cannot function. And more importantly without achieving a balance between the various elements of an organisation, work cannot progress.
- *Environment:* Organisations are influenced by economic, social, political and legal factors. In order to survive and flourish in a competitive environment, organisations have to design their work and facilities in sync with environmental demands. Organisations cannot afford to be static or mechanistic. They have to be dynamic necessarily if they want to stay ahead of competition.

2.3 ORGANISATION AS A PROCESS (ORGANISING)

Organising is the process by which employees, facilities and tasks are related to each other, with a view to achieve specific goals. It refers to the way work is arranged and allocated among members of the organisation, so as to achieve the goals. As a process, organisation, thus refers to one of the important functions of management, i.e., organizing. The process of organizing, thus, involves the following steps:

- *Identifying the Work:*. The work in an organisation must be sliced into smaller parts (because it is too big to be handled by anyone singlehandedly) Subordinates, as a result, are in a position to handle the compartmentalized jobs quickly and efficiently. This also helps managers to concentrate on important activities, avoiding unnecessary duplications, overlapping and wastage of efforts.

- *Grouping the Work:* Division of work creates the need for coordination. In order to provide for a smooth flow of work all closely related and similar activities must be grouped together. Thus, departments and divisions are created under the direction of a manager.

- *Establishing Relationships:* To secure compliance and get things done at lower levels, managers need to clarify things such as what needs to be done, how it must be done, to whom the matters must be referred and how jobs are related to one another, etc. Without formal relationships, it would be difficult to process the total work because there is no way to know how the work is progressing, who is supposed to handle the work, where the work has to be coordinated so as to achieve enterprise objectives. As soon as the formal relationships are established, they would provide a framework for assigning duties and responsibilities to individuals in a clear fashion.

- *Delegating Authority:* Authority is the right to act, to issue orders and exact obedience from others. Without authority a manager may not be able to perform the tasks with confidence and show results. While assigning duties the manager should clearly specify authority and responsibility limits, so that the subordinate knows well in advance as to what type of work is expected of him by the superior.

- *Providing for Coordination and Control:* The interrelationships between various positions must be specified clearly. The activities and efforts of various individuals must be coordinated. The performance must be measured, evaluated and controlled at frequent intervals. If deviations occur, they must be spotted early and appropriate remedial steps taken immediately.

Organisation as a Group

Some writers have tried to strike a balance between the two aspects—dynamic as well as static—by placing greater emphasis on human interaction in an organisation. In the words of C.I. Barnard, "Organisation is a system of consciously coordinated activities or forces of two or more persons." Etzioni, in a similar way expressed that 'Organisations are social units (or human groupings) deliberately constructed and reconstructed to seek specific goals.' A more refined version is provided by W.J. Duncan, "An organisation is a collection of interacting and interdependent individuals who work toward common goals whose relationships are determined according to a certain structure." These definitions clearly bring out five essential features common to all organisations:

- An organisation always refers to people.
- An organisation is developed for people.
- People interact with one another in some way.
- These interactions are specified by some sort of structure.
- Interactions are ordered to achieve joint objectives.

2.4 ORGANISATION DESIGN: CLASSICAL APPROACH

Organisational design refers to the process of making the specific choices about how to arrange the tasks and job relationships that comprise the organisation structure. It is the process of constructing and adjusting an organisation's structure to achieve its goals. The design process begins with the setting up of goals. Goals constitute the basis for outlining jobs and tasks. These jobs are grouped into departments which are linked to form a structure. Structure, thus, is meant to ensure smooth flow of work at various levels in an organisation.

Design choices are built around two key concepts, namely differentiation and integration. **Differentiation** means breaking the organisational goals into tasks. **Integration** is the process of linking the tasks together to form a structure that helps in goal accomplishment. Organisation structure, thus, is created to ensure smooth flow of work at all levels. The structural components are generally depicted through an **organisation chart.** Charts throw light on formal lines of authority, distribution of power, reporting relationships between people and the coordinating links that help in putting everything in place. As things stand now, design choices can be made by following the classical or contingency view.

The classical view is built around certain well known ideas – such as formalization, centralization, specialization, standardization, complexity and hierarchy of authority. *Formalization* refers to the extent to which policies, rules and procedures exist in written form. *Centralization* refers to the extent to which authority is retained in the jobs of top management. *Specialization* refers to the degree to which organisational tasks are subdivided into separate jobs. *Standardization* refers to the degree to which work activities are performed routinely in the same manner. *Complexity* refers to the degree to which many different types of activities occur in the organisation. *Hierarchy of authority* refers to the degree of vertical differentiation across levels of management. Classical Theory (Taylor, Fayol, Weber) prescribed that organisation be built around the work to be done. For maximum efficiency this theory specifies that the work must be logically divided into simple, routine and repetitive tasks (known as division of labour). These tasks should then be grouped according to similar work characteristics and arranged (departmentation) in an organisation structure in which an executive has a limited number of subordinates reporting directly to him (span of control.) Also, command should flow top to the bottom in a chain (scalar chain); everyone should have one and only one boss (unity of command). Work must be assigned to individuals based on job demand and the individual's ability to do the job (delegation and decentralization). Organisations must rely on these universal design principles while structuring activities. Let's examine these concepts in detail in this section.

1. *The Hierarchy:* The heart of formal structure, as depicted above, is the job-task-pyramid. Formal structures tend to take the pyramid form shown through figure because at successively higher levels, there are fewer positions and executives have

increasingly broad responsibilities. The total organisation work is sliced from top to bottom, positions consisting of tasks, duties or responsibilities are created. Varying degrees of authority and responsibility are allocated by delegation from the top to successively lower levels. The three levels shown above are only approximations. The number of levels may vary depending on the size of the organisation. Each position in the hierarchy is subjected to superior-subordinate relationships. Each role except the top is obliged to follow the order emanating from the role superior to it. Thus, the pyramid is really created by the unity of command concept. Again, it may be noted, the pyramid reflects the vertical division of authority and responsibility and the assignment of various duties along the scalar chain. A clear, unbroken direct line represents the flow of authority and responsibility in the pyramid. Each successively lower level represents a decreasing scope and amount of authority and responsibility. Within the structure, these levels provide appropriate patterns, for order giving and communication. Thus, the hierarchy is an important concept in that it depicts how the components of an organisation are created and held together.

2. *Specialization and Division of Labour:* Classicists advocated fragmentation and routinization of work to reap the advantages of specialization. Specialization is a glamorous term because it promises greater efficiency and productivity. No wonder, Classicists concentrated mainly upon ascertaining what constituted a fair day's work and on the arrangement of tasks into sequences so as to produce the most effective production operations. Division of labour allows for specialization of efforts and permits worker to perform a manageable number of tasks. It creates groups of specialists. It improves one's skill at performing a task through repetition. Again, the total work to be performed needs to be divided into jobs because of physical and mental limitations of human beings and of the demands for efficiency. The virtues of specialization have been presented in eloquent terms thus. (i) Less time needed for learning, (ii) Less wastage of materials during training period, (iii) Less time lost in switching from task to task, (iv) Practice makes a man perfect. Proficiency increases, (v) Parts become uniform and interchangeable and, (vi) Organisation can hire and pay for a person who has the exact skill required. However, division of labour forces managers to utilize a narrow brand of worker personality. The worker by doing repeatedly the same kind of job, loses interest after a while. He becomes an inert instrument, a glorified machine tool in the production process.

3. *The Chain of Command/Scalar Chain:* According to Fayol, 'the scalar chain is the chain of superiors ranging from the ultimate authority to the lowest ranks'. It refers to an interconnected and unbroken set of reporting relationships extending from the top of the organisation to the bottom. The managers are linked together in their positions from highest to the lowest level. Each manager is superior to a manager below him but is also subordinate to his own superior. The principle suggests that there should be a clear line of authority from top to bottom linking managers at all levels. Short-circuiting the chain of command is not advisable and should be avoided.

4. *Unity of Command:* We are all familiar with the principle 'no man can serve two masters well.' Fayol, borrowing this idea from the Bible, advanced the unity of command concept as one of the cornerstone concepts of management. According to the principle, each subordinate is accountable to only one superior. The source of command should be unified so that a subordinate receives assigned duties and

authority from one superior and is accountable only to that superior. Providing a single source of authority through which commands and orders flow in a direct fashion is, certainly, an attractive goal from the subordinates' point of view. It will place the subordinates under the guidance, control and supervision of one superior who will establish priorities and will provide for cooperation. Conflicting orders and frustrating demands can be avoided.

5. **Unity of Direction:** According to this principle, any group of activities that have a common goal should also be managed, ultimately, by one person. The maxim 'one head and one plan for a group of activities having the same objective' appears to be a sound one. According to Fayol, all activities with a common goal (for example, all the activities performed in a plant having the objective of achieving a production target of 1000 pieces per day) should ultimately report to one (plant) manager. For other activities like sales, finance etc. there should be one head one plan. 'To take a broad view all these three departments, production, finance and sales which together form the organisation themselves are bound by a common goal (say increasing profits by 20 per cent). They should, therefore, share one head (the Chief Executive) and an overall plan. The principle of Unity of Direction thus, facilitates smooth progression towards the achievements of overall organisational goals from the operating level to the top level.

6. **Departmentation:** Departmentation is a way of dividing the large and complex organisation into smaller, flexible, administrative units. It is the organisation-wide division of work into various manageable units or departments. It is the 'grouping of activities and employees into departments'. Departmentation (also known as departmentalization) is an important step of building an organisation. The basic purpose is to take advantage of division of labour and specialisation up to a certain point. There are several popular bases for departmentation – such as functional, divisional, geographic, project, matrix etc which are discussed elaborately in the ensuing section.

7. **Span of Control:** According to the principle of the span of control (also called span of management/supervision) there is a limit to the number of subordinates a manager can effectively supervise. It states that no single executive should have more people looking to him for guidance and leadership than he can reasonably be expected to serve. Because of personal limitations arising from lack of complete and sufficient knowledge, limited time, limited money, a manager has to delegate work to as many subordinates working in various departments as he can effectively manage. Thus, the principle of span of management presupposes departmentation and delegation of authority.

8. **Authority, Responsibility and Accountability:** Authority is defined as the right to give orders and the power to get obedience. In the context of an organisation authority might be termed as 'institutionalized power'. A person in an organisation has authority by virtue of the requirements of the role held by him. Authority resides in a person and arises out of the demands of position in organisations. Responsibility is the obligation of a subordinate to perform the duty as required by the superior. There should be parity between authority and responsibility. This means that the subordinate must have been delegated enough authority to undertake all the duties which have been assigned to him and for which he has accepted responsibility. Authority without responsibility

is liable to be abused; responsibility without authority is frustrating. Thus, inequity between delegated authority and responsibility produce undesirable results.

9. *Line-staff Relationship:* According to classical writers – Taylor, Fayol, Webber etc. – organisational work needs to be controlled by line managers, assisted by staff assistances having specialized expertise and knowledge. According to McFarland the line manager directs others, delegates, trains subordinates, exerts control, uses sanctions, has veto powers, makes operating decisions, and bears final responsibility for results. Staff authority is advisory, which means that the staff, a supporting unit, recommends action or alternative actions to the line manager. Catch phrases like: "staffs have the authority of ideas, lines have the authority of command; staffs think, lines do; staffs advise, lines work; have gained wide currency over the years. However, staff authority is not confined to mere advisory roles or recommending activities only. According to McFarland a staff manager helps, serves, investigates, plans, solves special problems, supports line efforts, provides ideas and special expertise. The above functions are supporting functions, functions that help in some way the accomplishment of the primary objectives of the line departments. One distinguishing feature of staff functions is regarding the right to command, and direct others. Staff positions are devoid of the right to command, staff work is essentially an intellectual process consisting of such activities like planning, thinking, studying, informing, recommending, persuading and suggesting, and so on.

10. *Formalization:* It refers to how standardized an organisation's jobs are and the extent to which employee behaviour is guided by standard rules and procedures. In highly formalized jobs employees can exercise very little discretion. Job descriptions, rules, and regulations guide employee behaviour at every stage. They are expected to handle 'same input in exactly the same way, resulting in consistent and uniform output'. To avoid confusion and to ensure consistency of effort, classical theory emphasized formalization and strict adherence to rules and regulations. Formalization, no doubt, increases organisational efficiency but it may compel employees to take a cautious, safe path instead of looking for innovative ways to meet customer expectations. Modern organisations, however, allow employees to go beyond the rule book, and do whatever is necessary in the best interests of the organisation as well as customers.

Classical theorists wanted an organisation to be built around the concepts listed above in order to achieve goals without any friction, confusion or chaos. When there is very little complexity, especially when organisations begin their journey a simple functional structure is appropriate. As the organisations balloon to gigantic levels, divisional, project and matrix structures may be preferred. More flexible, organic forms – such as virtual organisations, boundary less organisations etc – capture the attention as and when organisations want to operate – in different time zones – at various locations in different countries.

2.5 ORGANISATION DESIGN: CONTINGENCY APPROACH

The classical theory is built around a static structure full of standardized procedures, rigid rules and inflexible, formal reporting relationships. To secure compliance and efficient work from people, it has come out with a mechanistic model. The basic aim is to find the one

best way of doing things. In an environment marked by considerable complexity, variety and full of surprises, such mechanistic models do not seem to work. A contingency approach, therefore, is the need of the hour. According to the contingency theory an organisation's structure needs to be designed to match the factors or conditions that affect a organisation significantly. There is no one best way to design an organisation. The best design is one that fits the organisation's specific situation. Researchers, over the years, have identified the following contingencies playing a major role in organisation design choices – such as strategy, technology, environment and people.

1. Strategy and Structure

A suitable organisation structure is essential to implement strategies and achieve stated goals. According to Classical Organisation Theorists (Fayol, Taylor, Webber), the manager generally determines the work activities to get the job done, writes job descriptions, puts people into groups and assigns them to superiors. He then fixes goals and deadlines and establishes standards of performance. Operations are then controlled through a reporting system. The whole structure takes the shape of a pyramid. Thus, the term *'organisation structure'* describes the framework of an organisation in which individual effort is coordinated. It is nothing but a chart of relationships. To be effective, the basic structure is governed by a set of rules and regulations, reward-punishment systems, information networks, control procedures, etc. The structural components are generally designed, keeping the requirements of organisational members in mind, (where they are encouraged to take up the assigned jobs, meet the expectations of superiors, earn the rewards and keep the organisation going). Structure, thus, is a means to an end and not an end in itself. It is there to facilitate the smooth translation of organisational plans, strategies and policies into concrete action. Without a proper fit between strategy and structure, there will be chaos and confusion in the organisation. Various parts do not move in harmony. Delays, duplications and waste motions may occur with frustrating regularity. It may ultimately lead to improper use of facilities and failure to achieve goals. Research evidence also suggests that structure follows strategy. Generally speaking, organisations perform more effectively when they implement strategy with the most appropriate structure, while evaluating whether an organisation is properly structured and stuffed to meet the requirements of the strategy:

It is, more or less, agreed now that changes in strategy lead to changes in organisational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reasons for being (mission), structure is not important. Institutionalizing a strategy definitely requires a strategy-structure fit. Functional structure is useful when the firm begins operations at a single site. The emphasis here is on increasing volumes. As business expands, the firm begins to perform the same function in different locations. Such geographical dispersal of activity calls for inter-unit coordination. Vertical integration is the next growth strategy. Firms operate within the same industry but carry out additional functions. In the final phase, according to Alfred

Chandler, firms indulge in product diversification resulting in a large, multi-divisional structure. Current research indicates that the greater the diversity among the businesses in multi-business firms, the greater is the necessary degree of decentralization and self containment. While trying to relate the structure to strategy, managers have a wide choice based on how authority relationships are prescribed, how departments are created, etc. The design choices basically revolve around the following types: the functional structure, the divisional structure, the profit and matrix forms, the emerging structures like teams, virtual teams and Boundaryless organisations.

2. Size and Structure

There are many ways to measure the size of an organisation, but sales volume and number of employees are the most commonly used factors. While no hard and fast rules exist, certain features generally relate to an organisation's size. Smaller organisations tend to be less specialized, less standardized and more centralized. Larger organisations, on the other hand, tend to be more specialized, more standardized and more decentralized. As organisations grow in size, some structural changes occur inevitably. The relationship between size and structure, however, has not been established clearly. Some studies concluded that size is an important variable impacting the structural components of an organisation – as it offers a greater opportunity to utilize the economies of specialization. The Aston Group found that increased size promotes greater specialization and formalization. The research findings on size and structure relationship, however, are inconsistent. A sound theoretical explanation as to why size affects structure is missing quite often. It is not clear as to why the relationship is unidirectional, that is, size influencing structure but not the reverse. And there is another question of how size determines all structural dimensions. The evidence in support of these two questions is rather inadequate. As a result, it is difficult to ascertain whether size causes structure or structure causes size. To make confusion worse confounded, the theorists have employed different measurement criteria for determining the size of an organisation. Practically very little attention has been paid to defining size. Some people measure size in terms of amount of assets, sales revenue and so on whereas others measure size in terms of people at a location. This may be due to the fact that size is a relative term and a clear-cut classification of organisations into small, medium and large scale units is not possible. The effects of size do not seem to be all-pervasive. In the words of Jackson and Morgan, 'Taken as a whole, size may be the most important contextual variable in predicting some dimensions of structure, but it is difficult to conclude that it dictates all of an organisation's structure.' Hall and his associates studied seventy five highly diverse organisations and concluded that all aspects of structure cannot be predicted from size. It is not easy to assimilate the bundle of information and establish a clear-cut relationship between the size and structure of an organisation. Research evidence, however, indicates that size has a significant influence on vertical differentiation.

3. Technology and Structure

Technology is an important variables in the design of organisation structure. To achieve satisfactory performance managers must design an organisation with the proper mix of technology, structure, and human behaviour. Technology, in simple terms, is the organisation's transformation process. It is the combination of skills, equipment and relevant technical knowledge needed to bring about desired transformation in materials,

information and people. Technology looks at how the inputs are transformed into outputs. Broadly speaking, it is the application of knowledge to perform work.

1. *The Woodward Studies:* What is the relationship between technology and organisation structure? The first attempt to view organisation structure from a technological perspective was made by Joan Woodward. The study begin in the mid-1950s but reanalysis continued into the late 1960s. Woodward and her colleagues studied 100 manufacturing firms in the South of England. The selected firms covered diverse types of production and ranged in size form fewer than 250 employees to over 1000. The basic aim of the study was to find out how the management principles were used in Britain. Is there any optimum structural from that leads to organisational effectiveness? She collected data on various structural characteristics (span of control, management levels etc.) management style, the type of manufacturing process, commercial success of the firms. Initially Woodward found no common application of management principles. Firms varied widely on such things as span of control, number of levels. Her efforts to link structural differences among firms with effectiveness also failed. Almost accidentally, Woodward categorised the companies according to technical complexity of the manufacturing process. The firms were classified into three basic groups—unit, mass or process production.

(a) *Unit production:* Custom made products to meet specific needs of customers' not highly mechanized.

(b) *Mass production:* Characterized by production of large batches on assembly line along production runs of standard products like refrigerators, automobiles etc.

(c) *Process production:* Long and continuous runs (heavily automated) through standardized, repetitive procedures for items like oil, gases, chemicals, liquor production.

At that stage Wooodward found that there were definite relationships between structure and technical demands and effectiveness. The main conclusions were:

• There was no one best way to organise manufacturing firms.

• Firms employing mass production technologies were characterized by mechanistic organisation structure. Firms employing unit and production technologies and process technologies were characterized by organic structures. There was an inverse relationship between technical complexity and span of control. In mechanistic structures span was larger.

• The effectiveness of firms was related to the 'fit' between technology and structure. Successful mass production organisations had mechanistic structure and small batch and process organisations had organic structures.

The Woodward studies have been influential in focussing attention on the role of technology. 'Her findings spelled the beginning of the end of the universal principles of management, and opened up the new horizon called Contingency Theory' They have stimulated other studies which have increased understanding of how technology affects organisation. The Woodword findings 'by no means developed a tightly scaled argument for the technological imperative.' S.P. Robbins listed out some of the limitations:

- The measure of technology is unreliable.
- The data collected through personal interviews and subjective interpretations suffers from interpretational bias.
- One of the major limitations of Woodward's perspective on technology was its manufacturing base. To sort out the relationship of technology of structure a number of studies were undertaken from time to time.

2. *Aston Studies:* The Aston Group tried to answer the question; how far technology determines the form taken by the structure of an organisation? They have developed a scale called 'workflow integration' to measure technology and structural characteristics in 52 organisations, large in size than the Woodward's sample. Workflow is the production and distribution of output. This scale can be applied to all types of work organisations. A higher workflow integration score means that the firm's technology is characterised by 'greater automation of equipment, greater rigidity of workflow and more precise measurement of operations.' The group found that bureaucratic characteristics increased in firms having high workflow integration score. Other important conclusions were:

   (a) The results were completely inconsistent with those of Woodward. They rejected the view that technology dictates structure. There was no substantial relationship between technology and structure, size mediated or intervened in any effect technology might have on the organisation.

   (b) Technology is only one of the factors influencing structure. It is neither the sole nor primary determinate of the structural aspects of an organisation. Size of the firm is more strongly associated with structural variables than technology. Perhaps, technology's greatest impact would probably be in small manufacturing organisations.

3. *The National Study:* In a study of 82 British firms, John Child confirmed the findings of the Aston group. He analysed his results in the same manner as the Aston group and concluded that the findings of the Aston group were correct. Using the Woodward's scale Child and Mansfield found that size has a much closer relationship to the aspects of structure than does technology. Peter Blau and his associates compared technology and size to several structural variables in a diverse cross section of 110 manufacturing firms in New Jersey. They found little evidence to support the Aston group's conclusion that when organisations are small, structures will be more heavily influenced by technology. Advances in production technology do not have linear but do have curvilinear relationships with various aspects of plant structure. Technology has an important relationship with decentralisation of key operating decisions. With increased mechanisation, key production and marketing decisions will be made at corporate headquarters.

4. *Charles Perrow:* Perrow's model is useful for measuring both manufacturing and non-manufacturing technologies. He tried to operationalize technology in a general way, in fact, he proposed knowledge based technology rather than production technology. Perrow outlined two dimensions of technology relevant to organisation structure: task variety and problem analyzability. The first is number of exceptions in the work; if a job has a great deal of variety, a large umber of exceptions can be expected. Problem analyzability is concerned with the 'search behaviour' of the person trying to solve a problem. Where the work

can be analyzed properly, participants can follow a standard and mechanical procedure to solve problems. Unanalyzable tasks pose problems that can be solved not by standard procedures but by experience, wisdom, intuition and judgement. With these dimensions of technology, Perrow developed four-fold classification of organisations:

(a) *Routine.* Like task variety, few exceptions, easy to analyze problems, tasks standardised.

(b) *Craft.* Deal with relatively difficult problems, (example: steel, automobiles etc.) but a limited set of exceptions, tasks require experience and training (shoe making and glass making etc.)

(c) *Engineering.* Complex tasks, large number of exceptions but can be handled by standard formulas and systematic procedures (example: engineering and accounting tasks).

(d) *Non-routine.* High task variety, difficult to analyze problems (example: research work, aerospace operations, strategic planning etc.) Perrow argued that firms in each of the categories encounter different problems and must employ different technologies and different organisation structure. Where task variety is low and problems can be analyzed easily, firms will use routine technologies and resort to bureaucratic structures. Thus firms will try to maximize the congruence between their technology and their structure.

5. **J.D. Thompson:** According to J.D. Thompson, technology is a major determinant of structure. It determines the selection of a strategy for reducing uncertainty. Three types of technologies based upon task interdependence are proposed by Thompson:

(a) *Pooled Interdependence:* Pooled interdependence exists where two or more departments interact with the central organisation but not with each other. Each department is a part of the organisation. Managers must standardize procedures so as to achieve necessary coordination between various departments (banks, insurance companies).

(b) *Sequential Interdependence:* Sequential interdependence exists where the operations of the various departments in an organisation are linked in a sequence. This technology is characterized by a fixed sequence of repetitive steps; a one-way flow of materials. That is, the outputs of unit A become the inputs for the unit B and so on. Coordinating long-linked units demands careful planning by the manager. It may be necessary to promote day-to-day communication among plants so as to identify trouble-spots and prevent interdepartmental conflicts.

(c) *Reciprocal Interdependence:* Reciprocal interdependence includes pooled and sequential interdependence. It exists when the outputs of each unit provide inputs for all others. That is, output of Department A is the input to Department B and the output of Department B is the input back again to Department A. All units exist in mutual interdependence. Reciprocal interdependence is the most complex interdependence for organisations to manage. Coordination is made difficult due to frequent communication and interaction between departments. This type of interdependence requires the most effort at planning, communication and decision-making.

4. Environment and Structure

Organisational functions cannot be understood by scanning internal factors. External factors must be properly analyzed and managed. Organisations are open systems. They operate on the principle of equifinality, which allows the same end position to be reached by several means. They interact with their environment continuously. 'The organisations are subsystems of broader supra systems, the environment. They have identifiable but permeable boundaries which separate them from their environment. They receive inputs across these boundaries, transform them and return outputs.' The open system perspective places an enormous weight on the external environment of the organisation as being influential for its internal functioning. No organisation is so autonomous that it can insulate itself totally from its environment. Organisations try to survive and achieve efficiencies in an uncertain environment. They are dependent on their environments for resources vital to survival and success. Elements in the external environment consume' the organisation's outputs and provide inputs like raw materials, employees', resources and technology. This dependency creates uncertainty for managers. There are two coping techniques available for managers to adapt to initial contingencies: changing the internal structures of the organisation or changing the external environment.

Some organisations face relatively static environments; others face very dynamic environments. In a simple environment the organisation structure is simple. As the environmental complexity increases, the organisation structure is less formalized and less centralised. Organic processes dominate. Thus, an organisation in one environment will be very different in structure and orientation from an organisation functioning in another environment. Structural design is an important tool that managers employ to eliminate or minimize the impact of environmental uncertainty. However, the relationship between the organisation and the environment is not simply one of organisational adaptation. It is not a one way traffic. Organisations can also reach out and change the external environment e.g., by paying people to carry out activities such as lobbying legislators, influencing new regulations, developing public relations campaigns, blocking competition etc.

What is Environment?

In a broad sense, the environment is infinite and includes everything outside the organisation. The general environment includes everything and consists of the following elements: *physical structure, social structure, ecological structure, legal structure, cultural structure, political structure, economic structure, psychological structure and international structure.* All of these structures may influence the formation and survival of an organisation. The general environment encompasses conditions that may influence the organisation potentially, but their relevance is not overtly clear. Organisations are only concerned with the relevant components of the specific environment which can positively or negatively influence the organisation in achieving its goals. These components have the potential to affect all or part of the organisation. The set consists of all elements, existing outside the boundary of an organisation influencing its performance. It will include customers, suppliers, government regulatory agencies, trade unions, trade associations, competitors etc. However, it is always not possible to spot environments readily and demarcate them clearly into general and specific environment. The specific environment is unique to each organisation and is continually changing.

Environment: Three Research Studies

Main Characteristics of Mechanistic and Organic Organisation Structures	
Mechanistic-Structures	**Organic-Structures**
1. Operate in stable environment, characterized by slow technological and market changes.	Operate in dynamic environments, characterized by faster rates of change and greater uncertainty.
2. A functional division of work where tasks are broken down into specialized, separate tasks.	A more realistic divisional type division of work, where tasks are not clearly defined in advance but are adjusted and redefined through employee interaction.
3. Strict hierarchy of authority and controls. Many rules and procedures.	Less hierarchy of authority and control. Few rules and procedures. Responsibilities are loosely defined and emphasis is on exchanging information rather than giving directions.
4. Most decisions are made at the top.	Decision-making authority is decentralised.
5. Communication is vertical.	Communication is lateral.

1. *The Burns and Stalker Studies:* Burns and Stalker examined 20 industrial firms in the United Kingdom to find out the specific links between environment and organisation. These 20 firms (a Rayon firm, a large Engineering concern and a number of diverse Electronic firms) were operating in both stable and dynamic environments. The general findings of the Burns and Stalker Studies is that successful firms in stable environments were mechanistic in structure, whereas successful firms in dynamic environments tended to be more organic or flexible structures. The table illustrates the characteristics of mechanistic and organic structures.

   According to Burns and Stalker, the most effective structure is one that adjusts to the needs of the environment. The mechanistic and organic forms represent two ends of a continuum. The needs of the situation will dictate the ideal design.

2. *The Emery and Trist Studies:* Emery and Trist proposed that environment is causal in organisational formation. They described four types of causal textures:

   (a) *The placid randomized environment:* This is the simplest environment. Elements change slowly. New threats and opportunities are infrequent. The environment is randomized because when a change does occur it is not predictable and is not coordinated with other elements in the environment.

   (b) *The placid-clustered environment:* This type is also static but goals and noxiants are not randomly distributed; they hang together in certain ways. Threats and opportunities occur in clusters. The organisation survives by correctly predicting the environment. Long range planning becomes important. Organisations tend to be centralized and more hierarchical.

   (c) *The disturbed-reactive environment:* This is similar to what economists call 'oligopolistic competition'. It consists of a clustered environment characterized by many competitors seeking similar ends. Such competitors seek to improve their own chances by hindering each other, each knowing that others are playing the same game. In such an environment, organisations must carefully monitor other organisations' calculative reactions and evolve counteractions. This type is

complex. Flexibility is more important if the organisation is to survive and this promotes decentralisation.

(d) *The turbulent-field environment:* The turbulent field environment is characterized by high complexity and dramatic changes. Changes are so rapid that they cannot be anticipated. Organisational planning is of little value. Elements in the environment are increasingly interconnected. 'The turbulence results from the complexity and multiple character of the causal interconnections.' The organisation is forced to interpret environment and adapt to survive. It is expected to reevaluate its relationship with customers, suppliers and government agencies continually.

The classifications provided by Emery and Trist are somewhat similar to Burns and Stalker's terminology. Mechanistic structures permeate in the first two environments and organic structures prevail in the latter dynamic settings:

3. *Lawrence and Lorsch Studies:* Lawrence and Lorsch wanted to determine how various firms organize to meet environmental demands. What is the relationship between environmental differences and organisation structures? Their research was carried out in two stages. In the first they selected six firms in the plastic industry to study the differences between successful and unsuccessful firms in one particular industry. In the second phase a highly effective organisation and a less effective one (based on sales, profit growth, rate of charge in products) in each of the plastic, food and container industries were examined and compared. The industries selected had a different rate of technological change in both products and processes and operated in diverse environments. They found that there were differences between the effective and ineffective organisations in each industry and across industries themselves. The effective organisation had high differentiation and integration. Integration refers to the quality of collaboration that exists among interdependent departments or sub-units that are required to achieve unity of effort. Differentiation refers to functional specialization within the organisation and to the attitudinal and behavioural differences of managers in terms of their goal perspective, time frame and interpersonal orientation. Members in each subunit found it very difficult to see things the same way.

Findings: Summary

• The extent of environmental uncertainty specifies the most appropriate degrees of integration and differentiation for successful organisations.' Generally speaking, successful firms come nearer to meeting the demands of their specific environment.

• An organisation's internal structure could be expected to differ from department to department. Lawrence and Lorsch did not assume the organisation or environment to be uniform and singular. The departments that were examined – manufacturing, research and sales – evolved toward a different orientation and structure in order to effectively interact with specialised parts of the external environment Departments within organisations each face their own particular environment and thus have their own unique structure.

• There is more than one way to design an organisation. Organisation is an open system and its external environment has considerable impact on its internal structure and process.

5. People and Structure

A major influence on organisation structure is the 'stock' of personnel employed at the enterprise. The attitudes, aspirations, experiences and roles of organisation members are also related to the structure of the organisation. It is, therefore, necessary to consider the forces affecting subordinate's behaviour and performance. The desire for independence, for assuming responsibility, for facing challenging jobs, for achieving something worthwhile will greatly influence the organisation structure. Organisations try to accommodate the psychological needs of employees adequately, the structure selected should provide meaningful opportunities for members to learn and develop continuously. Several organisations have already experimented with such innovations like MBO, Job enlargement, Job enrichment, Managerial Grid etc. in an attempt to provide a more rewarding environment for their employees.

2.6 STRUCTURAL CHOICES

While trying to relate the structure to strategy, managers have a wide choice based on how authority relationships are prescribed, how departments are created, etc. The design choices basically revolve around the following types: the functional structure, the divisional structure, the profit and matrix forms, the emerging structures like teams, virtual teams and Boundaryless organisations.

2.7 FUNCTIONAL STRUCTURE

In the functional structure, activities are grouped together by common function. Each functional unit has a dissimilar set of duties and responsibilities. In a medium size business, functional structure would mean a set of departments like production, finance, marketing, personnel, advertisement, sales, market research, etc.
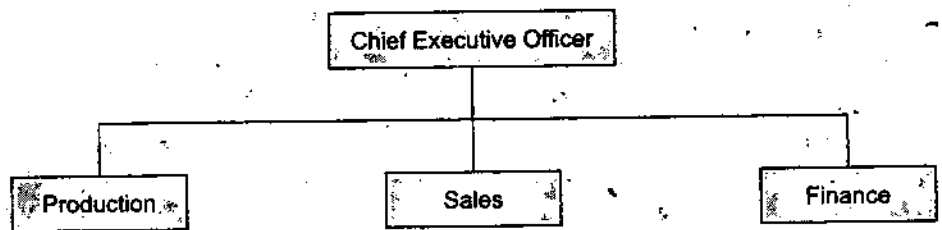
Fig. 2.1 Simplified Functional Structure

The weaknesses of the functional structure are legendary. As the functional organisation grows in size, it 'rapidly becomes an organisation of misunderstandings, feuds, empires and Berlin Wall Building.' It soon requires elaborate, expensive clumsy management crutches, coordinators, committees, meetings, trouble shooters, special dispatchers which waste everybody's time without, as a rule, solving much. The problem of coordination between functions becomes more difficult. The administrative distance between top management and functional department grows. Divisionalisation or product organisation structure helps in relieving this position.

2.8 PRODUCT/DIVISIONAL STRUCTURE

Product/divisional. structure (known as divisionalisation) is particularly adaptable to tremendously large, complex and multi-product organisations. The organisation here is divided on the basis of product lines, type of customers served or geographic areas covered. The products which need to be carefully nursed – likewise, customer groups to be served or geographic locations to be nurtured – and skilfully developed will receive prompt and improved attention. Other products whose life is over may be discontinued. In response to changing conditions, products can be developed, added or dropped. Divisionalisation prevents some products from being neglected and others being overemphasised. Accountability is clear. If the product fails, the division/product manager is held responsible. Sometimes an organisation may change its management structure. For example, to capitalise on the information processing market in the 80s, the famous IBM reorganised its management structure. It changed from a functional orientation in which centralised manufacturing, marketing, and product development served all products to a product orientation, thereby placing functions in product groups. The Divisional structure is quite popular in India. Companies like Hindustan Lever Ltd., ITC, L&T, Siemens and Thermax have been using this model quite successfully.
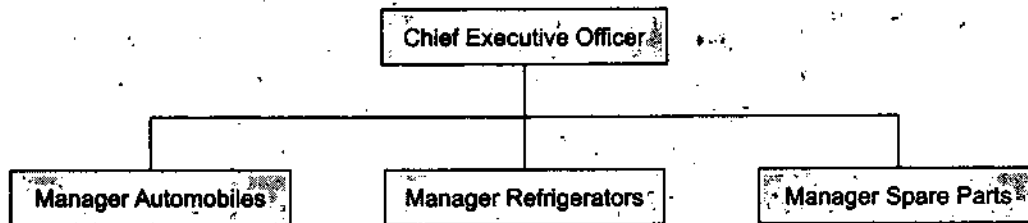
Fig. 2.2 Product/Divisional Structure

Merits

The resources of one complete administrative unit are deployed on the product. All the activities for a single product or purpose are brought under one manager. It is easy to fix accountability. Procedures and systems can be standardised leading to better integration across different specialties. The different units like marketing, sales, engineering, finance and personnel are dedicated to the interests of one or a few related products. All this increases emphasis on product development, market exploitation, etc. Further, autonomous units enable a manager to acquire a broad range of experience. The individual responsibility and independence forces him/her to face challenges and run an entire company with its frustrations and satisfactions. Thus, divisionalised form serves as an excellent vehicle for training and development of general managers. Managers know what they are doing and can direct themselves toward the performance of the whole instead of becoming prisoners of their own work, effort and skill. Divisionalised form, further, allows for a wide span of control. It focuses the vision and efforts of managers directly on business performance and results. The divisions have the responsiveness, the accountability and the benefits of specialisation and are able to process information as if they were organisations unto themselves. Unprofitable lines are not allowed to be carried on the backs of the profitable ones. Whenever necessary, the autonomous units can be lopped off with minimal effect on the entire organisation.

Limitations

Divisionalisation tends to create additional departments and divisions leading to duplication of effort. The overhead costs of each product division are quite high. There is little incentive to promote cooperation among divisions. Conflicts surface frequently as divisions and headquarters argue about where to locate support services. Often, it is difficult to draw a clear distinction between different units and settle the priorities. A tremendous amount of managerial time and energy is wasted on adjudicating disputes between them with reference to allocation of scarce resources. The smallest adjustment between departments becomes a trial of strength or a matter of prestige and honour. The rivalry and territorial protectionism by the individual divisions can make coordination by headquarters extremely difficult. Further, the autonomy of divisional manager is exercised within limits and this breeds resentment as divisional heads feel that authority is inadequate to meet the challenges. Divisionalisation makes high human demands on self-discipline, on mutual tolerance, on subordinating one's self interest. High-quality managers possessing these exceptional qualities are rarely available.

2.9 THE PROJECT STRUCTURE

A temporary organisation designed to achieve specific results by using teams of specialists from different functional areas in the organisation is a project organisation. The team focuses all of its energies and skills on the assigned project. Once the project is completed, the team is broken up and its members are reassigned to their regular positions in the organisation or to other projects.

When to Use the Project Structure?

According to Stewart, the project structure is a viable form when:

● It is a one-time task and is definable in terms of a single, specific goal. Project arrangements are temporary. Upon completion of the project, the project team is disbanded. By definition, a project must end at an objective point in time.
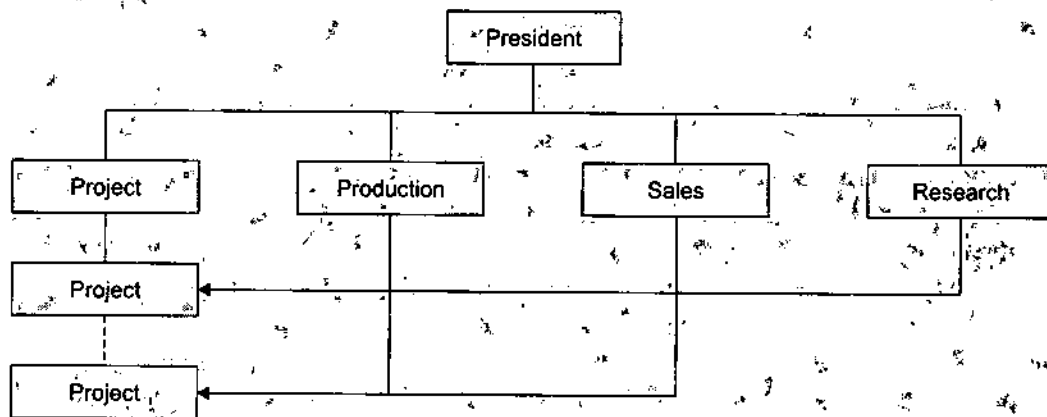
● It is large in scope.

Fig. 2.3 Project form of organisation

- It is unfamiliar or lacks precedent: Unfamiliarity usually leads to disagreement as to how the undertaking should be managed. People at lower level need to be educated thoroughly about what they are to do while senior executives can concentrate on cost estimates, time schedules etc.
- It is complex and calls for a high degree of interdependence among the tasks.
- There is a high stake in the successful completion of the project. The outcome is extremely critical to the organisation.

The Nature of Project Management

- **Project manager:** Project management calls for the appointment a project manager who is responsible for the completion of the project. The project manager makes sure that the project does not get lost in the shuffle of organisational activities. He specifies what to be done, when it is to be completed", and how much of the sources required. In turn, the functional managers decide who in their units will perform the task and how it will be done. The project manager is a unifying agent and a focal point for the project activities.

- **Team members:** The project involves members from various functional departments or from outside. Team members report directly the project manager. Membership is temporary. The size of the group may change with the different phases of the work. As soon as the project is completed, team members go to another project.

- **Project authority:** A project possesses a vertical as well as a horizontal dimension. It cuts across the normal organisation structure. A project manager is expected to work with various functional managers by seeking their support through persuasive bargaining. He must convince them that they should help the project by lending its manager the support needed to finish the given task within the time. In reality, the project managers face an 'authority gap'. They do not have authority to promote or reward their personnel. They lack complete authority over the team and possess what is known as 'project authority'. Further, in a project structure the role perceptions are unclear and lack specificity. The relationship of project manager with functional heads is quite ambiguous. His authority is more fluid than in a stable organisation composed of line and staff relationships only. The project manager is expected to accomplish goals by working not only with the functional groups of the company but also with outside organisations. 'The total project organisation has no discrete boundaries; it is a complex structure that facilitates the coordination and integration of many project activities.'

In actual practice the amount of authority given to a project manager (PM) varies widely (see Fig. 2.4):

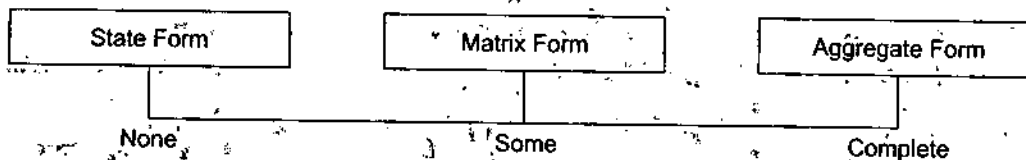| State Form	Matrix Form	Aggregate Form
None	Some	Complete

Fig. 2.4 Amount of Authority Given to the Project Manager in Three Types of Projects

In the aggregate form, the PM enjoys complete authority over all members of the project team and the functional boss may have none. For example, in project Manhatten.

(the building of the atomic bomb during second world war) all specialists were moved to an isolated place, the PM had complete control on the development of the atomic bomb under tight security. At the other extreme, the staff form of project management, the PM has little or no authority. Many minor projects take this route where PM is given very little authority (e.g. developing a professor evaluation form by a team). To get things done, the PM should possess considerable interpersonal and leadership skills. The middle area of Fig. 2.5 (where the PM has some authority but it may not be clear how much) is called the 'matrix' form of project management. In this form of project management – as explained previously – people working on projects have two bosses. This creates potential for conflict between the project manager and the functional head(s).

Advantages

1. Project management allows maximum use of specialised knowledge which is available to all projects on an equal basis. Knowledge and experience can be transferred from one project to another.

2. Project people have a functional home when they are no longer required on a given project. In between they are provided with stimulating opportunities to participate in the decision process.

3. The project structure reduces environmental complexity. It facilitates rapid collection and processing of new information.

4. Project structures are one way of promoting and maintaining organisational flexibility. Through projects, specialisations required to achieve a goal are brought together for as long as necessary, but no longer.

5. Project organisation, most importantly, allows concentrated attention of experts on a complex project for a given time without disturbing the normal routine work.

Problems

1. Project structure creates feelings of insecurity and uncertainty among members. Their relationship with functional members is unclear. Dual loyalty creates anxiety and tension.

2. The project structure is an ad hoc arrangement, having a limited life. Once the project is completed, the project team is disbanded. In other words, the project manager and project staff work themselves out of a job. Some people feel lost without a permanent department with which they can identify. Security for such people is threatened when it appears that the organisation's only commitment to them is a temporary project. They fear that completion of the project will mean the end of their job. This can encourage project slowdowns.

3. The project management violates the principle of unity of command. Role prescriptions are unclear. The relationship between functional managers and the project manager is not defined properly leading to ambiguity and conflict.

4. The project structure creates insecurity and fear of unemployment as the project nears completion. Members may even create work to avoid dangers of being laid off.

5. Contacts with the mainstream of organisational life are severed. Members may be bypassed when opportunities arise in their fields leading to career advancement.

6. Project manager has to perform a tight rope walk: he must build the team straight away; obtain, cooperation from other departments; battle to meet the schedule; grapple with cost figures and decide things quickly. Decisions to sacrifice time for cost, cost for quality or quality for time, are common in most projects and the project manager must be able to make them without panicking.

7. The project organisation creates an authority gap for project managers where responsibility outweighs authority. Most projects are not self-sufficient. They need support from various quarters. Top management can easily jeopardise the projects' success by lack of awareness. Functional cooperation may be difficult to obtain. All such factors seriously hamper the project performance.

2.10 SBU (STRATEGIC BUSINESS UNIT) STRUCTURE

The SBU structure is an extension of the divisional structure. In its most extreme form, the SBU operates as a separate autonomous organisation and may periodically send profits to the corporate parent. Each unit will have a clearly defined strategy, based on its capabilities and overall organisational needs. The SBU's autonomy will decrease if profits are lower than the parent expects. The parent may impose controls at various levels toward off risks arising out of independent operations at a different location. Important features of an SBU include the following:

- Has its own mission with a clear focus on specific products
- Competes with definable groups of competitors
- Prepares its own integrative plans
- Manages its resources in important areas
- Has a respectable size – neither too large nor too small.
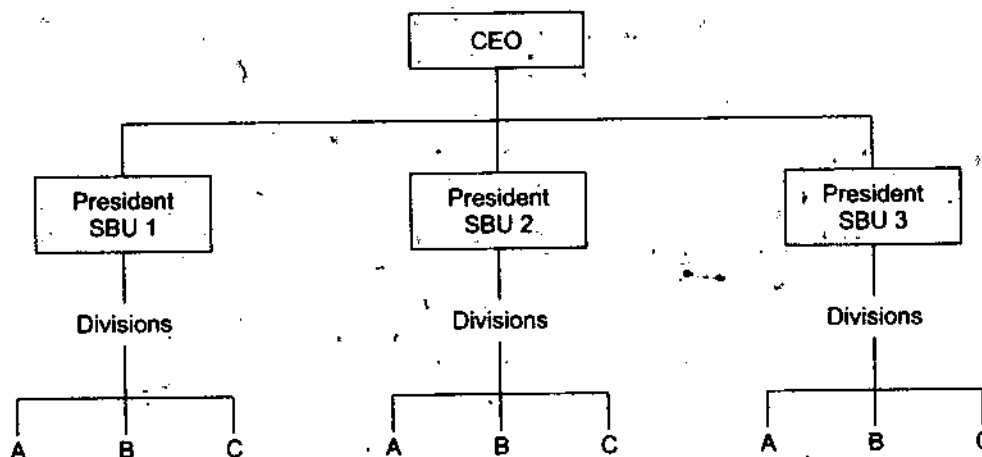- Runs the show independently

Fig. 2.5 Strategic Business Unit (SBU) Structure

The advantages and disadvantages of SBU structure are given below.

Advantages and Disadvantages of SBU Structure	
Advantages	**Disadvantages**
• Improves coordination between divisions with similar strategic concerns and product/market environments. • Increased focus on products/markets • Tightens the strategic management and control of large, diverse business enterprises. • Facilitates distinct and in-depth business planning at the corporate and business levels. • Channels accountability to distinct business units. • Quick response to environmental change	• Increased expenditure invited through doubling of operations, personnel and investments. • Unhealthy completion for corporate resources. • Dysfunctional antagonism among divisions might affect performance as well as public image. • Overemphasis on short-term performance might spoil the show. • The role of the group vice president can be difficult to define. • Defining the degree of autonomy for the group vice presidents and division managers can be difficult.

2.11 MATRIX ORGANISATION STRUCTURE

A permanent organisation designed to achieve specific results by using teams of specialists from different functional areas in the organisation is a matrix organisation. It is actually a hybrid structure combining both functional and product structures in the same organisation. In the matrix structure, specialists from different functional departments work on projects that are led by a project manager. The project manager has authority over the functional managers who are part of his/her team in areas related to the project's goals. However, decisions regarding promotions, rewards, annual performance reviews typically remain the functional manager's responsibility. To work effectively, both managers have to be in touch with each other regularly. They need to work in close coordination, resolving conflicts smoothly. Let us examine these closely.

• **Hybrid Structure:** It is a combination of both functional organisation and project organisation structure. On the right hand side of the picture, you have functional heads running the show. On the left hand side, you have project managers leading teams of specialists. Employees have to work under two bosses simultaneously.

Functions / Projects	Purchase Manager	Production Manager	R & D Manager	Marketing Manager	Finance Manager

Fig. 2.6 Matrix Organisation

• **Top leadership:** The top leader holds the balance of power. He must be willing to delegate decisions. He must emphasise direct contact and group problem solving at

lower levels so as to promote effective communication throughout the organisation. He must also see that the power balance is maintained properly.

- **Functional heads:** The functional heads take care of issues related to their function – such as promotion, salary recommendations, annual reviews, etc. They are mainly concerned with the operational aspects of their department.

- **Matrix bosses:** Matrix bosses/project managers have authority over project employees relative to projects' goals. They share subordinates in common with other bosses. They do not have full control over subordinates. The functional head's responsibilities pertain to functional rules and standards – what to do, how to do, when to do, etc., and review performance periodically. The project manager acts as an integrator. He/she is required to achieve the specific project by balancing time, cost and performance. Matrix bosses must also be willing to face one another on disagreements. Managing highly competent professional employees demands a great deal of time, patience and skill from project heads.

- **Matrix subordinates:** Matrix subordinates are often confronted with an agonising choice. They suffer from what is known as jurisdictional clarity. The dual assignments– one reporting to their functional head and simultaneously working on a specialised project might cause role ambiguity and career related issues. Matrix subordinates – also known as two boss managers – might have to work under a tough and demanding functional head and report to a project head who might encourage them to experiment, innovate and take considerable amount of risk. Reporting to two bosses (in a matrix form, the unity of command principle is violated) can create confusion and a difficult interpersonal situation unless steps are taken to prevent these problems from arising.

- **The problem of unity of command:** In the matrix structure, the matrix subordinates or two boss managers are at the receiving end, because they have to report to two superiors. This means prioritising multiple commands (from functional head as well as the project head – one may ask them to run and the other might ask them to go slowly) and sometimes even receiving conflicting orders. As rightly pointed out by Bateman and Snell, "some people function poorly under this ambiguous, conflictual circumstance: sometimes this signals the end of their career with the company. Others learn to be proactive, communicate effectively with both superiors, rise above the difficulties, and manage these work relationships constructively".

Project Vs Matrix

| Project Organisation vs Matrix Organisation	
Projects organisation	**Matrix organisation**
• Purely temporary	• Relatively permanent
• Project managers authority could range from very low to very high.	• Project managers' authority distributed reasonably.
• Low information processing	• High information processing
• Power struggles avoidable in case of projects having limited life span.	• Power struggles a distinct possibility – between functional managers and project managers.
• In the aggregate project form, project manager takes change of information, resources and people.	• Project heads have to share resources with functional heads.

Strengths

Many people have sung the praises of matrix organisation forms, from time to time. In fact, matrix form attempts to achieve the benefits of both the functional organisation and the product organisation.

1. *Efficiency:* A matrix form permits efficient utilisation of resources, especially manpower. Resources can be freely allocated across different products. It facilitates the efficient allocation of specialists. Specialised knowledge is available to all products/projects on an equal basis. Further, knowledge and experience can be transferred from one project to another. Each project can share the specialised resource with other units, rather than duplicating it to provide independent coverage for each. 'If a project demands half an astrophysicist, it does not need to support a whole one half occupied.' It allows the pooling and sharing of specialised resources across products in a natural, routine way.

2. *Flexibility:* Matrix forms encourage constant interaction among project unit and functional department members. The direct and frequent contact between different specialities in the matrix can make for better communication and more flexibility. Information permeates the organisation and reaches those people who need to take account of it. Quick decisions can be taken and the organisation can encounter the challenging and uncertain environment in a better way.

3. *Technical excellence:* Matrix structures ensure the maintenance of high technical standards. They facilitate high quality and innovative solutions to technical problems. Frequent interactions among project unit and functional department members encourage cross fertilisation of ideas. Each specialist is forced to listen, understand and respond to the views of the other.

4. *Balance:* Matrix structure is a way of balancing customer's need for project completion and cost control with the organisation's need for economic cooperation and development of technical capability for the future. 'A better balance between time, cost and performance can be obtained through the built-in checks and balances and the continuous negotiations carried on between the project and functional organisations.' Further, matrix reduces bureau-pathologies. The dual lines of authority reduce tendencies of departmental managers to become so busy protecting their little worlds that goals become displaced.

5. *Freeing Top Management:* Matrix structure permits decision-making at lower levels. Since many decisions are made at lower levels, the top management has more time to interact with the environment. The top management need not bury itself in endless daily routine; it can concentrate more on long range planning. Matrix structure facilitates a rapid management response to changing market and technical requirements.

6. *Motivation:* Traditional organisation structures are based on the assumption that position level equals contribution and contribution equals rewards. In other words, the higher the individual is in organisation, the more authority he has, the greater the knowledge he possesses; the more he contributes, and the more he should be rewarded. In many organisations, this holds good even today. A 60-year old professor receives a fat salary of ₹ 140,000 per month for teaching organisation theory to post-graduate students while a 25-year old lecturer receives only ₹ 30,000 p.m. for

teaching another section of the same course in the university. The reward structure will be more frustrating, in case we assume that the young scholar had just published two brilliant research papers while the older one had produced nothing in years. Fortunately, in matrix structures more emphasis is placed on the authority of knowledge than the position of an individual in the organisational hierarchy. Membership of the team is based on special knowledge for given aspects of the work. As a result, lower level people can have a greater say in important decisions. The opportunity to participate in important decisions fosters higher levels of motivation and commitment.
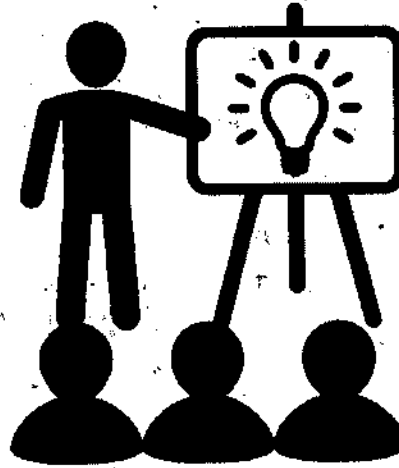
7. **Development:** A matrix structure helps employees to develop and grow. It enlarges their experience and broadens their outlook. It exposes them to a wider arena full of challenges. The process of job rotation helps them to learn something of value from other specialities; auditors will learn about marketing, engineers develop knowledge of financial matters and accountants learn about quality control. A matrix structure gives persons of high potential an excellent means of demonstrating their capabilities and make a name for themselves (employees can acquire either functional or general management skills depending on their interests). It provides a stimulating atmosphere more in line with the democratic norms preferred by scientific and professional employees.

Weaknesses

A matrix structure is far from being a cure-all for embarrassments, expenses and delays that plague even the best managed organisations. They are seen as 'hurried improvisations' rather than as 'thought-through transformations'.

1. **Power struggles:** Matrix fosters power struggles between product and functional managers. Unfortunately, both functional and product managers share the same set of resources leading to unhealthy competition. Each manager tries to safeguard his undisputed control over a given sphere of operations by building protective walls. For example, functional managers form coalitions to undermine the power of project specialists. Matrix intensifies defensive behaviour and hostile attitudes between managers. It is a sure recipe for interpersonal conflict.

2. **Stress:** Matrix organisations can be stressful places to work in. As pointed out by R L Kahn et al.; stress at work arises from three factors: role conflict, role ambiguity and role overload. The use of matrix means use of dual command. Managers often end up jockeying for power and influence. "The individuals are subjected to conflicting and confusing expectations from others. The subordinate becomes a political football of the 'two superpowers' in the organisation". Members of project teams possess only de facto decision-making power. As a result, important decisions are vetoed by superiors in preference to decisions based on individual power and influence. In such

ambiguous situations, accountability becomes unclear. Role overload arises because of too many demands placed on an individual. An employee is expected to shoulder normal operating responsibilities as usual and also find time to participate in endless meetings and tedious discussions. Additional demands arise from these discussions leading to an increase in overall workload. Confusion exists over who reports to whom. The comfort of bureaucracy's predictability is replaced by growing insecurity and stress.

3. *Costs:* The matrix organisation incurs great administrative costs than a conventional hierarchy. In an attempt to cover themselves against blame, managers try to put everything in writing. The dual chain of command turns the matrix structure into another form of anarchy. It increases the management costs to double. The decision-making process is slowed down. Members have to spend far more time at meetings and discussions than doing work. More information has to be processed through written reports.

4. *Balance:* It is rather difficult to strike a stable balance between project and functional authority. The two kinds of influence are negatively correlated. The more successful lateral collaboration is achieved at a given level, the greater are the stresses up through the vertical hierarchy, with more senior managers resentful of being bypassed. Conversely, the better the vertical relationships in the line hierarchy, the more likely the lateral activities are to suffer from boundary disputes and communication blocks.

Thus, matrix organisations have been reported as costly, cumbersome and bureaucratic, inhibiting technical achievement, overburdening top management, demotivating employees and detrimental to their development.

Making Matrix Work

How matrix organisations can be made to work effectively? The following guidelines will help solve this question.

1. *Definition of roles:* The roles of project and functional managers must be clearly defined. For example, the functional manager may decide who should do and how, whereas the project manager decides what should be done, when and at what cost. Nowadays prudent companies spell out in writing the details of a matrix project in advance to avoid misunderstandings.

2. *Organisation development:* Organisational development techniques can be employed to improve cross functional, collaboration. Other techniques like sensitivity training, team building activities, training in group and interpersonal skills etc. can be employed to facilitate new norms of behaviour.

3. *Guidelines:* Project membership should be perceived as an important and rewarding assignment. It should not take the form of an imposition. Project teams must be filled with people having relevant information. The project decisions should be based not on rank but on knowledge and information. The meetings of project teams should be preceded and followed by meetings within the functional departments who draft the team. This helps in clarifying the problem; members are well informed and involved in the developments relating to the project. At times it may be appropriate for leadership to pass from one member to another as the project moves from stage to stage in its progress.

2.12 THE TEAM STRUCTURE

The term 'team structure' refers to the use of teams as a central device to coordinate work activities. The bureaucratic structure is not suitable for most of today's dynamic organisations. Employees with diverse skills and experience are required to work together (as teams) to successfully complete complex projects. As such traditional work areas have given way to more of a team effort, building and capitalising on the various skills and backgrounds that each member brings to the team. Team members have a commitment, purpose, establish specific goals and have the leadership and structure to provide focus and direction. They are held responsible – individually and jointly – for results. They rely on each other and develop healthy interpersonal relations based on trust. They exchange information, resources, feelings and thoughts freely and openly. The point is that teams do go beyond traditional formal work groups by having a collective synergistic (the whole is greater than the sum of its parts) effect. The basis of these work teams, then, is driven by the tasks at hand. Involving employees gives them an opportunity to focus on the job goals. The freedom that they enjoy empowers them to develop the means to achieve the desired ends.
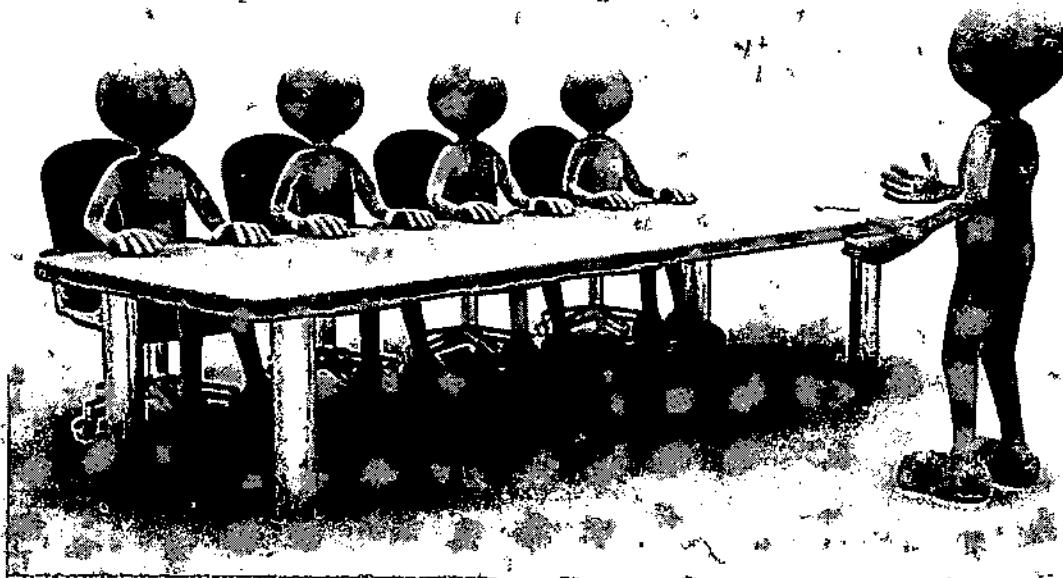
2.13 THE NETWORK ORGANISATION

The most recent approach to divisionalisation extends the idea of horizontal coordination and collaboration beyond the boundaries of the organisation. The network structure (a more dynamic and flexible version is also known as virtual or modular organisation) means that the firm subcontracts many of its major functions to separate organisations and coordinates their activities from a small headquarter organisation. The services are outsourced to separate firms that are connected electronically to the central office. Subcontractors flow into and out of the organisation, depending on the changing needs of a firm. Another novel outcome of the network is the virtual network organisation which

is a continually evolving group of companies that unite temporarily to exploit specific opportunities or attain strategic advantages and then disband when objectives are met. A virtual or modular organisation is composed of temporary arrangements among members that can be assembled and reassembled to meet a changing competitive environment.
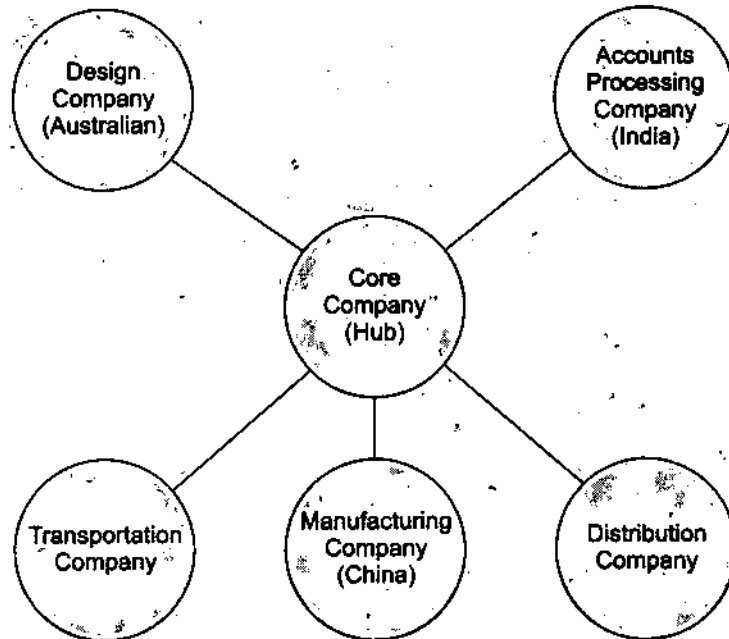
Fig. 2.7 The Network Approach

Data and information sharing takes place over the net (electronically) among participating companies. Unlike the network structure in which the hub organisation maintains control over work processed by various subcontractors, in a virtual unit each independent company gives up some control to temporarily become part of a larger network. Companies like Nike and Reebok have succeeded by concentrating on their core strengths in design and marketing and contracting all their footwear manufacturing to outside suppliers.

Successful networks potentially offer flexibility, innovation, quick responses to threats and opportunities and reduce costs. When formed in an appropriate manner, network structures help even the smaller firms compete on a global scale. They can pool resources, put knowledge and skills to good use and offer best quality at competitive prices. The smaller firm can exploit market gaps quite effectively. It can have a lean structure and yet maintain high quality specialists and offer unbeatable service at an economical price.

The major limitation, however, is lack of hands-on control. The subcontractors may fail to deliver things, at times, on schedule. The headquarters organisation may find itself out of business in such a scenario. If one of Nike's suppliers, for example, failed to perform well, Nike could easily replace it by forming a contract with another. However, how easy is it to find reliable software companies who can both do the job and be trusted not to take proprietary information and use it themselves or give to a company's competitors? The emotional bond between organisation and employee is weak since he/she always feels threatened by feelings of insecurity of being replaced by contract services and uncertainty over continuance.

2.14 FREE FORM ORGANISATION

A free form of organisation is purely an adhocratic structure. It has no boundaries. It is flexible, adaptive and is built around special problems to be solved by a group of experts possessing diverse professional skills. These experts have decision making authority and other powers. The adhocratic structure is usually small, with an ill-defined hierarchy. Such a design is suitable for high technology and high growth organisations where an arranged and inflexible structure may be a handicap. Jack Welch is famous for having using the boundaryless structure for making GE more efficient and effective. A boundaryless organisation, according to Jack Welch was an open, anti parochial environment, friendly toward the seeking and sharing of new ideas, regardless of their origin. The purpose of this initiative was to remove barriers between various departments as well as between domestic and international operations. The following figure illustrates an adhocratic type of organisational structure.

The Boundaryless Organisation

The Boundaryless organisation is composed of people who are linked by computers, faxes, computer-aided design systems and video teleconferencing and who may rarely or ever see one another face to face. People come and go as their services are needed, much as in a matrix structure. They are, however, not formal members of an organisation. They are independent functional experts who form an alliance with an organisation, fulfil their contractual obligations and then move on to the next project.
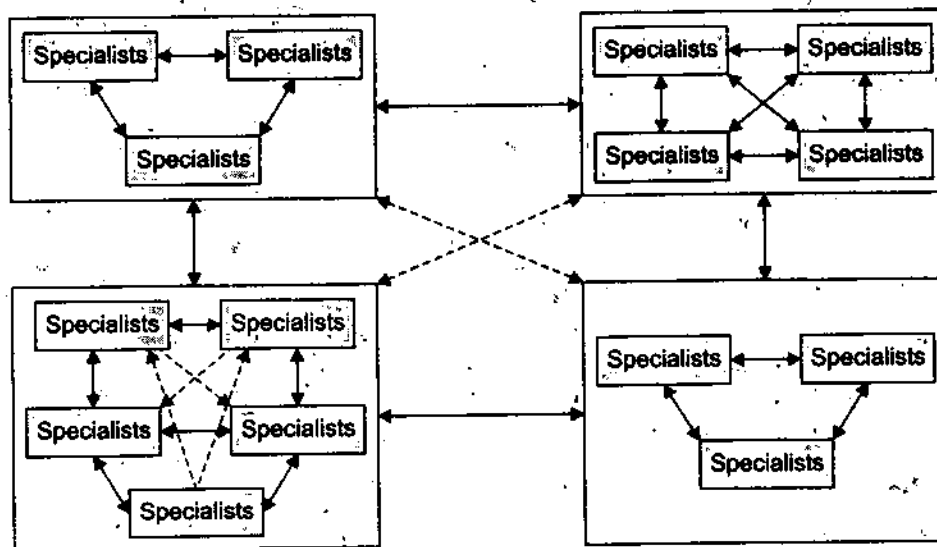

Fig. 2.8 Free form organisation built around special problems/projects

The free form organisation offers some significant advantages to firms which have a genuine hunger for growth and diversification.

* It is highly flexible and dynamic and can be followed in order to suit the unique requirements of each project.
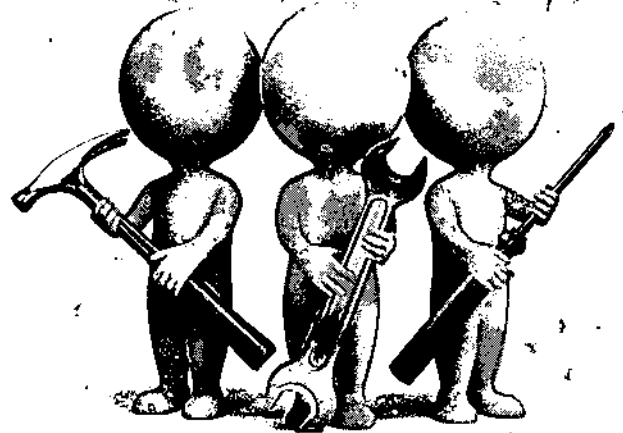
- There is very little focus and emphasis on positions, departments and divisions. The focus is on getting the project completed on schedule as per the requirements of the customer. Pooling of talent and expertise is the biggest worry here.

- Authority is not pinned down to specific positions. It is passed on to people who matter most, who can deliver results.

- People are expected to slip into roles that are not clearly defined. They need to perform anything and everything, depending on the demands made by a specific problem. Role clarity is missing but in its place, people are greeted with an exciting opportunity to do things on their own. They need to meet the deadlines, schedules and expectations by doing everything possible. It is a question of converting a pious dream into a concrete reality.

- Communication can flow in any direction. The primary focus is on making people realise the importance of working in teams and maintaining friendly relations. In place of commands and instructions, you have people trying to reach out to others wherever they are, through open, transparent and friendly communications.

As can be seen from the above, the free form of organisation is suitable for industries which operate in dynamic settings, marked by rapid change where decisions have to be taken quickly.

2.15 FORCES RESHAPING ORGANISATIONS

Managers who are passionate about productivity and efficiency commonly embrace mechanistic organisation design. Organisational flexibility, adaptiveness and innovation are found to be the inevitable consequences in such a case. Any procedural lapses in mechanistic organisations will negatively impact employee satisfaction on the job. They may also display higher levels of withdrawal – such as absenteeism, tardiness and turnover – and resistance. This, however, may not always be true. The large majority of workers – especially when their skills levels increase after getting trained in formal technical institutes – may prefer jobs that give them enough room to think and act on their own. But, there is enough evidence to suggest that employees who lack skills and education may still want to handle routine, standardized, repetitive jobs that, obviously, demand very little intelligence and originality. When managers go for adaptiveness and flexibility, organic structure will be the focal point of attention. Organic structures are more innovative, response, fast, flexible and less resistant to change – and therefore, inefficiency levels are low and productivity levels higher. Employees tend to be more intrinsically motivated, job satisfied, exhibit higher levels of psychological ownership and stronger organisational identification. Evidence shows that with increasing degrees of structure,

lower level organisation members experience and exercise less control, which in turn, reduces the likelihood that they develop feelings of ownership for either their work or the organisation. In order to maximize employee performance and satisfaction, managers need to keep individual differences such as experience, personality and the type of work handled by employees should be kept in mind.

Globalization is compelling every company to remain lean, fit and competitive. Companies have to live with additional complexities brought in by rules, regulations, cultural norms, language barriers and country specific preferences as well. They need to effectively address problems posed by geographic, cultural and value system differences almost on a daily basis. As rightly indicated by Nelson et al, the choice of structure for managing an international business is generally based on choices concerning the following three factors *(D.L.Nelson et al, Organisational Behavior, Cengage, New Delhi, 2009)*

1. **The level of vertical differentiation:** A hierarchy of authority must be created to clarify the responsibilities of both domestic and foreign managers.

2. **The level of horizontal differentiation:** To serve the needs of all customers, the foreign as well as domestic operations need to be grouped appropriately.

3. **The degree of formalization, specialization, standardization and coordination:** The global structure must permit decisions at the local level, in sync with the needs of the local populace. At the same time, head quarter controls must be put in place so that there is no clash between the intentions of the parent and the actions of the local unit.

As companies begin to operate in a fast changing, networked world, they seem to learn new ways of coping with change. Companies like Godrej moved from product divisions to strategic business unit structure; Modi Xerox converted its functional departments into profit centres; TCS and Wipro Infotech embraced the matrix form of organisation in recent times. Several other companies have been restructuring their operations with a view to remain competitive and serve the requirements of internal as well as external groups. **Reengineering** (the radical redesign of organisational processes to achieve major gains in cost, time and provision of services) the organisation has, more or less, become an accepted way of meeting competitive challenges. Companies have realized the fact that cost competitiveness is everything and in order to deliver outstanding value to customers, they are not leaving anything to chance. To remain agile, organisations are undertaking **downsizing** (a systematic effort to make organisation leaner by selling of business units, closing locations or reducing staff in a planned manner) exercises every now and then. In a capital hungry and labour-surplus country like India, such painful and controversial moves need to be undertaken at carefully spaced intervals – placing the brutal facts in front of workers and trade unions in black and white. In the name of improving strategic focus, companies should not resort to 'job massacres' – at least till the Government comes out with a well designed Exit policy.

2:16 SUMMARY

- Organisation structure is essential to achieve goals. Structure of course, is nothing but a chart of relationships. To achieve results it is also necessary to strike a happy balance between employees, facilities and tasks by organising work systematically.

- Classical organisation theory is built around certain well known principles. The organisation structure contains a hierarchy of positions. Work is divided into convenient parts, paving the way for specialization. Instructions, orders pass through an unbroken chain of command. Each subordinate would report to only one superior. There is also the maxim one head and one plan for a group of activities having the same objective. Activities and employees are grouped into departments to facilitate the processing of work in a smooth way. To ease the burden at the top level, there is also a limit to the number of subordinates a manager can effectively supervise. Finally, the theory premises family between authority and responsibility.

- Modern organisation theory looks at an organisation as an open system, dependent on the constituent parts of the environment for survival and growth. There are important contingency variables that have a significant bearing on organisation structure. Studies have proved that changes in corporate strategy will precede and cause changes in organisation structure. Size also determines structure. As organisation group in size, the degree of formalization increases within the structure. Technology is another important determinant of structure. It determines the selection of a strategy for reducing uncertainty. Again depending on the needs of environment, structural changes need to be carried out.

- Departmentation is the process of dividing a large organisation into manageable units in order to achieve goals smoothly. The functional structure organises work into related bundles of skill It offers every employee a home, clarifies goals, allows people to specialise and develop skill and is highly suitable for small and medium sized firms.

- The divisional structure divides the organisation into independent, self contained units based on the distinct products offered to customers. It helps in putting exclusive emphasis on promising products and seek results from people heading the units

- A project structure is a self contained work group. Consisting of teams of experts from various functional areas, created temporarily to carry out a specific project.

- A matrix structure is a permanent organisation designed to achieve specific results by using teams of specialists from different functional areas. Modern organisations are moving away from pyramid structures toward net work structures.

- The network structure means that the firm sub contracts many of its major functions to separate organisations and coordinates their activities from a small headquarter organisation. Nowadays virtual organisations are created by outsourcing most of a firm's functions.

- Virtual organisations have become important ways of getting work done. Often termed as empty organisations, they serve as focal points for getting all the functions achieved but without having to directly manage them. Likewise, boundary less organisations – in which the hierarchy and chain of command re minimized and rigidly structured departments are eliminated – too, have come to occupy the centre stage in recent times.

2.17 REVIEW QUESTIONS

1. Define 'Organisation'. Distinguish between organisation as a structure and as a process.

2. Distinguish between the traditional and modern approaches to organisation.

3. Draw a line of distinction between classical and modern organisations.

4. What are the important concepts is universal design theory?

5. 'Sound organisation is an essential prerequisite of efficient management" comment.

6. Elaborately discuss the principles of organisation.

7. Describe the characteristics of mechanistic and organic organisation structures.

8. What changes in attitudes toward the practice of management have come about as a result of the works of Burns and Stalker, Woodward and Lawrence and Lorsch?

9. What are the relationships between strategy, structure and environment?

10. Discuss the various bases for departmentalisation and suggest a scheme of departmentalisation for a large enterprise with a distribution network all over the country.

11. Define project organisation. In what respects it is an improvement over the functional organisation?

12. Discuss in brief characteristics, advantages and limitations of matrix organisation.

13. Describe a case in which matrix organisation and virtual organisation structures would be effective.

14. What is the relationship between organisation design and structure?

15. What makes an organisation create a divisional structure?

2.18 CRITICAL THINKING QUESTIONS

1. The contingency approach to organisational design is dependent in part upon an analysis of the external environment. What are the different types of environment that are presented in the text?

2. "The matrix organisation design is complex and difficult to implement successfully". Why then do so many organisations use it?

3. Why would a product – service department manager be better qualified than a functional department manager to assume the top position in an organisation?

4. Seeing how specialization can be utilized in manufacturing companies is easy. How can it he employed by other organisations such as hospitals, schools and restaurants? Should those organisations use specialisation. Why or why not?

5. If you were a project manager in a matrix organisation, what would you do about closing your authority gap?

6. If you were the president of a company that was organized along functional lines and a consultant suggested that you organize along territorial or product lines, what might concern you in following this recommendation?

7. Some people argue that the matrix structure should be adopted only as a last resort because the dual chains of command can create more problems than they solve. Do you agree or disagree? Why?

8. An, organisational consultant was heard to say, 'some aspect of functional structure appears in every organisation'. Do you agree? Explain

9. How does organisation design usually differ for large and small organisations?

10. As a practicing manager, how could you justify the use of a matrix structure given that it potentially violates the unity of command principle?

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2.20 CASE STUDY

Work Redesign in an Insurance Company

The executive staff of a relatively small insurance company was considering a proposal to install an electronic data processing system. The proposal to install the equipment was presented by the assistant to the president, Rajesh Khanna. He had been charged with studying the feasibility of the equipment after a management consultant had recommended a complete overhaul of the jobs within the company.

The management consultant had been engaged by the company to diagnose the causes of high turnover and absenteeism. After reviewing the situation and speaking with groups of employees, the management consultant recommended that the organisation structure be changed from functional to client basis. The change in departmental basis would enable management to redesign jobs to reduce the human costs associated with highly specialized tasks.

The present organisation included separate departments to issue policies, collect premiums, charge beneficiaries, and process loan applications. Employees, in these departments complained that their jobs were boring, and monotonous. They stated that the only reason they stayed with the company was because they liked the small company atmosphere. They believed the management had a genuine interest in their welfare but felt that the insignificant nature of their jobs contradicted that feeling. As one employee said, "This company is small enough to know almost everybody. But the job I do is so boring that I

wonder why, they even need me to do it." This and similar comments led the consultant to believe that the jobs must be altered to provide greater motivation. But he also recognized that work redesign opportunities were limited by the organisation structure. He, therefore, recommended that the company change to a client basis. In such a structure each employee would handle every transaction related to a particular policyholder.

When the consultant presented his views to the executive staff, they were very interested in his recommendation. And, in fact, the group agreed that his recommendation was well-founded. They noted, however, that a small company must pay particular attention to efficiency in handling transactions. The functional basis enabled the organisation to achieve the degree of specialization necessary for efficient operations. The manager of internal operations stated, "If we move away from specialization, the rate of efficiency may go down because we will lose the benefit of specialized effort. The only way we can justify redesigning the jobs as suggested by the consultant is to maintain our efficiency; otherwise, there won't be any jobs to redesign because we will be out of business."

The internal operations manager explained to the executive staff that despite excessive absenteeism and turnover, he was able to maintain acceptable productivity. The narrow range and depth of the jobs reduced training time to a minimum. It was also possible to hire temporary hands to meet peak loads and to fill in for absent employees. "Moreover," he said, "changing the jobs our people do means that we must change the jobs our managers do. They are experts in their own functional areas but we have never attempted to train them to oversee more than two operations."

The majority of the executive staff believed that the consultant's recommendations should be seriously considered. It was at that point that the group directed Rajesh Khanna to evaluate the potential of electronic data processing (EDP) as a means to obtain efficient operations in combination with the redesigned jobs. He had completed the study and presented his report to executive staff.

"The bottom line," said, 'is that EDP will enable us to maintain our present efficiency, but with the resigned jobs, we will not obtain any greater gains. If my analysis is correct, we will have to absorb the cost of the equipment out of earnings because there will be no cost savings. So it comes down to what price we are willing and able to pay for improving the satisfaction of our employees".

Questions

1. What core characteristics of the employees' jobs will be changed if the consultant's recommendations are accepted? Explain.

2. What alternative redesign strategies should be considered? For example, job rotation and job enlargement are possible alternatives; what are the relevant considerations for these and other designs in the context of this company?

3. What would be your decision in this case? What should the management be willing to pay for employee satisfaction? Defend your answer.

UNIT 3: ORGANISATIONAL CULTURE

3.1   INTRODUCTION

Organisational culture "A system of shared meaning held by members that distinguishes the organisation from other organisations". An Organisational culture is the basic pattern of shared assumptions, values, and beliefs considered to be the correct way of thinking about and acting on problems and opportunities facing the organisation.

Organisational culture is the set of assumptions, beliefs, values and norms that are shared by the members of an organisation. It may be consciously created by its key members, or it may have simply evolved over time. It represents a key element of the work environment in which employees perform their jobs. A culture may exist across an entire organisation, or it may refer to the environment within a single division, branch, plant, or department. The idea of organisational culture is somewhat intangible, for we cannot see it or touch it, but it is present and pervasive. Like the air in a room, it surrounds and affects everything that happens in an organisation. Because it is a dynamic systems concept, culture is also affected by almost everything that occurs within an organisation. They give an organisational identity to employees – a defining vision of what the organisation represents. They are also an important source of stability and continuity to the organisation which provides a sense of security to its members.

3.2   DEFINITIONS OF ORGANISATION CULTURE

The deeper level of basic assumptions and beliefs that are: learned responses to the group's problems of survival in its external environment and its problems of internal integration:

Culture is the social glue that helps hold an organisation together by providing appropriate standards for what employees should say or do.

According to Deal and Kennedy, a strong culture is. "a system of informal rules that spells out how people have to behave most of the time".

According to Schein, It as, the pattern of basic assumptions that a given group has invented, discovered and developed while learning to cope with its problems of external adaptation and internal integration.

3.3 FUNCTIONS OF ORGANISATIONAL CULTURE

Some of the prominent function and characterized of organisational culture are as given below:

1. Organisational Identify

Culture provides a shared pattern of cognitive perception or understanding about the values or beliefs held by the organisation. This sharing of norms, values and perceptions gives people a sense of togetherness and enables the organisational members to think and behave as is expected of them. The members of an organisation should have an organisation identity to which they relate to. If an organisation is known as being an innovation company that relentlessly pursues new product development, this identity is reinforced by creating rewards that reinforce innovation.

2. Collective Commitment

The common purpose that grows out of shared culture tends to elicit strong commitment. from all those who accept the culture as their own. An organisation's corporate values are what employees have to proud of people who like the organisation corporate culture tend to stay employed there for long period of time. This collective commitment results in a lower turnover rate. The collective commitment results people feeling that they have great opportunities to do different jobs and to grow in the organisation.

3. System Stability

By encouraging a shared sense of identity and commitment culture encourages lasting integration and cooperation among the members of an organisation. Social system stability reflects the extent to which the work environment is perceived as positive and reinforcing and conflict and change are managed effectively. Executives also attempt to reduce resistance to change by continually communicating and continuously improving internal processes.

4. Helping Members make Sense of their Surroundings

An organisation culture serves a source of shared meaning that explains why things occur the way they do. The function of culture helps employees understand why the organisation does what is does and how it intends to accomplish its long-term goals.

Newly recruited employees are measured and evaluate against a carrier growth standard during their first six months to one year of employment.

5. It Provides a Boundary

Culture creates distinction between one organisation and the other. Culture facilities the generation of commitment to something larger than one's individual self interest. It serves as a control mechanism that guides and shapes the attitude and behaviour of organisational members.

6. It Provides Conformity

It helps organisational members sick to conformity and expected mode of behaviour culture ensures that everyone thinks and behaves in a prescribed manner.

3.4 TYPES OF CULTURE

The culture can affect the way individuals make sense of events and even influence their schemas for organisation and relating information. We can describe and organisation culture in numerous ways. Strong cultures demonstrate internal consistency and therefore, have a major impact on an organisation's members. Weak cultures show inconsistency and therefore have less impact. One categorization of cultures looks at whether organisation emphasis reliability, customer's flexibility or technology is responding to changes in the environment. Based on the emphasis given, we have the following types of organisational culture:

1. Mechanistic and Organisational Culture

The mechanism organisational culture exhibits the values of bureaucracy and feudalism. Organisational work is conceived as a system of narrow specialism and people think of their careers mainly within these specialism. Authority is thought of as flowing down from the top of the organisational down to the lower levels and communication flows through prescribed channels. There is a great deal of departmental loyalty and interdepartmental animosity a strong we versus they perception. This sort of culture resists change and innovation.

Contrast is the organic formal hierarchies of authority departmental boundaries formal rules and regulations and prescribed channels of communication are frowned upon. There is a great deal of emphasis on task accomplishment team work and free of communication-formal and informal.

2. Authoritarian and Participative Cultures

In the authoritarian culture power is concentrated on the leader and obedience to orders and discipline is stressed. Any disobedience is punished severely to set an example to others. The basic assumption is that the leaders know what is good for the organisational and he or she always acts in its interest.

The participative culture is premised on the notion that people are more committed to the decisions that are anticipatively made than to those which are imposed on them. Further

group problem solving leads to better decisions because several new points and information are shared during discussion. Participative cultures tend to emerge where most organisational members are professional or see themselves as equals.

3. Strong and Weak Cultures

In a strong culture the core values of the organisation are widely shared and eagerly embraced by a large number of employees who are deeply committed to them. A strong culture has a significant influence on employee's behaviour manifesting in reduced turnover lower absenteeism increased cohesiveness and positive attitudes. This is so because there is a high agreement among members about what the organisational stands for.

The result is the creation of an internal atmosphere of high behavioural control. Behavioural control brought in my strong culture is much more powerful than the one that results from formal rules and regulation. In addition organisations sharing strong culture tend to perform better than those without such a culture.

A weak culture is characterized by the presence of several sub-cultures sharing of few values and behavioural norms by employees and existence of few scared tradition. In weak-cultured organisation, there is little cohesion across the organisation top executives do not repeatedly expose any business philosophy or exhibit commitment to particular values or admire the use of particular operating practices. Because of the lack of shared values organisational members have no deeply felt of identity. The lack of corporate identity tends to result in few employees viewing the company as a place to work as way to make a living.

4. Functional Cultures

A functional culture focuses around the specialization of individuals and decision making using the corporate hierarchy: and emphasis reliability and consistency. Organisations with functional cultures limit downside risks, use proven methods, serve existing markets and maintain clear lines of accountability (moving from the bottom to top in the organisational hierarchy).

5. Process Driven Cultures

In process driven cultures the emphasis is on quality and customers satisfaction. Therefore the focus is on meeting the obligation towards customers and improving quality to meet customer delight. The organisational is a process driven to win the confidence of the customer and gain their commitments.

6. Time Based Cultures

It is attempt to reduce costs and quickly bring new products and service to markets. In organisations is with time based cultures there is development of new products and services maintenance of a high sense of urgency and quick adaptation to change.

7. Network Cultures

Organisations with network cultures develop new products and services will be opportunity and effectively use outside resources. Network cultures with the emergence of virtual corporation design work around alliance that contains the needed competencies.

3.5 BASIC ELEMENTS OF CULTURE

From the above definitions it is clear that culture is how an organisation has learned to deal with its environment. It is a complex mixture of assumption, behaviour, myths and other ideas that fit together to define what it mean to work in a particular organisation. Edgar H Schein suggests that culture exist on three levels: artifacts espoused values and underlying assumptions.

1. Artifacts

According to Schein artifacts are the first level of organisation culture. Artifacts are things that come together to define a culture and reveal what the culture is about to those who pay attention to them. They include products, services and even behaviour patterns of the members of an organisation. Schein has defined Artifacts as things are observable symbols and signs of an organisation culture such as the way visitors are greeted the physical layout and how employees are rewarded. Understanding an organisation culture requires painstaking assessment of many Artifacts because they are subtle and often ambiguous.

2. Espoused Values

Espoused values are the second level of organisational culture. Values are things worth doing or the reasons for doing what we do. Values are the answers to the "why" questions. For example, why are you reading this book? To know more about organisation behaviour. Why is that important? To be a better HR manager. Why do you need more money? At this point, we have arrived at a value. Corporations have values such as size, profitability or making a quality product.

3. Basic Assumption

The third level of organisation culture are the beliefs that organisation members take for granted culture prescribes the right way to do things at an organisation often through unspoken assumptions. Assumptions values and beliefs that represent organisational culture operate beneath the surface. They are not directly observed yet their effects are everywhere. Assumptions represent the deepest part of organisational culture because they are unconscious and taken from granted. People rely on them to guide their perception and behaviour. Values are more stable, long-lasting beliefs and are based on underlying assumption.

3.6 SUSTAINING MAINTAINING ORGANISATIONAL CULTURE

After the organisational culture is created and developed, the next step is to maintain it.

1. Selection of Entry Level Personnel

For example, Gujarat Gas Company has special recruiters to screen the candidates at the entry level based on the organisations norms, values and beliefs in addition to the selection

knowledge and skills. They do this type of screening in order to make a match with existing organisational culture of the company.

2. Placement on the Job

Information technologies limited normally assigns the work to the new employees more than their abilities in order to judge the employee's placement on the job. The objective is to teach the employees the importance of humility in the process of maintaining the culture. This process also makes the new employees emotionally close to the colleagues and intensifies group cohesiveness.

3. Job Mastery

Most of the emerging organisations like HCL technologies and Hughes Software systems believe that the suitability of a candidate to an organisation should be judged based on emotional balance rather than intelligence or technical competence.

The emotionally balanced employees easily adjust and encounter the initial cultural shock and concentrate on mastery of their jobs. Superiors and trainers help the employees in this process.

4. Measuring and Rewarding Performance

For example, Hindustan Beverages ltd. set three performance areas Sales/profit, adherence to the cultural values and team buildings. Employee's performance is measured and rewarded based on performance. Thus, steps are taken to maintain the culture by rewarding the employees.

5. Adherence to Core Values

At this stage, the employees are inspired and encouraged to the company's core values even by sacrificing their personal comforts like missing weekends, working long hours and talking up inconvenient job assignments. Employees who sacrifice their personal comforts are rewarded by connecting the costs of sacrifice it higher human values. For example, Honda Motors Company took American technical specialist and their families to Japan for a holiday trip.

6. Reinforcing the Stories and Folklore

At this stage companies reinforce organisational folklore. The best way of folklore is stories with morals that the company wants reinforce in its cultural values. Procter & gamble reinforces the cultural value that ethical claims are more important than money by spreading the story that is fixed an outstanding brand manager for/over standing the features of a product.

7. Recognition and Promotion

Management maintains culture by recognize and promoting the employees who serve as role models in implementing the cultural values. Procter and gamble recognizes the role models with motivational skills energy and tough-mindedness while Morgan Stanley prefers energy, aggressiveness and team play as the features of role models.

3.7 ORGANISATIONAL BEHAVIOUR IN A MULTICULTURAL WORLD

Although cross-cultural differences are readily evident, it is sometimes suggested that management practices throughout the world are growing more alike. Practices developed in one culture are borrowed for use in another culture. Quality circles the worlds are growing more alike. Practices developed in one culture are borrowed for use in another culture. Quality circles resembling Japanese QC groups are becoming so prevalent that they are now considered part of the Indian approach. In autocratic culture like India, organisations structure are becoming flatter and more participatory as downsizing reduces the size of management staff and as reengineering breaks down barriers among different tasks and task groups.

All these changes are occurring as organisations strive to become more flexible and customer oriented. Trends like these seem to throughout the world are growing more alike. Organisations themselves may become more alike throughout the world but people in these organisations are bound to maintain their cultural distinctiveness. Management in a multicultural world currently requires an understanding of cultural differences and it appears that it will continue to do so for quite some time.

3.8 UNDERSTANDING BEHAVIOUR IN OTHER CULTURES

How do managers understand and recognize cultural differences? We need to put our self into the managerial role and apply the Hofstadter model to evaluate several intercultural differences. Hofstadter's five dimensions model is used to explain these differences.

1. Feeling about Progress

To a traditionalist, familiar things are perceived as trustworthy, proven and worthwhile. However, modern and future oriented cultures may view something that has been around for a while as old fashioned or obsolete. Differences in dealing about progress are produced by cross-cultural differences in short-term versus long term orientation. Cultures having long-term orientation more readily embrace modern ways.

2. Tendencies Towards Confrontation

In some cultures, emphasis is placed on building consensus among co-workers and avoiding personal confrontation. However, conflict and confrontation are accepted or even encouraged in some other cultures. Conflict is perceived to be a signal of the need for change. How can we explain these differences? The scenario focuses on conflict creates uncertainty and cultures that cannot deal with the uncertainty cannot handle the competition and aggression that conflict unlashes.

3. Locus of Control

Rewarding people for personal performance is considered a logical consequence of the value some cultures place on personal responsibility. However, people focus on external social causes to explain similar out comes. Giving people rewards for personal performance seems unwanted in the light of cultural beliefs that behaviours are caused by outside forces. Concerns regarding locus of control and the difference seen here arises out of cross-cultural differences in individualism versus collectivism. The sense of personal responsibility stimulated by believing that the locus of control is compatible with the cultural collectivism of countries.

4. Status and Social Position

In some cultures like India, status is accorded on the basis of family, caste, and ethnicity. High status people are able to impose their will on people of lower status when such people are as knowledge able and competent as they are. However in some cultures, where status is earned through personal achievement, shared governance by majority rule or participatory decision-makings valued over personal flat. Expertise outranks social position in determining who will be involved in decision making procedures.

3.9 SUMMARY

- Culture is an organisational sense, is referred to as a set of shared values and beliefs that form the pattern of work behaviour among the employees. It consists of norms, values and unwritten rules of conduct as well as management styles, priorities and interpersonal relationship. A strong culture lets people know as to what type of behaviour is expected of them. A culture can be highly conservation where employees behave by the rules of the book or it could be more liberal where the employees have the freedom to be innovation and creative.

- Organisational culture has three levels. First level is the most observable and consists of stories about its founder or other leaders, rituals and ceremonies such as conversions or graduating ceremony at colleges, material symbols such as luxury automobiles given as a reward for extraordinary performance and so on. The second level is comparatively more subjective in nature and primarily consists of values that reflect a person's belief as to what should be and what should be not. Finally, the last level of the culture known as common assumptions reflect a deeper sense of ethics, norms and beliefs that are learned through social interaction over a long period of time and these beliefs are carried into the work place.

- High moral standards and ethical code of conduct are integral part of the dominant culture. All employees must be made aware of the ethical behaviour expected of them. Managers themselves must have high standards of ethical behaviour and must not tolerate deviation from such ethical standards set by the organisations. These standards will reinforce the quality of the dominant culture.

3.10 REVIEW QUESTIONS

1. What is meant by organisational culture?
2. What are the various functions of organisational culture?
3. What are the different levels of culture? Explain.
4. How is organisational culture created and sustained?
5. What are the obstacles to change organisational culture?
6. Bring out the positive and negative of organisational culture.

3.11 CRITICAL THINKING QUESTIONS

1. Discuss the functions performed by organisational culture.
2. How is culture learnt? Give suitable example.
3. How can manager's change organisational culture?
4. Identify and discuss the role played by culture in sustaining the viability of an organisation.
5. Why is it difficult to diagnose the culture of an organisation? What are the techniques used to diagnose the culture?

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3.13 CASE STUDY

The ABC Manufacturing Company is a metal working plant under the direction of a plant manager who is known as a strict disciplinarian. One day a foreman noticed Bhola, one of the workers, at the time-clock punching out two cards – his own and the card of Nathu, a fellow worker. Since it was the rule of the company that each man must punch out his own card, the foreman asked Bhola to accompany him to the Personnel/Director, who interpreted the incident as a direct violation of a rule and gave immediate notice of discharge to both workers.

The two workers came to see the Personnel Director on the following day. Nathu claimed innocence on the ground that he had not asked his card be punched and did not know at the time that it was being punched. He had been offered a ride by a friend who had already punched out and who could not wait for him to go through the punch-out procedure. Nathu was worried about his wife who was ill at home and was anxious to reach home as quickly as possible. He planned to take his card to the foreman the next morning for reinstatement, a provision sometimes exercised in such cases. These circumstances were verified by Bhola. He claimed that he had punched Nathu's card the same time he punched his own, not being conscious of any wrongdoing."

The Personnel Director was inclined to believe the story of the two men but did not feel he could reverse the action taken. He recognized that these men were good workers and had good records prior to this incident. Nevertheless, they had violated a rule for which the penalty was immediate discharge. He also reminded them that it was the policy of the company to enforce the rules without exception.

A few days later the Personnel Director, the Plant Manager and the Sales Manager sat together at lunch. The Sales Manager reported that he was faced with the necessity of notifying one of their best customers that his order must be delayed because of the inability of one department to conform to schedule. The department in question was the one from which the two workers had been discharged. Not only had it been impossible to replace these men to date, but disgruntlement over the incident had led to significant decline in the cooperation of other workers.

The Personnel Director and the Sales Manager took the position that the discharge of these two valuable men could have been avoided if there had been provision for considering the circumstances of the case. They pointed out that the incident was costly to the company in the possible loss of a customer, in the dissatisfaction within the employee group and in the time and money that would be involved in recruiting and training replacements. The Plant Manager could not agree with this point of view. "We must have rules if we are to have efficiency and the rules are no good unless we enforce them. Furthermore, if we start considering all these variations in circumstances, we will find ourselves loaded down with everybody thinking he is an exception". He admitted that the grievances were frequent but countered with the point that they could be of little consequences if the contract agreed to by the union was followed to the letter.

Questions

1. Place yourself in the position of the Personnel Director in this situation. Which of the following courses of action would you have chosen in consideration of the information which was at the time of the decision?

    (a) Would you have discharged both men?

    (b) Would you have discharged Bhola only?

    (c) Would you have discharged Nathu only?

    (d) Would you have discharged neither of them

    (e) Justify your choice of decision.

2. What policy and procedural changes would you recommend for the handling of future cases of this type? How do you see the loss to the company? Examine.

UNIT 4: ORGANISATIONAL CHANGE AND DEVELOPMENT

STRUCTURE

4.1 INTRODUCTION

Organisational change is the moment of an organisation away from its present state and towards some desired future state to increase its effectiveness. Why does and organisation need to change the way it performs its activities the business environment is constantly changing and the organisation must adapt to these forces in order to service. The topic

of managing change is one that comes closest to describing the totality of manager's job. Practically everything a manager does is in some way concerned with implementing change.

4.2 NATURE OF ORGANISATIONAL CHANGE

The term change refers to an alteration in a system whether physical, biological or social. Thus organisational change is the alteration of work environment in organisation. It implies a new equilibrium between different components of the organisation-technology structural arrangement, job design and people. The following conceptualisation help characterized the phenomenon.

1. Change Disturbs the Old Equilibrium

When change occurs in any part of the organisation, it disturbs the old equilibrium necessitating the development of a new equilibrium; the type of new equilibrium depends on the degree of change and its impact on the organisation.

2. Change Affects the Whole Organisation

Any change may affect the whole organisation: some parts of the organisation may be affected more, others less: some parts are affected directly, others indirectly.

3. Change is a Continues Process

Organisational change is a continues process. However, some changes which are of minor type may be absorbed by the existing equilibrium: others, which are majors ones may require special change efforts.

4. Change may be Reactive or Proactive

When change is brought about due to the pressure of external forces, it is called reactive change. Proactive change is initiated by the management on its own to increase organisational effectiveness.

5. Change is Perceptual and Behavioural

It is a way of thinking and a set of behaviours to enact that thinking.

6. Change Affects Individuals in Multiple Roles.

Change affects individuals the multiple roles they assume in their lives-as individuals with personal goals and interest as members of organisations, work groups, or both: and as members of families responsible for the welfare of others. Human beings often react negatively change responsible they sense a resultant loss of control over their routines. jobs and lives.

7. Change in Natural as is Death

It is the rule not the expectation show change which does not characterized many contemporary organisations seems easier to adjust than rapid change, which we often equate with disruption.

8. Change may be Planned or Unplanned

Planned change is deliberately shaped by those within an organisation unplanned change is prompted by forces outside and organisation whose response is reactive rather than proactive.

9. Change may Incremental or Transformational

Incremental change constitutes minor improvements or adjustments in an organisation. Transformational change alters the technical system is comprised of the resources needed to accomplishing tasks such as information technology and money the political system is the web of interrelations' that influence decisions makers. The cultural system is the shared values and beliefs that guide the organisation.

4.3 IMPORTANCE OF ORGANISATIONAL CHANGE

Organisational change is important because of following reasons:

1. Changes in Environment

Change in environmental may result due to:

- (a) Economic and market changes
- (b) Technical changes
- (c) Legal/political changes
- (d) Resource availability changes-money materials and human resources market changes.

2. Changes in Managerial Levels-human Resources

This is also necessitating organisational changes due to:

- (a) Retirement of managers at different level due to age bar as per the prevailing rules and regulation or teams and conditions of the job.
- (b) Promotion of junior level managers to higher level.
- (c) Demotion transfer long leave (more than one year) or on training/study leave.
- (d) Dismissal or lay-off from the job of the managers.
- (e) Resignation or turnover managers from company service.

3. Deficiency in Present Organisation

Because of the short coming defects duplication of work resource time and efforts or deficiencies in the organisations structure working procedure management process there

may result lack of cooperative increasing conflict decreasing productivity increasing cost and scrap losses barriers in communication process. All these hinder attainment of target goals of the department group organisation. As such adjustment modification alteration are to be carried out in organisation.

4. Cheek the Growth of Inflexibility

Each organisation desires to advance grow and develop. Hence the organisation should achieve flexibility to meet the growth and development needs. Leaders/managers constantly work for making the organisation dynamic and flexible to achieve growth and development. So whenever experiences or foresees in flexibility, organisational changes are to be carried out. Changes under such circumstances benefit the organisational as whole.

Because of above causes, organisational changes can take place in all, some or any of the following internal changes:

(*a*) Employee's goals changes

(*b*) Work job technology changes,

(*c*) Organisational structure changes,

(*d*) Organisational climate changes,

(*e*) Organisational goal changes.

4.4 THE CHANGE PROCESS

Once, the need for change and the goals of such a change are recognized and accepted, the management must introduce the change process in such a manner that such change is more or less permanent and the management does not shift back to the original and more familiar ways of doing things. To make the change more lasting, Kurt Lewin proposed 3 phases of the change process for moving the organisation from the present to the future. These stages are: (1) Unfreezing, (2) Changing, and (3) Refreezing.

1. Unfreezing

The process of unfreezing simply makes the individual or organisations aware and prepares them for the change. Lewin believes that the change should not come as a surprise to members of the organisation. Sudden, unannounced change would be socially destructive. The management must pave the way by "unfreezing the situation", so that members would be willing and ready to accept the change. This way, if there is any resistance to change, it can be neutralized. According to Schein, unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organisation via bulletin boards, personal contacts and group conferences. The unfreezing process basically cleans the slate so that it can accept new writings on it which can then become the operational style.

2. Changing or Moving to the New Condition

Once the unfreezing process has been completed and the members of the organisation recognize the need for change and have been fully prepared to accept such change, their behaviour patterns have to be redefined. H.C. Kellman has proposed three methods of reassigning new patterns of behaviour. These are:

(a) Compliance

Compliance is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better. For example, many people have stopped smoking because of warning given by the Surgeon General of United States that smoking cause's cancer of the lungs.

(b) Identification

It occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them. Many public organisations use celebrities as role models in advising young people not to try drugs.

(c) Internalization

It involves changing the individual's thought processes in order to adjust to a new environment. Members are left alone to look themselves and they are given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances. Sometimes, soul searching brings about a new dimension to the philosophy of existence and thus brings about changes in such behavioural patterns that are not considered socially or professionally redeeming.

3. Refreezing

It occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful change to take place. Also, it should be permanent in nature. Accordingly, it must be continuously reinforced so that this new acquired behaviour does not diminish or extinguish.

This must be clearly understood that the change process is not a onetime application but a continuous process due to dynamism and ever changing environment. Accordingly, the phenomena of 'unfreezing, changing and refreezing' are a cyclical one and remain continuously in process.

The implementation of this three steps change model can be seen in the case of kidnapping victims or prisoners of war or in deprogramming of some religious cultists. The prisoners of war, for example, may be brainwashed into believing that they are fighting a losing and immoral war and that their enemy is really their friend, by certain shock treatments which involve three steps of unfreezing, changing and refreezing process as explained before.

If these prisoners return back to their own country, the process can be repeated to bring them back to their original behaviour.

Another methodology to induce, implement and manage change was also introduced by Kurt Lewin, who called it "force-field analysis". This analysis is based upon the assumption that we are in a state of equilibrium when there is balance between forces that induce change and forces that resist change. To achieve change, we must overcome this status quo. Managers who try to implement change must analyze this balance of driving and restraining forces and then strengthen the driving forces or weaken the restringing forces sufficiently so that change can take place.

4.5 FORCES OF CHANGES

Change has become the norm in most organisations. Business failures, plant closures mergers and acquisition, downsizing, re-engineering, productivity improvement, globalization reduction and other efforts for survival are common among most Indian companies. Organisations are in state of tremendous turmoil and transition and all members are affected.

The changes from several sources some of these are external arising from outside the organisational whereas others are internal arising from sources within the company.

1. External Forces

(a) Technology

It is a major external force which calls for change. The rate of technological change is greater today than any time in the past and technological changes are responsible for changing the nature of jobs performed at all levels in the organisation. The computer technology and automation have made a remarkable impact on the functioning of organisation in the recent times. Technological advancement is thus a permanent fixture in the business world and it continues to demand a manager's attention as a pressure for change Japanese firms have progressed rapidly because they are very fast in adopting new technology.

(b) Marketing Condition

Marketing conditions are no more static. They are in the process of rapid change at the needs, desire and expectation of the customers change frequently moreover there is though competition between manufacturers and suppliers in the market. The market is flooded with new products and innovations every day. All these factors put great pressure on the modern organisation to change their technology and marketing strategies.

(c) Social Changes

Because of spread of education knowledge explosion and governments efforts social changes are taking place at a fast speed. The drive for social equality (e.g., equal opportunity to women, equal pay for equal work, etc) has posed new challenges for the management. The management has to follow social norms in shaping its employment, marketing and other policies.

(d) Political Forces

It is within and outside the country have an important influence on large business houses, particularly the transnational corporations. The relation between government and business houses has becomes very complex in the modern times. The interference of government in business has increased tremendously in most of the countries. Many laws have been passed to regulate the activities of the corporate sector. The organisations have no control over the political and legal forces but them to adapt to meet the pressures of these forces.

2. Internal Forces

(a) Changes in Managerial Personnel

Old managers are replaced by new managers which is necessitated because of retirement, promotion, transfer etc. each manager brings his own ideas and way of working in the organisation the relationships more particularly informal ones change because of changes in managerial personnel moreover attitudes of the personnel change even though there is no change in them. The result is that an organisation has to change accordingly.

Changes in the organisation are quite fast when executives at the top change. No two executives have the same philosophy and style. The new executive will follow his own style and will like to put into p[practice his own ideas and philosophy. This may lead to important changes in the organisation design allocation of work to individual, delegation of authority installation of controls etc.

(b) Changes in Operative Personnel

The new generation of workers has better education qualification, place greater emphasis on human values and questions authority managers. Their behaviour is very complex and leading them for organisational goals is really a challenge. The turnover of personnel also puts great strains on the organisations and so it has to be handled properly by the organisation.

(c) Deficiencies in Existing Structure

Changes may be needed to make up deficiency in the present organisations setup. These deficiencies may be in the form of unmanageable span of management, larger number

of managerial levels, lack of coordination among various departments, obstacles in communication multiplicity of committees, lack of uniformity in policy decision lack of co-operation between line and staff and so on. However the need for change in such cases goes unrecognized until some major crisis occurs.

4.6 RESISTANCE TO CHANGE

One of the well-documented findings from studies of individual and organisational behaviour is that organisations and their members resist change. In a sense, this is positive. It provides a degree of stability and predictability to behaviour. If there weren't some resistance, organisational behaviour would take on characteristics of chaotic randomness. Resistance to change can also be a source of functional conflict. For example, resistance to a reorganisation plan or a change in a product line can stimulate a healthy debate over the merits of the idea and result in better decision-making. But there is a definite downside to resistance to change. It hinders adaptation and progress.

Resistance to change doesn't necessarily surface in standardized ways. Resistance can be overt, implicit, immediate, or deferred. It is easiest for management to deal with resistance when it is overt and immediate. For instance, a change is proposed and employees quickly respond by voicing complaints, engaging in work slowdown, threatening to go on strike, or the like. The greater challenge is managing resistance that is implicit and/or deferred. Implicit resistance efforts seem to be subtle but has serious ramifications—loss of loyalty to the organisation, loss of motivation to work, increased errors or mistakes, increased absenteeism due to "sickness"—and hence more difficult to recognize.

Similarly, deferred actions cloud the link between the source of the resistance and the reaction to it. A change may produce what appears to be only a minimal reaction at the time it is initiated, but then resistance surfaces weeks, months, or even years later. Let's look at the sources of resistance. For analytical purposes, we have categorized them by individual and organisational sources. In the real world, the sources often overlap.

4.7 DEALING WITH RESISTANCE TO CHANGE

The source of resistance to change can be categorized into three sources: individual level, group level and organisational level.

1. Individual – Level Resistance to Change

One aspect of mankind that has remained more or less constant in his innate resistance to change. Individual's resistance to change. Individual's resist change because they attach great preference to maintain status quo. Individual sources of resistance to change reside in basic human characteristics such as perception, personalities and needs. The following are some factors of individual-level resistance to change:

(a) Economic Reasons

The economic reasons to fear change usually focus on one or more of the following:

    (*a*) Fear of technology unemployment.

    (*b*) Fear of reduced work hours and consequently, less pay.

    (*c*) Fear of demotion and thus, reduced wages.

    (*d*) Fear of speed-up and reduced incentive wages.

Changes in job tasks or establish work routines also can economic fears if people are concerned they won't be able to perform the new tasks or routines to their previous standards, especially when pay is closely tied to productivity.

(b) Fear of the Unknown

Change can often bring with it substantial uncertainly, employees facing a technological change, such as the introduction of a new computer system, may resist the change simply because it introduces ambiguity into what was once a comfortable situation for them. This is especially a problem when there has been a lack of communication about the change.

(c) Fear of Loss

When a change is impending, some employees may fear losing their jobs, particularly when an advanced technology is introduced. Employees may also fear losing their status because of a change. Another common fear is that changes may diminish the positive qualities the individual enjoys in the job. For example, computerizing the consumer service position threaten the autonomy that sales representative previously enjoyed.

(d) Insecurity

People tend to resist change because they feel insecure about what its outcome will be. Employees might be given new tasks: role relationships may change: some employees might lose their jobs while others might be promoted. Absenteeism and turnover may increase as change takes place and employees may become uncooperative, attempt to delay or slow down the change process or passively resist it.

(e) Selective Perception and Retention

Perception and attribution play a major role in determining work attitudes and behaviour. There is a general tendency for people to selectively perceive information that is consistent with these existing views of their organisations. When change takes place, employees tend to focus only on how it will personally affect them or their functions or divisions. It can be difficult for an organisation to develop a common platform to promote change occurs an organisation and get people the need for it.

(f) Peer Pressure

Individual employees may be prepared to accept change but refuse to accept it for the sake of the group. Whenever change is unwilling to the peers, they peers, they forces the individuals who want to accept change to resist change.

(g) Disruption Interpersonal Relationship

Employees may resist change that threatens to limit meaningful interpersonal relationships on the job.

(h) Social Displacement

Introduction of change often results in disturbance of the existing social relationships. Change may also result in breaking up for work group. Thus, when social relationships develop, people try to maintain them and fight social displacement by resisting change.

2. Group Level Resistance to Change

Group performance must of an organisations work. Group characteristics can produce resistance to change. The five characteristics of groups-group norms, group cohesiveness, group think, group inertia and escalation of commitment an explained below:

(a) Group Norms

Many groups develop strong informal norms that specify appropriate and inappropriate behaviours and govern the interaction between group members. As a result, members of a group may resist change because whole new set of norms may have to be developed to meet the group needs.

(b) Group Cohesiveness

The attractiveness of a group to its members affects group performance. A highly cohesive group may resist attempts by management to change what it does or even that its members are. Group members may unite to preserve the status quo and to protect their interest at the expenses of others groups.

(c) Group Think

It is pattern of faculty decision-making that occurs in cohesive groups when members discount negative information in order to agree. Group think can make changing a group's behaviour very difficult.

(d) Group Inertia

Even if individuals want to change their behaviour group norms may act as constraints. For example, if union norms dictate resistance, any unilaterally change made by management an individual members of the union who may otherwise be willing the changes may resist it.

(e) Escalation of Commitment

It worsens the situation of groups think. Escalation occurs when members realize their course of action is wrong but continues to pursue it. Escalation can make changing a group's behaviour very difficult.

3. Organisational-Level Resistance to Change

Organisations by their very nature are conservative. Many forces inside and organisation make it difficult for the organisation to change in response to changing conditions in its environment. They actively resist change. Some of the organisational resistances are explained below:

(a) Resource Constraints

Resources are major constraints for many organisations. They necessary financial, material and human resources may not be available to the organisation to make the needed changes. Further those groups in organisation that control sizable resources often see change as a threat. They tend to be content with the way things are.

(b) Structural Inertia

Some organisational structures have in built mechanism for resistant's to change. For example, in a bureaucratic structure where jobs rue narrowly defined, lines of authority are clearly spelled out change would be difficult. This is so because formalization provides job description, rules and procedures for example, to follow, the people who are hired into an organisation are choosing for fit: they are then shaped and directed to behave in certain ways. When an organisation is confronted with change, this structural inertia acts as a counterbalance to sustain stability.

(c) Differences in Fictional Orientation

Differences in fictional orientation are another major impediment to change and source of organisational inertia. Different functions and divisions often see the source of a problem or issue differently as a result of their own view points. This "tunnel vision" increase organisational inertia.

(d) Sunk Costs

Some organisations invest a huge amount of capital in fixed assets. If an organisation wishes to introduce change then difficulty arises because of these sunk costs.

(e) Politics

Organisational change may also shift the existing balance of power in organisation. Individuals or groups who hold power under the current arrangement may be threatened with losing these political advantages in the advance of change.

4.8 MANAGING RESISTANT TO CHANGE

Although resistance a change is a common phenomenon in organisations, it must be noted that not all changes are resisted. In fact, if we look at any organisation closely, we would

probably find that far more changes are accepted than resisted. The traditional view of resistance to change treated it as something to be overcoming and many organisational attempts to reduce the resistance have only served to intensify it. Some tactics have been suggesting for use in dealing with resistance to change.

1. Education and Communication

Communication about impending change is essential if employees are to adjust effectively. The detail of the change should be provided. But equally important is the rationale behind the change. Employees want to know why change is needed. If there is no good reason for it, why should they favour the change providing accurate and timely information about the change can help prevent unfounded fears and potentially damaging rumors from developing? It is also beneficial to inform people about the potential consequences of the change. Educating employees on new work procedures is often helpful.

Use one on one discussion, presentation to groups memos reports and demonstrations to educate people beforehand about a change and to help them see the logic of the change. This approach is best used when change is being determined by a lack of information or when available information is inaccurate. Its strength is that once persuaded through education, people will often help with the implementation of change. Its primary weakness is that it can be quite time-consuming if many people must be involved.

2. Participation

It is difficult for individuals to resist change decision in which they participated, prior to making a change, those opposed can be bought into the decision process. When employees are allowed to participate, they are more committed to the change. Allowing others to help design and implementing the changes: asking individuals to contribute ideas and advice or forming task forces or committees to work on the change.

Those who will be affair by an interventions should be involved in its design and implementation. This is opinion works well when information required to manage change is despised among many people and when employees who have considerable power are likely to resist change if not involved themselves. If facilitates information exchange among people and breeds commitment among the people involved. But it can slow down the process if participates design and appropriate change or astray from the task at hand.

3. Empathy and Support

Another strategy for managing resistance is providing empathy and support to employees who have trouble dealing with the change. Active listening is an excellent tool for identifying the reasons behind resistance and for uncovering fears. An expression of concern about the change can provide important feedback that managers can use to improve the change process.

4. Negotiation and Agreement

Another way to deal with potential resistance to change is to exchange something of value for a listening of the resistance. Where some persons in a group clearly lose out

in a change, and where groups have considerable power to resist, negotiation and agreements are helpful. It becomes relatively easy to avoid major resistance through negotiation. Negotiation as a tragic may be necessary when resistance comes from a powerful source. Resistance employees should be worked with through bargaining and the personal of trade-offs to provide them with incentives to change their minds. This technique is sometimes used if an individual or group with the power to block a change is likely to lose out if the change takes place.

Offering incentives to actual or potential resistors; working out trade-offs to provide special benefits in exchange for assurance that the change will not be blocked. Negotiation can be relatively easy way to avoid resistance in such situations, but it can prove costly if it after other individuals and groups to the fact that they might be able to negotiate additional against for themselves.

5. Manipulating and Cooptation

Manipulation refers to convert influence attempts. Twisting and distorting facts to make them appear more attractive, with holding undesirable information and creating a false rumors to get employees to accept a change are all examples of manipulating, it involves giving individuals a desirable role in design or implementation of change. Use of convert attempts to influence others: selectively providing information and consciously structuring events so that the desired change receives maximum support. However hidden persuasion can lead to future if people feel unfairly treated, and may seem overly manipulative in retrospect even if suitable results are achieved.

6. Coercion

It is the application of direct threats or force on the resist. They essentially force people to accept a change by explicitly or implicitly threatening them with the loss of their jobs, promotion possibilities and transferring power. Power and threats of negative consequences may be employed to change the minds of resistance individuals. Coercion tends to be used when speed is essential and when those initiating change process considerable power. It can overcome virtually any kind of resistance. Its weakness is that it can be risky if it leaves people angry.

4.9 INTRODUCTION OF ORGANISATIONAL DEVELOPMENT

Organisational development refers to systematic planned change. It may be defined as a collection of techniques that attempt to effect systematic planned change. Organisations are not static systems but keeps on developing, based on the needs of the system and the opportunities that exist in the environment. Organisational development refers to all on going development efforts, which are oriented towards making the organisation and its members effective.

Organisational development was necessary mainly because managers failed to recognize that organisations are systems with dynamic interpersonal relationships holding them

together. The reasonable next step was to try to change groups, units and entire organisation so that they would support change efforts. In short, the general objective of OD is to change all parts of the organisation in order to make it more humanly responsive, more effective and more capable of organisational learning and self-renewal.

4.10 DEFINITIONS OF ORGANISATIONAL DEVELOPMENT

According to Koontz, "OD is a systematic, integrated and planned approach to improve the effectiveness of the enterprise. It is designed to solve problems that adversely affect the operational efficiency at all levels".

According to Burke, "OD is a planned process of change in an organisation's culture through the utilization of behaviour science technology, research and theory".

According to French and Bell, "OD is a systematic approach to organisational improvement that applies behavioural science theory and research in order to increase individuals and organisational well-being and effectiveness".

According to Newstrom and Davis, "Organisation development (OD) is the systematic application of behavioural science knowledge at various levels, such as groups, inter-group, organisational, etc., to bring about planned change".

According to Cummings and Worley, "Organisational development is a system-wide application of behavioural science knowledge to the planned development and reinforcement of organisational strategies, structures, and processes for improving an organisation's effectiveness".

According to Pareek & Rao, "OD is a planned effort, initiated by processes specialties to help and organisation develop its diagnostic skills, coping capabilities and linkage strategies in the form of temporary and semi-permanent systems and a culture of mutually".

4.11 CHARACTERISTICS OF OD

The characteristics of OD are as follows:

1. OD is a Planned Strategy

OD program are planned, not accidental – they represent a deliberate entry of either an OD consultant or OD activities into the client system.

2. OD is a Collaborative Approach

In OD the consultant seeks and maintains a collaborative relationship of relative equality with the organisation members. Collaboration means "to labor together" – essentially it implies that consultant does not do all the work while the client system passively wants solution to its problems: and it means that the client system does not do all the work while the consultant is a disinterested observe. In OD, consultant and clients co-labor.

3. OD is to Improve and Enhance Performance

OD programs and efforts are designed to produce organisational effectiveness and health better system functioning, greater ability to achieve objectives and so forth.

The basis aims of the OD are:

(a) Enhancing congruence between organisational structure, processes, strategy people and culture.

(b) Developing new and creative organisation's solution and

(c) Developing the organisation self-renewing capacity.

It is these self-renewal outcomes that seem particularly distinctive in organisation development process.

4. OD Reliefs on a Set of Humanistic Values

OD is a normative process grounded in value-laden assumptions of what constitutes ideal individual or organisational growth. 'Development' for the OD practitioner means the movement of individuals and organisational in certain directions consistence with democratic and humanistic values and ideals, such as autonomy, self-actualization and democracy. OD also aims at gaining more effective organisation by opening up new organisation for increased use of human potential.

5. OD Represents a System Approach

Although OD practitioners may focus on one or the other aspects or unit of an organisation, there is an implicit recognition of the systematic nature of the organisation. As a social system, an organisation consists of different sub-systems such as task, structural, technological and human, inter-linked by various processes. The organisational as a whole also interacts with the external environment including the larger society and its smaller constituents. Any change is one part or processes have implications for other parts or processes relevant to the system. Recognition of the systematic nature of organisation gives the OD approach a methodological flexibility even while it maintains same ideological rigidity in terms of values.

6. OD is Based upon Scientific Approaches

OD is an applied field in which theories, concepts and practices from sociology, psychology, social psychology, education, economics, and psychiatry and management education are brought to bear on real organisational problems.

4.12 MAIN FEATURES OF OD

1. Long-range Effort

OD is basically a long-term approach to elevate the organisation to a higher level of functioning by Improving the performance and satisfaction of its members. An OD programme generally covers a period of three to five years though some programmes may last for more than five years.

2. Broad Based

OD is a comprehensive strategy for organisational improvement. It is planned attempt to bring about organisation wide change. It involved not only changes in the organisation structure but also changes in organisational philosophy, skill of individuals and their ways of working. It is an organisation wide strategy.

3. System View

OD is based an systems thinking. It utilize the open adaptive system concept. It recognizes that organisations structure and human beings working in it are mutually interdependent. No part of the organisation can be changed without affecting other parts. Therefore, own attempt is made to create a better fit between the organisation and the human beings.

4. Dynamic Process

OD is not a one-shot deal but an ongoing interactive and cyclical process. It recognizes that organisation objectives charge and, therefore, the methods of attaining should also change.

5. Research Based

OD involves surveys data collection, evaluation and decision-making. Most of the OD interventions are research-based. Often the role of the external consultant and behavioural expert is important. It is based on scientific awareness of human behaviour and organisational dynamics.

6. Normative Educational Strategy

OD is based on the principle that norms from the basis for behaviour and change are an educative process replacing old by new. It suggests change from the undesirable practice to a desirable one.

4:13 .OBJECTIVES OF OD

Main objectives of OD are as follows:

1. To increase the level of trust and mutual emotional support among all members of organisation.

2. To develop new organisational learning and new ways of coping with problems.

3. To create an environment in which authority of assigned role is augmented by authority based on knowledge and skill.

4. To increase the level of self and group responsibility in planning and implementation.

5. To increase the openness of communication in all directions.

6. To find synergistic solutions to problems with greater frequency.

7. To increase the level of enthusiasm and personal satisfaction in the organisation.

4.14 BENEFITS OF OD

1. Provides opportunity for people to function as human beings rather than mere resource in the productive process.

2. Gives each member of the organisational opportunities to develop to his full potential.

3. Seeks to make the organisational more effective in meeting all its goals.

4. Tries to create an environment in which exciting and challenging work can be found.

5. Gives people in organisations the chance to influence how they relate to work, the organisation, and the work environment.

6. It clearly defined strategic direction, company goals, and objectives.

7. It gives orderly, well-planned analysis of alternative organisation structures.

4.15 PROCESS OF ORGANISATIONAL DEVELOPMENT

An OD programme generally involves the following steps:

1. Problem Identification

An OD programme being with the identification of the problem in the organisation. The problem may be identified in terms of the reasons due to which the organisation is not able to achieve is objectives e.g., low productivity, high employee turnover, declining market share, etc.

2. Diagnosis of the Problem

Diagnosis involves understanding the causes and magnitude of the problem. Collection and analysis of data are necessary. Observation, questionnaire and interviews may be used to collect the necessary data. Experience and judgment are equally important. Diagnosis will reveal not only the source of the problem but also the changes required in the organisation.
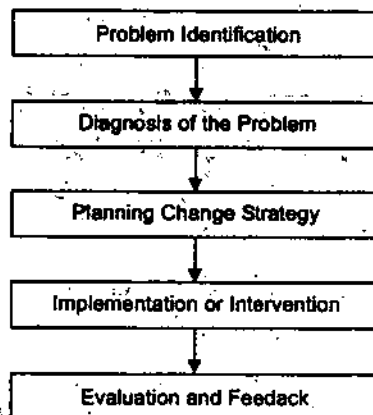

Problem Identification

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Diagnosis of the Problem

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Planning Change Strategy

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Implementation or Intervention

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Evaluation and Feedack

Fig. 4.1

3. Planning Change Strategy

At this stage an action is prepared. The plan involves the overall goals for OD, determining the approach for implementing the change. Appropriate OD interventions or techniques are selected.

4. Implementation or Intervention

Intervention constitutes the action phase in OD process because it makes things happen. Changing the organisation and its people is a long-term and gradual process. Intervention should gradually be done at all three levels – individual, group and the organisation.

5. Evaluation and Feedback

Continuous monitoring is necessary to evaluate the result of the OD programme. So that suitable actions may be taken to encounter any problem or to modify future programmes. Careful monitoring and evaluation of OD programmes. When any discrepancy appears between the desired and actual state of affairs, suitable actions are taken. Critical questions, systematic appraisals of change effort, comparison of pre- and post-training behaviour patterns are the main techniques for getting feedback.

4.16 ORGANISATIONAL DEVELOPMENT INTERVENTIONS

Intervention are the set of structural activities in which selected organisational unites, be, individual or their groups, engage with a task or sequence of task. Goals are related directly or indirectly to organisational improvement. The OD interventions to be chosen based on the target and strategy. Before choosing an OD intervention an analysis is to be made to what segment of the organisation is going to be effected with the change.

According to French and bell "OD interventions are sets of structured activities in which selected organisational units (target groups or individuals) engage with a task or a sequence of tasks where the task goals are related directly or indirectly to organisational improvement. Interventions constitute the action thrust of organisation development, they make things happen".

4.17 FACTORS TO BE CONSIDERED IN ORGANISATIONAL DEVELOPMENT INTERVENTIONS

1. Goal Clarification

An intervention strategy must be formulated with clearly stated long-term and short-term and objectives of change.

2. Effective Structures of Activities

The activities to promote learning and change should be structured effectively; this is achieved by keeping the following points in mind:

(a) All relevant people should be included. Client groups should identify problems opportunities themselves and generate solution to their own problems and utilize the potential inherent in their own opportunities. The goals and strategies for goal attainment must be clearly stated with every client group.

(b) Activities should be structured in such a way that there is a high probability of success. Goals therefore must be manageable and attainable. Positive feedback regarding success in goal attainment can work as powerful motivator for the client group

(c) The existing climate in the organisation should be such as to facilitate the implementation of a particular intervention. In case the client group is defensive and anxious, additional interventions for creating a climate conductive to achievement of changed goals must be thought of.

(d) It is necessary to engage the whole person in intervention not just the rational/ logical part of him but also his emotional and spiritual self. It is important that the intervention facilitates members of the client group to openly express and confront their thoughts feelings concerns beliefs assumptions and the paradigm.

(e) Conceptual mode of learning as also experimental learning should be included in the intervention.

3. Sequencing of Intervention Activities

Intervention activities and their sequencing must be done carefully. Michael beer suggests the following guidelines for choosing and sequencing intervention activities:

(a) In general, interventions that will provide data needed to make subsequent intervention decision should come first. This is particularly true when change agents do not know much about the situation. Violation of this rule can lead to choosing inappropriate interventions.

(b) Interventions should be sequenced so that early interventions enhance the effectiveness of subsequent interventions. For example, interventions that develop readiness, knowledge or sills required by other interventions should come first. Violation of this rule can result in intervention that does not achieve their objectives, regression, and the need to start a new sequence of interventions.

(c) Interventions should be sequenced to conserve organisational resources such as time energy and money. Violation of this rule will result in overlapping interventions are not needed by certain people or parts of the organisation.

(d) Intervention should be sequenced to maximize the speed with which ultimate organisational improvement is attained. Violation of these rules occurs when progress is slower than is necessary to conform to all the other rules.

4.18 ORGANISATIONAL DEVELOPMENT INTERVENTION TECHNIQUES.

Several techniques have been included under the OD programme. The most popular among them are as explained below:

1. Sensitivity Training (or) T Group Training

This technique is based on the assumption that a manager's behaviour is not how he thinks he behaves but how others view his behaviour. The basic objective of sensitivity training is to change the behaviour of the people through unstructured group interactions. With this training a person understands how his behaviour affects others and his reactions to the behaviour of others.

Objectives of Sensitivity Training

1. To make participants increasingly aware of and sensitive to, emotional reactions and expressions in themselves and others.

2. To increase the ability of participants to perceive and to learn from the consequences of their actions through attention to their own and other's feelings.

3. To stimulate the clarification and development of personal values and goals consonant with a democratic and scientific approach to problems of personal and social decisions and actions.

4. To develop achievement of behavioural effectiveness in participants.

Benefits of Sensitivity Training

1. It helps to understand group processes and inter personal group relations.

2. It helps to improve the communication skills and leadership skills.

3. It helps to assess one's values and goals as a result of the analysis of direct experiences.

4. People who are more open feed back and learn more about themselves.

5. It provides an opportunity to aware of group norms and role flexibility in the organisation.

Limitation of Sensitivity Training

1. It incites anxiety with many negative impacts like causing the people to be highly frustrated and upset.

2. The contribution of sensitivity training to individual and group performance is also questioned.

2. Survey Feedback

Survey feedback is one of the most popular intervention techniques in the field of OD. In this method using the questionnaire to find out the employees attitudes. Some of the

questions are included in the questionnaire intended to diagnose the problems within the organisation and to identify areas or opportunities fro change. The date is tabulated and distributed to employees. Generally feedback of results is given only to the group, which generated the date. Thus, once the problems are diagnosed, necessary corrective measures are taken to resolve the organisational problems. The main drawback of this approach is less useful with teams, which are concerned essentially with day-to-day activities.

3. Team Building

Team building is an OD intervention is designed to improve the effectiveness of a work group. It usually begins with defining the goals and priorities of the group. French and Bell have opined that, "Probably the most important single group of intervention in the OD is the team-building activities the goals of which are the improvement and increased effectiveness of various teams within the organisation".

Benefits of Team Building

1. It should develop effective communication between members.
2. It should encourage member's interaction and also mutual interdependence.
3. It should emphasize team goals.
4. It should reduce the organisational stress.

4. Process of Consultation

Process of consultation is an OD method that helps managers and employees improve the processes that are used in organisations. The feature of process of consultation approach is that an outside consultant is used to assist usually a manager to perceive, understand and act on process events with which he or she must deal. The process consultant does not solve the problem, rather he or she acts as a guide who advises on the process to help the client or managers solve their own problems.

The role of the consultant is to help employees. The processes most often targeted are communication, conflict resolution, decision-making and leadership. The steps involved in process consultation are entering the organisation, defining the relationship, choosing an approach, gathering data and diagnosing problems, intervening and leaving the organisation.

5. Management by Objectives

It is a dynamic system which integrates the company need to achieve its goal for profit and growth with the manager's need to contribute and develop himself. Management by objectives is a comprehensive tool of management. It calls for regulating the entire process of managing in terms of meaning full, specific and variable objectives at different levels of management hierarchy.

Management by objectives moulds planning organizing directing and controlling in a number of ways it stimulates meaningful action for better performance and higher accomplishment. It is closely associated with the concept of decentralization because decentralization cannot work without the support of management by objective.

6. Grid Development

It is based on Blake and mouton's model leadership called the managerial grid. Their model depicts to prevailing concerns found in all organisations-concern for productivity and concern for people. Some managers are high in concern for productivity but low in concern for people. Besides helping managers evaluate their concern for people and productivity, the managerial grid stresses the important of developing a team-leader management leadership style.

7. Changes in Organisation Structure

The organisation structure may be changed to make it more efficient by redefining the flow of authority. There can also be changes in functional responsibility such as a move from product to matrix organisational structure.

Organisational culture often reflects the personal desires, needs, and values of the chief executive. Changing structure therefore may crate resistance and concern because people are worried about their power or status or how the change will affect their work groups.

8. Work Design

It is a broad term which means the process of defining tasks and jobs to achieve both organisational and employee it must therefore take into account the nature of the business (organisational interest) the organisational structure the information flow and decision processes, the differences among employees and the reward system. Within the broad scope of work design in the design of individual jobs. Job redesigned makes use of job analysis to redefine a job in term of tasks, behaviour, education, skills relationships, and responsibilities required.

9. Job Enrichment

It implies increasing the contents of a job or the deliberate upgrading of responsibility scope and challenge in work job enrichment is a motivational technique which emphasizes the need for challenging and interesting work.

4.19 IMPORTANT ISSUES IN ORGANISATIONAL DEVELOPMENT

1. The OD effort should start at the top level of the management and should reach the lower levels through the organisation structure.

2. The change agents help the organisation to help itself so the organisation develops the ability to identify the problem, solve the problem and implement the selection plan.

3. The need change depends upon the nature and type of the problem within the organisation. To identifying and defining the problem as early as possible. This is help to use the right intervention techniques.

4. The change may be focused at individual level or group level or organisational level.

5. Evaluating the effectiveness of OD programme is equally important as diagnosing the problem and using the appropriate OD intervention technique.

4.20 SUMMARY

- Today the major forces which are exerting pressure for change on organisations are the globalization of markets, instantaneous communications travel at the speed of sound, political realignments, changing demographics, technological transformations, shortening product life cycles, corporate alliances, flattening organisations, and the like.

- Though change is the only constant factor in organisations, yet the pace of change has been considerably accelerated by these forces. Lewin's three phases of the change process include : unfreezing, changing and refreezing. Unfreezing means unlearning of old things in order to learn a new thing. Changing refers to accepting a new behaviour. Refreezing means providing opportunities for new behaviour to get integrated into actual practice.

- The reasons for individual resistance to change may lie in economic, psychological, and sociological factors. Organisational resistance to change may emanate from its reward system, resource limitations, organisational politics, structural rigidities, faulty introduction of change, poor record of change implementation, and so on. Depending upon its situation, organisation can broadly draw upon six strategies for managing resistance to change: education and communication, participation and involvement, support, incentives, manipulation and cooptation; and coercion.

- Organisational development is an attempt to influence the members of an organisation to expand their openness with each other about their views of the organisation and their experiences in it, and to take greater responsibilities for their own actions as organisation members.

- Organisational development is an educational strategy which focuses on the whole culture of the organisation order to bring about planed change. It seeks to change beliefs, attitudes, values and structures – in fact, the entire culture of the organisation – so that the Organisational may better to technology and live with the pace of change. Thus, Organisational development is the process of bringing change in the entire aspects of the Organisation.

4.21 REVIEW QUESTIONS

1. Define change. What are the factors responsible for change? State and explain action research.

2. Describe in detail the three steps in the change process. Give examples where necessary.

3. What are the reasons for resistance to change? What can management do to overcome such resistance?

4. Describe in detail characteristics and role of change agents.

5. What are the various types of changes? Under what circumstances would each be desirable?

6. What are the different ways in which people react to change in a business organisation? Why is there such a varied set of reactions?

7. What is organisational development? What are its characteristics?

8. Describe in detail the objectives of OD programme.

9. What do you mean by OD interventions? How can they be classified?

10. What are the basic OD assumptions?

11. What are the advantages and disadvantages of organisational development?

12. Explain why OD would be necessary even in a stable environment.

13. Describe some of the values; the organisations should develop to make OD effective.

4.22 CRITICAL THINKING QUESTIONS

1. Are all managers change agents? Discuss. Identify the role of change agents in an organisation.

2. "Resistance to change is an irrational response". Do you agree or disagree? Discuss. How does Lewin's three-step model of change deal with resistance to change?

3. What do you mean by planned change? What are its objectives?

4. "Organisational change has to be managed on technological, social and economic dimensions". Elaborate.

5. What precautions must be taken in a democratic set-up to make a change acceptable to the personnel?

6. Identify and discuss the skills required by managers to bring about effective changes in an organisation?

7. Effective change management requires a number of initiatives from the management. Discuss what management can do to bring about these changes effectively in organisations.

8. Discuss the process involved in the organisational development.

9. Describe the various OD interventions and explain as to how they improve the functioning of the organisation.

10. Bring out process of organisational development in an organisation.

11. Highlight the different interventions strategies of OD.

12. Discuss Lewin's Model of OD.

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4.24 CASE STUDIES

Case Study 1.

The Mangalore port is a larger port in India. It handles cargo from the state of Karnataka and Kerala and other adjoining areas. It also manages a large warehouse where different cargoes from importers are kept before it is collected by the importers. The work involves moving the cargo from the ships to the warehouse and from the warehouse and from the warehouse to the Lorries of the important.

Roney has been working in the warehouse for almost 8 years and he is now 28 years of age. He is unmarried and lives with his widowed mother. His job in the warehouse involves moving the cargo from the ship in the port to the warehouse located near the port. He uses both the hand trolley as well as carries the cartoon on his back.

Roney has a history of sporadic absence from work over the past few years. These absences usually lasted two to three days at a time of late, it is found that the absence has become more regular.

Today it is 8 A.M., 1-2-2010 and roney has not shown up for work, the warehouse crew is short handed once again. Roney's supervisor charies looks at roney's services register and finds out that during his career with the new Mangalore port. Roney has worked under four supervisors and each of the three previous supervisors had placed a written comment about roney's absenteeism in his service register. The sequences of the note are that roney would go in to his bouts of absence and then, he would be summoned by his supervisors and in the meting, he would promise to improve his punctuality; he would be regular after his meeting and counseling from his supervisors.

Roney was an average worker. He did his job and earned good wages. Since his family consists of himself and his aged mother, he seemed to have plenty of money to spend. Looking at his attendance record and the supervisors he worked for, it was found that

during the time he worked under the first two supervisors whose supervisor's style was more relaxed with minimum supervision; roney's attendance record was fairly with little absenteeism. But during the tenure of third supervisor who was autocratic and provided close supervision, roney missed more days than with the other supervisors.

It was therefore felt by his current supervisor that roney might be sharing with another period of absenteeism and the supervisor must do something to atop it in its initial stage itself.

Questions

1. Explain the principles of reinforcement followed by the first two supervisors of roney. Why was the reinforcement ineffective?

2. What behaviour modification programmer might you suggest to the present supervisor of roney? State your reasons?

3. If the behaviour modification approach fails, what should the supervisor of roney do? Explain?

Case Study 2.

Prakesh is the project manager of a group of engineers at to engineering services ltd. His dilemma is what to do about smitha a relatively new and extremely capable engineer. TES Ltd. was founded for the purpose of providing engineering services. A group of engineering and support personal with valuable knowledge and experience was assembled. All engineers and technicians were males.

The company acquired another small firm which included six males and one female engineer. The recognized company had one vice president (prakesh was promoted as VP in the merged company) and two project manager, Santhosh from TES and Raman from the acquired firm. The employees from the acquired firm had to be aborted into the two project teams.

Santhosh coming from the acquiring company naturally wanted the very best engineer to be in his team. Among the engineers coming from the acquired company smitha was the technically more capable. She had excellent recommendation from her previous manager. Santhosh felt that smitha was the best choice. Though she was the only woman in the project. She seemed to get along well with other engineer. Her manager had only good reports from the customers as well as from her associates. All her evaluations were outstanding.

Santhosh therefore asked for smitha to be put into his team. The other members came from TES Ltd.

The TES team until now had only males. The boys spent a great deal of their day in each other office working together on a purposed for customers or developing the best engineering approach to a problem. They were a close knit group very loyal to the company. They sometimes engaged in sexy jokes or used languages that might be considered crude by the general population, but they confined it to their own inner-circle of fellow engineers. There was no harm intended, and it was all in the spirit of fun.

Smitha felt that very often the men acted inappropriately in her presence. She didn't appreciate the joke telling and she felt that some of her fellow engineers made comments that were degrading to women. Smitha kept her feelings to herself. Thinking that she had to avoid making waves in order to get along in a male dominated profession. Smitha was disappointed in herself for compromising her strongly held beliefs about appropriate behaviour at the workplace. She vowed to herself that she would again let a single question. ate act or remark go unchallenged.

The engineers working in Santhosh groups welcomed Smitha warmly. They knew from talking with her former colleagues that smitha was a good engineer. Smitha jumped into her new job with enthusiasm and high spirits until she was the pictures of naked girls on the desk of one of the engineers. She immediately marched into prakesh office and complained about the pictures. Prakesh saw to it that the pictures were promptly removed. Three days later, smitha overhead a group of engineers joking around the customary crude manner and she reported to prakesh that she was offended. Before prakesh could address this compliant smitha was back in his office. This time show was extremely upset with the comments from her project manager Santhosh who told her you did a great job getting those from baby. I never have such luck. It must be because you are a lady. You can just show a little leg and get what you want prakesh had to address this problem.

Questions

1. If you were prakesh how would you addressed the serious problem?
2. Do you feel that comments like the one made by Santhosh is justified?

UNIT 5: ORGANISATION EVOLUTION AND SUSTENANCE

5.1 ORGANISATIONAL LIFE CYCLE

Like living organisms, organisations have life cycles. They are born (established or formed), they grow and develop, they reach maturity, they begin to decline and age, and finally, in many cases, they die. Study of the organisational life cycle (OLC) has resulted in various predictive models. These models, which have been a subject of considerable academic discussion, are, linked to the study of organisational growth and development. Organisations at any stage of the life cycle are impacted by external environmental circumstances as well as internal factors. We're all aware of the rise and fall of organisations and entire industries. Products too have life cycles, a fact that has been long recognised by marketmg and sales experts. It seems reasonable to eonclude that organisations also have life cycles.

Most models, however, hold to a view that, the organsational life cycle is comprised of four or five stages that can be summarized simply as startup, growth, maturity, decline, and death (or revival).

Stages of the OLC

The five stages of OLC illustrate changes in organisational structure and managerial processes as the business proceeds through developmental stages. Each stage is discussed, with specific emphasis on the product creation and delivery aspects of the stage.

Start-Up Stage

At Start-up, firms exhibit a very simple organisational structure with authority centralized at the top of the hierarchy. The main purpose during this stage is for the firm to establish its distinctive competences and generate some initial product-market success.
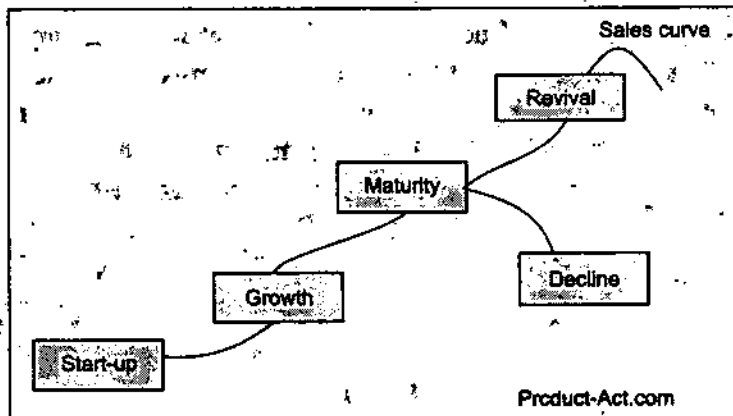

Fig. 5.1 Organisational life cycle

This is achieved mainly by trial and error as efforts are made to change products and services in a manner that generates distinctive competences and creates a viable business model. This generally involves major and frequent product or service innovations and the pursuit of a niche strategy. Since the firm is small and has no established reputation, it must avoid direct confrontation with its more powerful competitors, it does this by finding gaps or niches in the market which are not being filled, and defends these niches by making extensive innovations.

Start-up firms cater essentially to one type of customer and sell one type of product and thus they face a (relatively) simple administrative task. An intuitive, rather than an analytical, mode of decision-making prevails. For example, the owner-manager(s) makes almost all the key decisions, based in large part upon his/her intuitions about the situation.

The product development and delivery organisation during the start-up stage often involves staff wearing many hats, it is not uncommon, in a high-tech start-up for at least one founder to be technical, and often multiple founders are. The leaders are involved at both a strategic and tactical levels in Crafting and delivering the solution to initial customers. Key attributes of the environment are flexibility and lean management of resources and assets for continued existence. The organisation will initially be very heavily weighted towards development staff and over time begins to fill in sparsely in marketing, sales, administration, and operations with an informal and overlapping structure.

Success in the Start-up stage is in finding a sustainable product/market niche that produces enough profit for the company to continue as a viable entity (either directly or with external financing). The Start-up stage, which involves growth through creativity and

vision, eventually leads to leadership and organisational problems. More sophisticated and more formalised management practices must be adopted. If the founder(s) do not have the skills or desire to make this transition, then they often need to bring in an outsider and delegate authority to he/she to be able to continue to grow.

Growth Stage

The emphasis in the growth stage is on sales growth and early product diversification. Product lines are broadened, but this generally results in a more complete array of products for a given market rather than new positions in widely varying markets. Efforts are also devoted to incrementally tailoring products to new markets, while less stress is placed on major or dramatic product innovations. Market segmentation begins to play a role, with managers trying to identify specific subgroups of customers and to make small product or service modifications in order to better serve them. In other words, the niche strategy is often abandoned as broader markets are addressed. The company may attain profitability during this phase, or the need for additional funding to meet the growth opportunity is often achieved with an IPO.

Typically, a functionally-based structure is established, some authority is delegated to middle-managers, and procedures are formalized. Decisions are now more influenced by customers as major stakeholders and the goal becomes to fulfill a customer-facing function effectively rather than simply to cater to the wishes of the owner(s). A departmentalised, functionally-based structure is adopted where managers are appointed to head marketing, production, and perhaps accounting or development departments.

The owner-manager plays a less central role in routine administration. In the Start-up stage the owner-manager(s) could take all the risks he/she wanted, but in the Growth stage the delegated leaders cannot. Strategy is still focused at the top of the hierarchy, with input from within the organisation. Also, the product innovation emphasis becomes incremental rather than dramatic as the market pull makes extremely dramatic moves less necessary.

From a product development and delivery perspective, roles within the organisation become more differentiated, and there is a relative increase in the sizes of the marketing, sales and operations organisations versus development to generate and fulfill demand. Due to the diversification of the product line and customer base, specialization is beginning to occur in responsibilities. In order to maintain control and direction of the firm, more formalized methods of information sharing are required as are cross-functional coordination activities. The formal emergence of project, program, and product managers will likely occur if they have not already appeared.

As indicated, drastic product innovation takes a back seat to incremental innovation. This is primarily the result of the growth of the existing product line being sufficient to drive the organisational success without taking significant risks. In addition, the existing customer base begins to influence the product evolution and resource allocation through smaller feature enhancements and product improvements.

One problem that can occur during the Growth stage is the crisis of autonomy. The limited decentralisation of power coupled with less emphasis on major innovation activities

makes the organisation increasingly less responsive to market changes. The crisis that develops is driven by top-level managers' reluctance to delegate authority and creates the associated frustration at lower levels. The Growth stage officially begins to end as sales start to slow,

Maturity Stage

At Maturity, sales levels stabilize due to a high level of competitive activity and possibly due to market saturation. The company may be highly profitable and have a cash-cow product. The goal then becomes smooth and efficient functioning to maximize profits in the wake of declining sales growth. Firms demonstrate more concern for internal efficiency and install more control mechanisms and processes. Structures are in some ways similar to those found in the growth phase.

Departmental, functionally-based structures prevail since they continue to suit the focused product-market scope. By now, firms are usually run by professional managers who are somewhat more in favour of a participative management approach. None the less, firms do remain fairly centralized. There is less delegation of power than in the growth phase, perhaps because the simplicity and stability of operations make it easier for only a few key managers to dominate.

Firms in the Maturity stage are conservative with the level of innovation falling and a more bureaucratic organisation structure established, information processing activity changes in several key ways - there is more emphasis upon formal cost controls, budgets and performance measures. Companies also implement systems of coordination to enable their various business units and departments to work together. These efforts, however, tend to cause an influx of red tape. Coordination techniques such as product groups, formal planning processes, and corporate staff become, over time, a bureaucratic system that causes delays in decision making.

The Maturity stage shows a style of decision making which is less innovative, less proactive, and more risk averse than in any other phase. The aim is to not rock the boat and to focus upon efficiency rather than novelty. The tendency, more than in any other stage, is to follow the competition - to wait for competitors to lead the way in innovating and then to imitate the innovations if it proves to be necessary. The Maturity stage can persist for some period of time depending on the industry. As long as sales and profits are stable, there is not a huge incentive to change the status quo, even if industry threats loom on the horizon.

The product development and delivery structure is highly focused on analysis and cost control, in essence, the finance organisation is running the product-based company. Development is primarily in a product sustaining or me-too development mode and justification of major activities is strongly tied to business case analysis. The marketing organisation will be more focused on monitoring competition and on pricing and promotion strategies in a highly competitive and defined market versus finding innovative new offerings or markets. There may be some projects looking at potential future technologies and products, but they will tend to be underfunded and not prioritized as major initiatives.

Ultimately, the crisis that strikes the firm in the Maturity stage is the envisioned or actual progression to the Decline stage. While the realisation may occur, the firm and its managers are paralysed by a combination of bureaucratic processes and lack of innovation capabilities.

Revival Stage

The Revival stage is optional and can occur during a Mature or Decline stage for a firm who recognises and initiates drastic changes to alter their current trajectory. This is typically a phase of diversification and expansion of product-market scope. Firms pursue rapid growth through innovation, acquisition, and diversification and this involves a good deal of risk taking. New top-level leadership is often required to initiate or effectively implement this stage and it is also a period of necessarily increased investment.

It also encourages a focus on innovation rather than imitation of the strategies of competitors as in the Maturity stage. Risk is mitigated and informed by an analytical, reflective and participative approach to decision making. It is common for task forces and project teams to be formed to analyse major capital expenditures, innovations or acquisitions. Groups of experts come together to analyse problems and to generate and evaluate different solution alternatives in a systematic and scientific way. Some firms begin adopting divisional and matrix structures for the first time in order to cope with the more complex and heterogeneous markets. Decision-making needs to be accelerated, and thus typically pushed down lower in the organisation and with fewer formal hurdles at an executive level.

Information processing also becomes much more diverse and expanded. Instead of a focus on financial controls and performance reporting, the need for information to inform about market and customer opportunities is required. Reorganizing data around markets and sub-segments is required, in addition to potential research into new trends and opportunities. In order to support an innovation mindset across the organisation, information availability and sharing must be enabled.

Significant changes begin to take place in the product-market strategies being followed. For example, there are more major and minor product-line and service innovations than in any other period. Also, new markets are entered for the first time as firms seek to become more diversified. For the product development and delivery organisations, this can be a very exciting time and also very chaotic. The drivers and expectations are on rapid growth and opportunities are high, but analysis and internal coordination across a number of different functions is demanded. Acquisitions require due diligence, activities in addition to post agreement product and system integration. Collaboration is key, both throug-formal structures and processes, and through informal networks and partnerships.

The crisis that results from the Revival stage can follow one of two paths: the revival itself was not successful and sales growth does not occur; or the revival was successful and maintaining continued high growth is challenging for such a diverse and large firm.

Decline Stage

The Decline stage is market by declining sales and profitability. It is often preceded by market stagnation and firms begin to decline with them. Profitability drops because of the external challenges and because of the lack of innovation. Firms in the decline stage react to adversity in their markets by becoming stagnant. Decision making is characterized by extreme conservatism. There is little innovation, an abhorrence of risk taking, and a reluctance even to imitate competitors' innovations, let alone lead the way.

Firms tend to conserve resources depleted by poor performance by abstaining from product or service innovation. Their sales are poor because their product lines are unappealing versus alternatives, such as new technology solutions. The market scope of declining firms is quite narrow as they begin to sell-off non-core or underperforming divisions, laying somewhere between that of firms in the Start-up and Growth stages. One of the most notable structural features of firms in the Decline stage is the absence of any well-developed information processing mechanisms. Finally, communications between hierarchical levels and across departments are poor.

The product development and delivery functions are likely minimal or non-existent. It's possible that a Revival stage will be initiated, but the reality may be that the company can no longer afford to invest due to the decline of the entire market. The cash cow is already ground beef.

5.2. DECISION-MAKING

Decision-making is an important part of management process. It covers every part of an enterprise. In fact, whatever a manager does, he does through decision-making only. Managers are essentially decision makers only. Almost everything managers do, involves decision-making. Managers scout for problems, make decisions for solving them and monitor the consequences to see whether additional decisions are required. Good decision-making is a vital element of good management because decisions determine how the organisation solves its problems, allocates its resources and accomplishes its goals. However, decision-making is not easy. It must be done amid ever changing factors, unclear information and conflicting points of view. A decision is a choice made from available alternatives. Decision-making is the process by which individuals select a course of action among several alternatives, to produce a desired result. Decision making is the process through which managers identify organisational problems and attempt to resolve them.

5.3 CHARACTERISTICS OF DECISION-MAKING

The important characteristics of decision-making may be listed thus:

1. *Goal-oriented:* Decision-making is a goal-oriented process. Decisions are usually made to achieve some purpose or goal. The intention is to move 'towards some desired state of affairs'.

2. *Alternatives:* A decision is characterised by two activities—search and choice. The manager searches for opportunities to arrive at decisions and for alternative solutions so that action may take place. Choice leads to decision. When there is no choice of action, no decision is required. The need for decision-making arises only when there is some uncertainty about the outcome.

3. *Analytical-intellectual:* Decision-making contains conscious and unconscious aspects. Part of it can be learned, but part of it depends upon the personal characteristics of the decision maker. Decision-making cannot be completely quantified; nor is it based mainly on reason or intuition. Many decisions are based on emotions or instincts.

4. ***Dynamic process:*** Decision-making is the process of identifying worthwhile things to do in a dynamic environment. It is a process of using inputs effectively in the solution of selected problems and the creation of outputs that have utility. A manager, for example, may hire people based on merit regularly and also pick up candidates recommended by an influential party, at times. Depending on the situational requirements, managers take suitable decisions using discretion and judgement.

5. ***Pervasive function:*** Decision-making permeates all management and covers every part of an enterprise. In fact, whatever a manager does, he does through decision-making only; the end products of a manager's work are decisions and actions. Decision-making is the substance of a manager's job.

6. ***Continuous activity:*** The life of a manager is a perpetual choice making activity. He decides things on a continual and regular basis. It is not a one shot deal.

7. ***Commitment of time, effort and money:*** Decision-making implies commitment of time, effort and money. The commitment may be for short term or long-term depending on the type of decision (for example, strategic, tactical or operating). Once a decision is made, the organisation moves in a specific direction in order to achieve the goals.

8. ***Human and social process:*** Decision-making is a human and social process involving intellectual abilities, intuition and judgement. The human as well as social imparts of a decision are usually taken into account while making the choice from several alternatives. For example, in a labour-surplus, capital-hungry country like India, managers cannot suddenly shut down plants, lop off divisions and extend the golden handshake to thousands of workers, in the face of intense competition.

9. ***Integral part of planning:*** As Koontz indicated, 'decision making is the core of planning'. Both are intellectual processes, demanding discretion and judgement. Both aim at achieving goals. Both are situational in nature. Both involve choice among alternative courses of action. Both are based on forecasts and assumptions about future risk and uncertainty.

5.4 TYPES OF DECISIONS

The various types of decisions taken by managers at various levels in a organisation may be classified thus:

1. ***Basic and Routine Decisions:*** Basic decisions are decisions concerning unique problems or situations. They are one-time decisions demanding large investments. For example, decisions about launching a new product or buying a more advanced computer system are non-routine decisions. They require creativeness, intuition and good judgement on the part of managers. They are strategic decisions which affect the future of an organisation. On the other hand, routine decisions are repetitive in nature. They require little deliberation and are generally concerned with short-term commitments. They 'tend to have only minor effects on the welfare of the organisation'. Generally, lower-level managers look after such mechanical or operating decisions. For example, a supervisor can decide, whether an employee's absence is excused or unexcused on the basis of personnel policy guidelines. Usually, standard procedures are established to dispose of such repetitive problems quickly.

2. *Personal vs. Organisational Decisions:* According to Barnard, decisions can be divided on the basis of the environment in which they are made. Decisions to watch television, to study or retire early are examples of personal decisions. Such decisions pertain to managers as individuals. They affect the organisation in an indirect way. For example, a personal decision to purchase a Maruti rather than an Ambassador indirectly helps one firm due to the sale and hurts another because of the lost sale. The sudden decision of a popular singer to seek premature retirement may affect the film industry badly. In other words, personal decisions can 'have an impact beyond the immediate system on whose behalf they were made'. Organisational decisions are made by managers in their official or formal capacity as controllers and allocators of organisational resources. Unlike personal decisions, organisational decisions can be delegated. These decisions are aimed at furthering the interests of the organisation. Managers operate in an open environment. Results of their decisions are open for public view (subordinates, stockholders, customers, general public, etc.) and such results are generally measured in terms of the firm's earnings, welfare of the employees and the economic health of the community. In other words, managerial decisions have an impact on a greater number of people.

So, in order to survive and progress, managers are forced to make professional decisions, to make decisions that are based on rationality, judgement and experience. As pointed out by Levitt, 'the manager is judged not for what he knows about the work that is done in his field, but by how well he actually does the work'. In order to protect the long-term interests of the organisation, sometimes, a manager may be forced to adopt certain decisions which may be against his personal choices. For example, a manager who abhors unethical practices may tolerate deceptive product messages in company advertisements to ward off competitive pressures. To survive, the manager must be a professional decision maker. He is expected to resolve the conflicts that take place between organisational and personal decisions in a smooth way.

3. *Individual vs. group decisions:* As mentioned above, Individual decisions are taken by a single individual. They are mostly routine decisions. Group decisions, on the other hand, are decisions taken by a group of individuals constituted for this purpose (for example, Admission Committee of a College, Board of Directors in a company). Group decisions as compared to individual decisions, have far reaching consequences and impact a number of persons and departments. They require serious discussion, deliberation and debate.

4. *Programmed and Unprogrammed Decisions:* Herbert Simon has provided a popular classification scheme for managerial decisions—programmed and non-programmed. A programmed decision is one that is routine and repetitive. Rules and policies are established well in advance to solve recurring problems quickly. Thus, a hospital establishes a procedure for admitting new patients; a supervisor administers disciplinary actions against workers reporting late for work, a store clerk orders requisition for additional supplies, as soon as the existing stock drops below

a specified level. On the basis of pre-established set of alternatives, programmed decisions can be made in a routine way. Since programmed decisions are relatively easy and simple for managers to make, they allow and equip managers for more challenging and difficult problem solving. However, routine procedures leave little room for the manager to choose. Judgement cannot be used and freedom is affected. Programmed decisions are usually made by lower level personnel in organisations "in which the market and technology are relatively stable, and many routine, highly structured problems must be solved." For example, in banks and insurance companies, the market and technology are relatively stable and usually routine problems confront operating personnel. Decisions are highly routinised and the decision maker simply recognises the problem to implement the predetermined solution.

Non-programmed decisions deal with unique/unusual problems. In such cases, the decision maker has to make a decision in a poorly structured situation—one in which there are no pre-existing, cut-and-dried solutions. Deciding whether to take over a sick unit; how to restructure an organisation to improve efficiency, where to locate a new company warehouse, whom to promote to the vacant position of Regional Manager at one of the company's plants, are examples of non-programmed decisions. The common feature in these decisions is that they are novel and non-recurring and there are no readymade courses of action to resort to. One good example of a non-programmed decision is Exxon Mobil's decision to form a consortium to drill for oil in Siberia. One of the largest foreign investments in Russia, the consortium committed $4 billion before pumping its first barrel and expects a total capital cost of $12 billion-plus. The venture could produce 250,000 barrels a day, about 10 per cent of Exxon Mobil's global production. But if things go wrong, the oil giant which has already invested some $4 billion will take a crippling hit. Because, non-programmed decisions often involve broad, long-range consequences for the organisation, they are made by higher-level personnel only. Managers need to be creative when solving the infrequent problem and such situations have to be treated de novo each time they occur. Non-programmed decisions are quite common in organisations where situations are poorly structured and decisions being made are non-routine and complex.

Programmed vs. Non-programmed Decisions	
Programmed decisions	**Non-programmed decisions**
• Concerned with relatively routine problems, they are structured and repetitive in nature. • Solutions are offered in accordance to some habit, rule or procedure. • Such decisions are relatively simple and have a small impact. • The information relating to these problems is readily available and can be processed in a pre-determined fashion. • They consume very little time and effort since they are guided by predetermined rules, policies and procedures. • Made by lower level executives	• Concerned with unique and novel problems, they are unstructured, non-repetitive and ill defined. • There are no pre-established policies or procedures to rely on. Each situation is different and needs a creative solution. • Such decisions are relatively complex and have a long term impact. • The information relating to these problems is not readily available. • They demand a lot of executive time, discretion and judgement. • Top management responsibility.

5. **Rational vs. irrational decisions:** Making a good decision is a difficult exercise. It is the product of deliberation, evaluation and thought. It is, in fact, a by-product of rational and logical thinking, involving a series of steps. The decision making process is said to be rational when a decision maker evaluates problems systematically, develops alternatives and chooses the most suitable one on the basis of available data. When decisions are arrived at based on intuition and are not based on relevant facts and figures, they tend to be irrational. Irrational decisions follow the hit or miss kind of route and the outcomes could turn out to be unproductive and negative on most occasions. They tend to be judgemental in nature because the decision maker has not bothered to examine relevant data closely.

5.5 THE DECISION-MAKING PROCESS: THREE MODELS

When people think of decision making in organisations, they are usually referring to decisions that are non-programmed and that require search for new and necessary information. In order to arrive at such decisions (non-programmed) two models are pressed into service generally. The first one is called the classical model and the second one is known as the administrative model. These are discussed below

5.6 THE CLASSICAL MODEL OF DECISION-MAKING

The classical decision-making model is a prescriptive model. It describes how people should make decisions. The manager is supposed to have all the information required to make a choice. He will evaluate all available alternatives and would pick up the one that maximizes the return in a given situation. This optimizing style is an ideal way to make decisions. The essential components of such a rational decision making process may be listed thus:
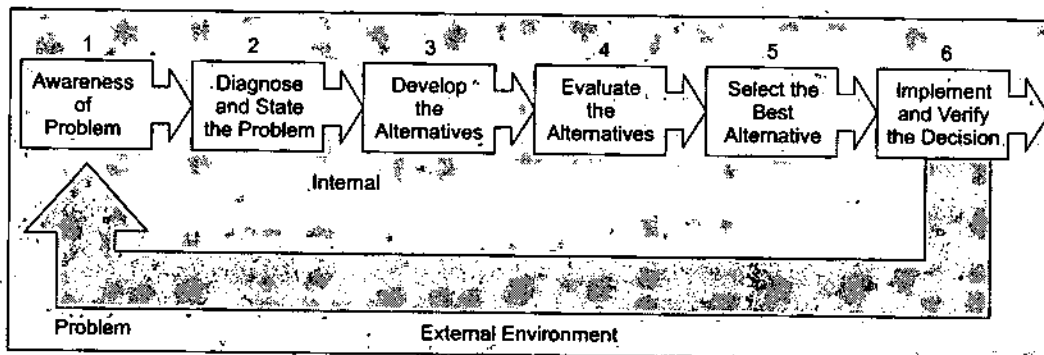
Fig. 5.2 The Process of Decision-Making

(The arrows in the model indicate constant revaluation and feedback of every step in the decision- making process. Thus, managers are provided with useful information through which future decisions can be made.)

1. **Awareness of a problem:** The first step in the decision making process is recognizing the problem. Problems generally arise because of disparity between what is and what should be. To identify the gaps between the current and desired state of affairs,

managers should look for problems that require a solution. They must focus attention defining the problem correctly instead of trying to find answers right away. In order to recognise problems, a manager is expected to monitor the decision-making environment, understand the possible causes and try to define the real problem carefully.

2. *Diagnose and state the problem:* A successful manager must have the ability to weed out the wheat from the chaff before deciding on a specific course of action. Once aware of a problem, he must state the real problem. He must try to solve the problem, not the symptoms. In order to state the true problems, the following questions should be looked into carefully:

   - *What is the problem?* What is the difference between, what is and what should be? The difference between the current state and the desired state of affairs indicates the problem for the firm.

   - *Which problems to solve?* At this stage the focus must be on problems that merit immediate attention and those that can be postponed for a future date.

   - *What is the real cause of the problem?* To avoid the danger of prescribing a wrong medicine for the organisation, the manager should consider the decision environment properly. A well defined problem, as experts say, is already half-solved. Managers need to put the finger on the problem causing trouble by taking a 360 degree of view of everything that impacts a decision. According to Drucker, 'critical factor analysis' helps in identifying the causes properly. The critical factor spells the difference between actual and desired results. If a machine goes out of order due to non-availability of an essential component, the component is the strategic or critical factor. According to Barnard, the nature of the strategic factor will shift when the problem is defined correctly. After defining the problem, that is non-availability of the component, a new situation will arise, where the new limiting factor would be obtaining the component and so on. The important point is to list all the possible causes and testing each cause; trying to decide whether one is more likely than another; to have created the deviation between the current and desired state of affairs. To define the problem correctly, the decision maker should collect as many facts as he can and try to separate these facts from beliefs, opinions and preconceived notions.

3. *Develop the alternatives:* Quite often managers rush to marry the first available option. They exhibit indecent haste to marry a comforting solution that looks like a real winner. Developing a sufficiently large number of alternative solutions at this stage, therefore, guarantees adequate focus and attention on the problem at hand. Managers should encourage people to come with varied points of view, alternative ways of doing things and encourage dissent in an effective manner. The ability to develop alternatives is as important as making a right decision among alternatives. Ingenuity, research and creative imagination are required to make sure that the best alternative is considered before a course of action is selected. The number of alternatives to be generated depends on various factors: time available to the decision maker, cost of each alternative and the importance of the decision itself. Within these constraints, managers should develop all possible alternative solutions because if the correct alternative is not considered and put into action, the problem cannot be solved.

4. *Evaluate the alternatives:* In this step, the decision maker tries to outline the advantages and disadvantages of each alternative. The consequences of each alternative would also be considered. The 'opportunity cost' method is suggested, quite frequently, in order to evaluate each alternative. When one alternative is selected in place of another – like choosing a scooter in place of a motor cycle – the cost of the selected one (scooter) is measured in terms of the benefits available from the rejected one (motor cycle) The point is that subjective judgement invariably creeps into the decision-making process. The final decision in most of the cases is a product of deliberation, evaluation and thought.

5. *Select the best (most beneficial) alternative:* In this step, the decision maker merely selects the alternative that will maximise the results in terms of existing objectives. This steps essentially involves questions such as the anticipated costs and benefits of each listed alternative, estimating the uncertainties and risks associated with each alternative, and picking up an alternative that would bring a firm nearer to its goals. Choosing consists of selecting the alternative with the highest possible payoff based on the benefits, costs, risks and uncertainties of all alternatives.

6. *Implement and verify the decision:* After making a decision, the manager must implement it. He must see, whether it has actually worked out or not. In other words, he must seek feedback regarding the effectiveness of the implemented solutions. Feedback allows managers to become aware of the recent problems associated with the solution. It permits managers to monitor the effects of their acts, to gauge their success. They can evaluate their own decision-making abilities. It would be better to establish follow-up procedures to evaluate the decision. Managers can set up a budget; allocate time and money; assign responsibility for individuals to work out the specific tasks involved. They can fix up a time for obtaining the periodic progress reports, regarding how the decision is actually implemented. If the decision is not yielding the desired results and the decision turns out to be a poor one, they should not hesitate to reverse the trend. They should not hesitate to ride out a decision that does not accomplish its objective.

The Concept of Rationality

The classical model thus prescribes a consistent and value maximizing procedure to arrive at decisions. It turns the decision maker into an economic being trying to pick up the best alternative for achieving the optimum solution to a problem. According to the classical model, the decision-maker is assumed to make decisions that would maximise his or her advantage by searching and evaluating all possible alternatives. The decision-making process, described in the earlier section, is based on certain assumptions:

• *Decision-making is a goal-oriented process:* According to the rational economic model, the decision-maker has a clear, well-defined goal that he is trying to maximise. Before formulating the goal, the decision-maker can identify the symptoms of a problem and clearly specify one best way to solve the same.

• *All choices are known:* It is assumed that in a given decision situation, all choices available to the decision- maker are known or given and the consequences or outcomes of all actions are also known. The decision maker can list: (i) the relevant criteria; (ii) feasible alternatives; and (iii) the consequences for each alternative.

- ***Order of preference:*** It is assumed that the decision maker can rank all consequences, according to preference and select the alternative which has the preferred consequences. In other words, the decision maker knows how to relate consequences to goals. He knows which consequence is the best (optimality-criterion).

- ***Maximum advantage:*** The decision maker has the freedom to choose the alternative that best optimises the decision. In other words, he would select that alternative which would maximise his satisfaction. The decision maker has complete knowledge and is a logical, systematic maximiser in economic-technical terms.

Causes of Bounded Rationality

The above model is prescriptive and normative; it explains how decision makers ought to behave. Rationality is an ideal and can be rarely achieved in an organisation. Many factors intervene in being perfectly rational, namely:

1. ***Impossible to state the problems accurately:*** It is often impossible to reduce organisational problems to accurate levels. An accurate, precise and comprehensive definition of the problem as assumed under the model may not be possible. Moreover, relevant goals may not be fully understood or may be in conflict with each other. Striking a balance between goals such as growth, profitability, social responsibility, ethics, survival, etc., may be difficult and as such, the assumption that the decision maker has a single, well-defined goal in an organisational setting appears to be unfortunate.

2. ***Not fully aware of problems:*** Frequently, the manager does not know that he has a problem. If the organisation is successful and is flourishing, managers may not be in a position to assign their valuable time to searching future problems. As rightly commented by Weber's, if current performance is satisfactory, few of us use present time to search for future problems

3. ***Imperfect knowledge:*** It is too simplistic to assume that the decision-maker has perfect knowledge regarding all alternatives, the probabilities of their occurrence, and their consequences. Indeed managers rarely, if any, have access to perfect information.

4. ***Limited time and resources:*** Most managers work under tremendous pressure to meet the challenges posed by internal as well as external factors. They have to operate under 'do or die' situations and investing more time than necessary would mean lost opportunities and consequently, lost business. This pressure to act pushes the decision managers to choose quickly. Moreover, obtaining full information would be too costly. If resources are limited, the decisions should be taken in such a manner so as to achieve efficiency and effectiveness. Less effective solutions may be accepted, if substantial savings are made in the use of resources. Working under severe time and cost constraints, managers may settle down for less optimal decisions rather than wasting time and effort in finding an 'ideal' solution.

5. ***Cognitive limits:*** Most of the decision makers may not be gifted with supernatural powers to turn out a high-quality decision, every time they sit through a problem. They may not be able to process large amounts of environmental information, loaded with technicalities and competitive data, thoroughly. Also, difficulties arise in relating them successfully to confusing organisational objectives. When managers are invaded with intricate details regarding various fields, they try to simplify the decision-making process by reducing the number of alternatives to a manageable number. When the

thinking capacity is overloaded, rational decisions give way to bounded decisions. Instead of considering eight to ten alternatives, managers may deal with only three or four, to avoid overloading and confusion. They simplify the 'complex fabric of the environment', into workable conceptions of their decision problems.

6. *Politics:* The normative model, unfortunately, ignores the influence of powerful individuals and groups on the decision-making process. Many studies have revealed decision-making to be political in nature, accommodating the dissimilar and sometimes, conflicting interests of different groups (labour unions, consumer councils, government agencies, local community). In order to satisfy these groups, the decision maker may have to assign weightage to less optimal solutions, at the expense of organisational efficiency.

Thus, the rational economic model is based on a defective logic and reasoning. It is an idealistic, perhaps even naive, model of decision-making which works only when all the underlying assumptions prevail. The complexities of the real world force us to reject the traditional concepts. We are compelled to consider a more realistic theory which receives inputs from both the quantifiable and non-quantifiable variables: a theory which 'focuses on human involvement in the various steps of the (decision-making) process and allows for the impact of numerous environmental factors'.

5.7 ADMINISTRATIVE DECISION-MAKING: BOUNDED RATIONALITY APPROACH

The objective of the administrative model, also known as the behavioural theory, proposed by Herbert A. Simon and refined by Richard Cyert and James March, is to explain the decision-making behaviour of individuals and organisations. According to Simon, people carry only a limited, simplified view of problems confronting them because of certain reasons: (i) They do not have full information about the problems. (ii) They do not possess knowledge of all the possible alternative solutions to the problem and their consequences. (iii) They do not have ability to process competitive environmental and technical information. (iv) They do not have sufficient time and resources to conduct an exhaustive search for alternative solutions to the problems. Thus, human and organisational limitations make it impossible for people to make perfectly rational decisions. There are always 'boundaries to rationality' in organisations. Table below explain the differences between the two theories.

Differences between the Rational-Economic Model and Administrative Model	
The Rational-Economic Model	**The Administrative Model**
• Perfect rationality	• Bounded rationality
• Perfect knowledge of problems, consequences and outcomes	• Imperfect knowledge of problems, consequences/outcomes
• Normative	• Descriptive
• Exhaustive search for a number of alternatives	• Search for a seemingly feasible alternative rather than an exhaustive list.
• Optimal decisions	• Satisficing good enough for adequate decisions.
• Concentration on technical economic terms, and quantifiable variables.	• Concentration on behavioural aspects; the decision-making process receives inputs both from quantifiable and non-quantifiable variables.

What are Satisficing Decisions?

According to the behavioural theory, optimality is a Utopian concept. Again, there is no way to identify optimality and establish a measure of goodness. The decision-making process cannot be a scientific process where there are no explicit, clear-cut and idealised goals. Real life challenges, time and cost limitations, political pressures from internal and external constituencies force the decision maker to work under conditions of 'bounded rationality'. It means that he rarely tries to find the optimum solution to a decision problem. Instead of conducting an exhaustive search, they search for a limited number of alternatives and stop when they are able to meet the standards established by them (subjective) previously, to satisfy their goals. This search stops when they reach a point that meets their subjective standards. They select a course of action whose consequences are good enough. Subjective rationality would be preferable to objective rationality where people have to take decisions under time and cost limitations. Thus, instead of searching for and choosing the best alternative, many managers accept decisions that are only 'good enough', rather than ideal. Such decisions are referred to as ''satisficing decisions' ''the Scottish word meaning 'satisfying'. Examples of satisficing criteria include "fair price", "reasonable profits", "adequate market share", etc. According to March and Simon, it is often, too inefficient or too costly to make optimal decisions in organisations. For example, while selecting a new employee, the organisation can just hire the first applicant who meets all the minimum requirements instead of wasting time and effort looking for an ideal personality. According to Hitt, Middlemist and Mathis, satisficing can occur for various reasons: (i) time pressure; (ii) a desire to sit through a problem quickly and switch on to other matters; (iii) a dislike for detailed analysis that demands more refined techniques; (iv) to avoid failures and mistakes that could affect their future in a negative way. In many situations, putting off a decision until full information is obtained may prove to be a costly mistake. It may result in lost opportunities and lost markets. Simon's administrative model, thus, provides a highly useful approximation to how decision-makers actually operate. It is a realistic approach. By examining decision-making process in a fragmented fashion, it provides reasonable freedom and flexibility for managers while deciding on important matters. It also highlights the importance of looking into the behavioural aspects in the decision-making process. This knowledge certainly helps in the understanding of how and why managerial decisions have been made.

5.8 INTUITIVE DECISION-MAKING

Decision making is not something that is perfectly rational. Most of the time managers may simply arrive at decisions based on a gut feeling or intuition. Decision makers may simply rely upon their experience, self-confidence in order to process bundles of data surrounding a problem or opportunity and decide to move ahead in one direction. Intuitive decision making involves an unconscious process that incorporates the decision maker's personality and experience in arrive at a decision. Intuitive decision making, simply, happens because of certain reasons:

- The problem is surrounded by high levels of uncertainty
- There is no history or past experience to draw upon

- Time pressures could be intense
- The alternatives may all seem to work but may not be amenable for a thorough analysis

So the verdict is clear. When uncertainty is high, time pressures are mounting up and complexity surrounds an issue, intuitive decision making is the obvious choice. The rational and administrative models seem to work in a certain setting. However, in chaotic, rapidly changing and pressure-packed situations, there is enough room for intuitive decision making to be relied upon. To find a way in those situations, of ten decision makers may choose to strike rapport between a systematic approach and an intuitive path.

5.9 DECISION-MAKING CONDITIONS

Every decision situation can be organised on a scale according to the availability of information and the possibility of failure. The four positions on the scale are certainty, risk, uncertainty, and ambiguity. The four positions on the scale shown below are certainty, risk, uncertainty and ambiguity. Whereas programmed decisions can be arrived at in situations involving certainty, many situations that managers deal with every day involve at least some degree of uncertainty and require non-programmed decision making.

(a) *Certainty:* When the decision-maker knows with reasonable certainty what the alternatives are and what conditions are associated with each alternative, a state of certainty exists. For example, if a company considers ₹ 1,00,000 investment in new equipment that it knows for certain, will yield ₹ 40,000 in cost savings per year over the next five years, managers can calculate before tax rate of return of about 40 per cent. If managers compare this investment with the one that will yield only ₹ 30,000 per year in cost savings, they can safely select the 40 per cent return. However, few decisions are certain in the real world. Most contain risk or uncertainty.

(b) *Risk:* Risk means that a decision has clear-cut goals and that good information (incomplete but reliable, factual information) is available, but the future outcomes associated with each alternative are subject to chance. In this case, some information is available but it is insufficient to answer all questions about the outcome. Lotus had bet on IBM's OS/2 as the likely successor to the DOS software operating system that controlled basic PC functions and was caught off guard by the success of Windows. It was an expensive mistake, compounded when the first Windows version of 1-2-3 arrived in 1991 and turned out to be a dud. Microsoft, now, has a big lead in the Windows spreadsheet market. Likewise, Mc Donald's took a calculated risk and lost with the introduction of its Arch Deluxe sandwich line. McDonald's had information that indicated a line of sandwiches targeted towards adults would be successful, but the Arch Deluxe, introduced at a cost of $100 million, flopped in the market place. Reliable information, though incomplete, is still useful to managers in coping with risk; since they can employ it to calculate the probability that a given event will take place and then pick up a decision alternative with favourable odds. The two basic types of probabilities are objective and subjective. Objective probabilities are derived mathematically

from reliable historical data, whereas subjective probabilities are estimated from past experience or judgment. Decision-making based on probabilities is common in all areas of management today. For instance, laundry product manufacturers would not think of launching a new detergent without determining its probability of acceptance, by means of consumer panels and test marketing. A number of inferential statistical techniques can help managers to objectively cope with risk.

(c) *Uncertainty:* Under conditions of uncertainty, the decision maker does not know all the alternatives, the risks associated with each or the likely consequences of each alternative. This uncertainty basically comes from the complex and dynamic nature of modern organisations and their environments. The decisions are generally made on the basis of calculated guesses than on hard factual data. Intuition, judgement and experience always play a major role in such situations. For example, a company that decides to expand its operations in a strange country may know a little about the country's culture, laws, economic environment and politics. The political situation may be so volatile and fluid that even the experts may find it extremely difficult to predict a possible change in Government.

(d) *Ambiguity:* Ambiguity means that the goals to be achieved or the problem to be solved is unclear, alternatives are difficult to define, and information about outcomes is not available. It is like a teacher asking his students to complete an assignment without giving any topic, direction or guidelines. Ambiguity naturally, is a most difficult decision situation confronting managers, operating in rapidly changing environment. Despite the odds, managers are expected to conjure up goals, develop possible scenarios for decision alternatives and somehow come up with acceptable solutions. Sometimes, managers will come up with a solution only to realise that they had not clearly defined the real problem to begin with. One example of a wicked decision problem was when managers at Ford Motor Company and Firestone confronted the problem of tyres used on the Ford Explorer coming apart on the road, causing deadly blowouts and rollovers. Just defining the problem was the first hurdle. Neither is dealt effectively with this decision situation and the reputation of both companies suffered as a result. Fortunately, most decisions do not fall under this category.

5.10 GROUP DECISION-MAKING

Groups play an important role in decision-making in organisations. Most of the organisational decisions are made in a group context only, because they offer the advantage of experience, wide knowledge and mutual support. Groups such as committees, study teams, task forces, and review panels are especially useful for non-programmed decisions because these decisions are complex and few individuals have all the knowledge and skills, necessary to make the best decisions. Groups use a number of methods to make decisions: (i) lack of response: a proposed solution by one or a few members which may not be received by the group as a whole; (ii) authority rule: the group leader announces the decision; (iii) minority rule: a few influential members possessing expertise and/or loud voices influence the outcome; (iv) majority rule: decisions decided by voting process;

(v) consensus: the most acceptable (not necessarily the best) solution for all members; and (vi) unanimity to resolve complex problems, members rally behind a point of view. Groups use one or more of the above methods while taking decisions in organisations. The following table summarises the advantages and disadvantages of group decision making.

Advantages and Disadvantages of Group Decision-making	
Advantages	**Disadvantages**
• A group has more information than an individual. Members drawn from diverse fields can provide more information and knowledge about the problem.	• Groups are notorious time-wasters. They may waste a lot of time and energy, clowning around and getting organized.
• A group can generate a greater number of alternatives. It can bring to bear a wider experience, a greater variety of opinions and more thorough probing of facts than a single individual.	• Groups create pressures towards conformity; other infirmities like group think, force members to compromise on the least common denominator.
• Participation in group decisions increases acceptance and commitment on the part of people who now see the solution as their own and acquire a psychological stake in its success.	• Presence of some group members, who are powerful and influential may intimidate and prevent other members from participating freely. Domination is counter-productive; it puts a damper on the groups' best problem solvers.
• People understand the decision better because they saw and heard it develop; then paving the way for smooth implementation of the decision.	• It may be very costly to secure participation from several individuals in the decision-making process.
• Interaction between individuals with varied view points leads to greater creativity.	• The group consists of several individuals and hence, it is easy to pass the buck and avoid responsibility.

5.11 CREATIVITY

Creativity is the essential first step in the innovation, which is vital for long-term organisational success. Creativity is the ability to visualize, foresee, generate and implement new ideas. Innovation, on the other hand, usually means the use of these ideas. Precisely stated, innovation is the process by which organisations use their resources and competencies to develop new and improved products or find better ways to make these new products and thus increase their effectiveness (Apple's iPhone or RIM's Blackberry are good examples of technological innovations) Creativity is a function of knowledge, imagination and evaluation. The greater our knowledge, the more ideas, patterns or combinations we can achieve. If you are creative, you can process the information is such a way that the result is new, original and meaningful. Expertise, further, is the foundation of all creative work. Dell's understanding of art and Einstein's knowledge of physics were necessary conditions for them to be able to make creative contributions in their fields. The potential for creativity enhances considerably when individuals have abilities, knowledge, proficiencies and similar expertise in their fields of endeavour. Creative behaviour results in discovering an improved means of accomplishing our purpose.

What is Creativity?

Creativity is the ability to imagine or invent something new. Of course, it is not the ability to create out of nothing, but the ability to generate new ideas by combining, changing, or reapplying existing ideas. Some creative ideas are astonishing and brilliant, while others are just simple, good, practical ideas that no one seems to have thought of yet. It is also a healthy attitude that helps people to take a refreshingly fresh approach to everything – where all permutations and combinations are tested to find better, improved ways of doing things.

Creativity is the product of hard mental labour, going beyond the four walls and carrying out those gradual alterations and refinements over a period of time n order to find something that is better, improved and readily accepted by millions of people all over the globe. It is a process of seeing issues from different angles and breaking away from old rules and norms that bind us to traditional methods of accomplishing tasks. It allows us to be different and helps us find new answers and solutions to problems, both old and new – in a creative way.

What is Creative Thinking?

Traditionally, most class room teaching puts emphasis on critical thinking skills—that is the ability to define a problem, identify alternatives, pick the best possible one following appropriate criteria and implement the chosen one with dedication and application. The focus is on clearing the fog and eliminating the incorrect ways of doing things Creative thinking, on the other hand, is the capacity to put existing ideas together in new combinations. It compels people to remain flexible so that they can come out with something different. The traditional convergent thinking is combined with divergent thinking in order to find improved and acceptable ways of doing things. For example, convergent thinking would help us find where oil could be found by digging deep into the ground, where as divergent thinking would compel us to find oil by digging at different places!

- *Convergent thinking:* In convergent thought, we locate a problem at the "centre" of our focus and then gather peripheral resources to bear down on the problem. So then our resources "converge" on the problem. Often times with convergent thinking, there is a single best solution that is sought. An example of convergent thinking might involve taking a multiple choice test in which there is a single "correct" answer. The test-taker brings knowledge from outside of the problem (perhaps learned in a course) and converges it all onto the problem in order to choose the correct answer.

- *Divergent thinking:* In divergent thinking, instead of gathering information and converging it on the central problem, we branch off (diverge) and shoot for novel ideas, new perspectives and creativity. Instead of a single correct answer, there may be a whole host of possibilities. An example of using divergent thinking might involve taking an open-ended test that asks how many uses one can imagine for various (often mundane) objects. What can you do with a pencil? A string? A rock?

Four Different Approaches to Creativity

Creativity can be looked at from four different angles. Let's examine these briefly:

- *Imagination:* Creativity is the ability to create something new, a kind of a breakthrough, a totally different way of solving a problem. It may refer to a revolutionary idea or a unique solution coming out of a brilliant brain. Disney's theme parks or animated movies,

Apple's IPod and Macintosh computer may come in this category of revolutionary thinking changing the course of history. Of course, creativity is not the ability to create out of nothing but the ability to generate new ideas by combining, changing or reapplying existing ideas. Some creative ideas are astonishingly different, refreshingly fresh and absolutely brilliant while others are just simple, good and practical ideas that no one seems to have even imagined as yet. The vegetarian toothpaste, the one rupee sachets fall in this category. Radically different solutions and revolutionary approaches generally emerge when people begin to think 'out of the box'.

For example, the evolutionary technology in fighting termites eating away at houses has been to develop safer and faster pesticides and gasses to kill them. A somewhat revolutionary change has been to abandon gasses altogether in favour of liquid nitrogen, which freezes them to death or microwaves, which bake them. A truly revolutionary creative idea would be to ask, "How can we prevent them from eating houses in the first place?" A new termite bait that is placed in the ground in a perimeter around a house provides one answer to this question.

- *Improvement:* As mentioned above, by improving the existing processes or functions, one might be able to come out with a new idea that might change the course of history. Many a time, new ideas stem from other ideas, new solutions from previous ones, the new ones slightly improved over the old ones. For example, someone noticed that a lot of people on dates went first to dinner and then to the theater. Why not combine these two events into one? Thus, the dinner theater, where people go first to eat and then to see a play or other entertainment. Ray Kroc bought out a restaurant in San Bernardino, California from the McDonald brothers and by creatively changing the way hamburgers were made and served, he created the largest food service company in the world. He did not invent fast food – while Castle and Dairy Queen had long been established – but he changed the processes. By creating a limited menu, following standardized and uniform cooking procedures, ensuring consistent quality and cleanliness of facilities irrespective of location and by offering food in an inexpensive way Ray Kroc brought a major revolution in the fast food industry through the McDonald's brand.

The evolutionary or incremental method of creativity also reminds us of that important principle: Every problem that has been solved can be solved again in a better way. Creative thinkers do not subscribe to the idea that once a problem has been solved, it can be forgotten, or to the notion that "if it ain't broke, don't fix it." A creative thinker's philosophy is that "there is no such thing as an insignificant improvement."

- *Investment:* Creativity, many a time, could mean meeting the problems head on, adopt a competitive posture and focus on getting things done in a faster and much better way. Putting the critical resources to best advantage---in a disciplined manner consistently-- in order to stay ahead of competition may bring in unbeatable competitive advantage to some firms in this economic jungle. The classic fight between Honda and Yamaha illustrate this point very clearly. The industry leader in motor cycles, Honda, decided to step out of Japan in 1970s with a view to conquer the world. Yamaha saw an opportunity to hit back the market leader and began attacking the Honda's space through aggressive marketing campaigns. Honda retaliated almost instantaneously. The punch line was:" Yamaha two tubusu" meaning we will smash, break, annihilate, destroy Yamaha. Honda introduced more than 100 new models to outsmart Yamaha and won the war

of words, wits and nerves in a battle spanning over 10 years. Yamaha, consequently, had to retrace its steps and settle for the second position. Honda's approach to win over customers typically reflects the approach to creativity through investment—that is rapid response, competitive maneuvering and being the first mover.

- *Incubation:* According to this approach, creativity is the result of teamwork, involvement and coordination among individuals. When people work together, when they understand each other and work toward a common goal and when they are fully empowered, they are in a better position to come out with something radically different, novel and even exciting. Creativity is nothing but 'common men doing uncommon things' Like Mahatma Gandhi waging a relentless war against the mighty British empire single handedly by mobilizing networks of people to pursue a clear set of goals where everyone had a stake. Quit-India, Salt March, and other non-violent protests excited millions to join the network created by Gandhi, pass through the impregnable walls built by the British and achieve a miracle in modern history. When human interactions are facilitated and encouraged, the result would be something that the world has never witnessed before!

5.12. THE CREATIVE PROCESS

Although creative people often report that ideas seem to come to them 'in a flash' individual creativity tends to progress through a series of interconnected stages (though not sequentially, of course)

- *Preparation and Concentration:* This stage involves gathering initial information, defining the problem or task requiring creativity, generating alternatives, and seeking and carefully analyzing further data relating to the problem. Here the individual becomes thoroughly immersed in every relevant aspect of the problem. He will tend to recall and collect information that seems appropriate, dreaming up possible alternatives without refining or evaluating them. For complex technical problems, the search process many take months or even years.

- *Incubation:* This stage involves an internal and unconscious ordering of gathered information. This stage may involve an unconscious personal conflict between what is currently accepted as reality and what may be possible. Relaxing, sometimes away from the scene of action, and allowing the mind to search for possible issues or problems is called for. This stage calls for divergent thinking to explore unusual, novel, innovative alternatives.

- *Illumination:* At this stage a new level of insight is achieved, often through a sudden breakthrough in 'eureka' fashion. The new imaginative idea flashes into the individual's mind at an unexpected time, perhaps while waking up, going to sleep, eating or jogging. Experienced creative people often carry idea notebooks to record quickly these flashes of insight. Insight is a spontaneous breakthrough in which the creative person achieves a new understanding of some problem or situation. It represents a coming together of all the scattered thoughts and ideas that were maturing during incubation. It may occur suddenly or develop slowly over time. it could be triggered by an external event or provoked by internal, zigzag thought processes.

- *Verification:* This stage involves testing the ideas to establish the validity of the insight. Here, logical thinking is required to evaluate the solution. If the solution does not appear feasible, it may be necessary to cycle back through all or some of the pervious steps. Tenacity may be needed here since most novel ideas are rejected at first on grounds of impracticality. Many inventions and books that later proved to be huge successes were at first rejected by several sources. Gone with the wind and Xerography are two historically important cases in this regard.

5.13 INNOVATION

The ability to innovate is a vital core strength that a manager must possess in order to build a growing, profitable organisation. Innovation is a high risk, high-return area that cannot be put aside easily. To promote a culture of innovation, entrepreneurs must try to set goals for innovation, commit adequate funds for research and development, inspire people with ideas to realize their potential fully, focus on what the customer actual likes and demands and more, importantly, do not get rattled by failure and mistakes. At the end of the day, entrepreneurs must realize that innovation is like skydiving – funny, scary and risky. They must know when to stop and when to go all out dying for an idea. To survive and flourish in a competitive environment, every company must innovate. In the long run, innovation could be essential for creating and sustaining competitive gains. Innovation, broadly speaking, may involve exploiting existing capabilities of an organisation – to improve production speed or product quality. It may involve exploring new knowledge – seeking to develop new products or services. Innovative firms must invariably invest their time and resources in order to encourage employees to experiment and find novel ways of doing things.

Definition

Innovation is the process of creating and implementing a new idea. It is the means by which entrepreneurs become catalysts for change. The main difference between creativity and innovation is the focus. Creativity is about the unleashing the potential of the mind to conceive new, unusual or original ideas. Innovation is the work carried out in order to make an idea viable. It is the creation of something that has never been made before and is generally recognised as the product of some unique insight. Because new ideas can take many forms, many types of innovation are possible. Technical innovation is the creation of new products and services. Process innovation involves creating a new means of producing, selling and or distributing an existing product or service. Administrative innovation takes place when creation of a new organisation design better supports the creation, production and delivery of products and services (virtual teams, IT systems etc). Innovations in organisations can range from radical new breakthroughs (such as laser technology) to small, incremental improvement (such as an improved paper tray on a computer printer). Although radical advances are important to many firms, incremental improvements also can be beneficial. Japanese firms are known for their ability to enhance products and services through a variety of small, incremental improvements. For example, at the Japan-based Matsushita Electric Industrial company a team of 100 technicians,

PhD scientists and factory engineers persisted for 8 years before developing an improved glass lens for use in projection televisions and several laser-based products, such as videodisc systems and compact disk players. Moreover, the new lenses can be made for 90 per cent less than the cost of existing lenses. Thus, a relatively modest goal-improving a component in successful products-led to a rapidly expanding market share for the company, especially for use in compact disk players.

The Innovation Process

To put everything in place, firms may have to take care of the following steps:

1. *Inventing:* The innovation process begins with an idea. To this end, firms must encourage people to come forward with different ideas—crazy ones, silly ones, even idiotic ones. These ideas could take up anything that helps in cutting costs, improving the speed, enhancing the quality—whatever. Technology ideas could include ideas like employing bar coding or better management of inventory or reaching out to global customers through speed and efficiency. Product ideas could cover inventions of new products or services or enhancement of existing ones. Process ideas focus on inventions for improving manufacturing processes. For example, adopting products to make a manufacturing process more efficient or redesigning work stations to make workers more productive. Management ideas focus attention on ways and means to improve organisational work—covering issues such as improving human resource management, redesigning organisational structure, changing organisational leadership or refining competitive strategy.

2. *Developing:* Here the new idea takes a practical shape. Ideas that are not viable should not be pursued for longer periods of time. Even if the ideas are creative and novel, they must be sent to their burial grounds simply because they are not commercially viable. The world famous innovative company 3M encourages people to give their best. It has achieved this fame through a formal, simple and well established company policy that helps to assure that every idea that deserves to be developed is indeed developed. This policy encourages employees to see if managers in other parts of the company will help to develop a new idea after the employee's immediate boss has rejected it.

3. *Diffusing:* At this stage end users and consumers put the new idea to use. When the idea gets established and is developed step by step, it needs to be seen whether it actually works or not. So organisation members who would be affected by the idea would explore it further to find out its utility and worth. End users could be approached with a prototype of the product to find their reactions. A positive customer feedback would help the company decide whether to go further or to stop at this stage itself.

4. *Integrating:* Here the invention is being accepted and established as a permanent part of the organisation. If the invention focuses on a new organisational process, for example, management takes steps to make the new process standard operating procedure within the organisation. If the invention focuses on a new product, management takes steps to start manufacturing and selling the new product to the market place.

To balance innovation and other business goals, companies often create special temporary project structures that are isolated from the rest of the organisation and allowed to operate under a different set of rules. When Apple, for example, developed the Macintosh, Steve Jobs took a small group of young engineers and programmes and set up operations apart from the remainder of the plant. They started from scratch, trying to rethink the personal computer completely. A pirate's flag was flown over their operation to demonstrate that they were not part of the regular bureaucratic operating structure and defined conventional rules. The result was a very successful new product. Some of the most commonly cited features of an innovative company may be listed thus:

Features of Innovative Organisations

- Strong, clearly expressed shared values
- An appreciation of/for the whole individual and everything s/he can bring to the organisation
- Cultures that encourage openness and playfulness
- Celebrate successes constantly
- A strong, clearly communicated sense of history
- Intense customer focus
- Clear focus on trends, even those that do not seem to directly effect current businesses
- Cross-functional teams

5.14 SUMMARY

- Decision making is an essential and important part of every manager's job. Whatever a manager does, he does through decision making only.
- Managerial decisions are usually classified into there categories: Basic and routine decisions; personal and organisational decisions; programmed and unprogrammed decisions.
- The decision making process consists of a series of steps: awareness of a problem, statement of the problem, developing alternatives, evaluating alternatives, selecting the best alternative, implementing and verifying the decision.
- Individual decision making is built around three models. According to the Rational Economic Model, the decision maker is believed to make decisions that would maximize his advantage by searching and evaluating all possible states that instead of searching for and choosing the best alternative; many managers accept decisions that are only 'good enough'. The political model states that managers try to form alliances and gain support through persuasion while resolving unique problems.
- Groups play a useful role in solving complex problems. Group decision making is marked by four distinguishing features such as conformity, groupthink, superiority and risky shift. They use number of techniques such as brain storming, synectics, nominal group technique and the Delphi technique to generate as many alternatives as possible—discussed in an earlier chapter.

- Creativity is the ability to imagine or invent something new. Apart from originality or newness, ideas must be useful, and actionable. Creative thinking, precisely, emphasizes this — that of clearing the fog and eliminating incorrect ways of doing things. It tries to put ideas in new combinations. There are four different approaches to creativity: namely, imagination, improvement, investment and incubation. Lateral thinking helps in generating as many ideas as possible by simply breaking out of the concept prisons of old ideas. By changing your attitude and approach you are able to get to the root of the problem quickly and find new, novel and out of the blue kind of solutions—using the right part of the brain instead of the analytical, more logical part of the brain. Brainstorming, synectics, nominal group technique, and the Delphi technique are some of the most popular ways of generating creative ideas.

- Innovation is the process of creating and implementing a new idea. Organising for innovation involves unleashing the creative energies of employees while directing their efforts toward meeting market needs in a timely manner. Companies can unleash creativity by establishing a culture that values intrapreneurship, accepts and even celebrates failure as a sign of innovation, and reinforces innovation through goal setting rewards and stories of creative employees. Of course, the organisation structure should balance bureaucracy for controlling existing processes with a flexibility that permits innovation to take place, like it happened in the case of Apple.

5.15 REVIEW QUESTIONS

1. Define 'decision-making'. What is the importance of decision-making?
2. What are the different decisions made by managers at different levels in the organisation?
3. Explain the decision-making process in organisations.
4. What do you mean by the term 'bounded rationality'? What are the factors leading to bounded rationality and satisficing decisions?
5. Point out the advantages and disadvantages of Group Decision-Making.
6. Briefly point out the group decision-making techniques.
7. Discuss various decision situations that can be dealt with by managers while performing the function of decision-making.
8. What do you mean by the decision-making under certainty?
9. Distinguish between decision-making under risk and decision-making under ambiguity.
10. 'Managers cannot be rational decision makers in real life'. Discuss.
11. What is the difference between divergent and convergent thinking, and what is their relationship to the process of creativity?
12. Explain the basics of creativity. Elaborate the ways of improving creative abilities.
13. Define 'creativity'. What do you mean by creative thinking? how does it differ from traditional thinking?
14. Describe the elements of an innovative organisation.
15. Explain the various approaches to creativity. Illustrate through examples.
16. Explain the various elements of innovation, using examples wherever necessary.

5.16 CRITICAL THINKING QUESTIONS

1. List three programmed and three non-programmed decisions that the manager of a night club would probably have to make.

2. Was your decision about the college or university you want to attend a rational decision? Did you go through each step in rational decision-making? If not, why not?

3. What techniques could you use to improve your own creativity and effectiveness in decision-making?

4. Did your decision to enroll in your college management institute involve certainty, risk or uncertainty? Explain your answer.

5. Innovation requires allowing people to make mistakes. However, being wrong too many times an be fatal. Do you agree? Why or why not? What are the implications for nurturing innovation?

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5.18 CASE STUDY

Work and Life Inseparable Twins

Mrs. Maya has been working in the Administration department in Keylife hospital as executive assistant in Noida for the last 10 years. She is considered to be a sincere, hardworking and dedicated employee. She has excellent rapport with her colleagues. Her seniors consider her to be a valuable and dependable person. Her meritorious performance over the years did not go unnoticed. About 10 months ago, she was picked up for promotion to the next rank of a Manager, Administration. Everyone congratulated her and felt very

happy that a truly deserving candidate got the elevation. They have promised her full support and cooperation and wished her good luck when she hosted a party in a nearby 3-star hotel.

Maya's tenure as a Manager was really good. She took personal care to attend to all customer queries and complaints. She would see to it that no one leaves the premises in an unhappy mood. She would go to every staff member every day and inquire about the daily happenings. She introduced tea breaks after every 2 hours with a view to cheer up stressed staff members. Customers find her with a smile always and the feedback reports from customers as well as colleagues had been very good all along. Since she became the Manager, the absenteeism had come down by over 30 per cent. She had proved to be a very good administrator by sending clear communications to all and clarifying things whenever required. She would attend all meetings diligently, take notes carefully and report the actions taken in her next meeting with colleagues.

No one had any clue as to why of late her behaviour had taken a curious turn, especially after attending the Birthday party hosted by another colleague when she was blessed with twins. When she attended the party she did not show any signs of unhappiness. But in the ensuing week, she went on leave reporting sickness. Thereafter, her behaviour changed completely. On most occasions, she was the first to step in and the last to leave from the hospital ever since she became the Manager. Of late she started reporting late and quite frequently. She would remain in her own private world. She did not greet people like she did previously. Her interest in customer complaints and queries seemed to have gone down considerably, as she started delegating the work to her junior. Last week she was supposed to deliver a document examining the pros and cons of establishing a similar hospital in places like Delhi, Faridabad and Gurgaon. She missed the deadline and did not produce the document before the Committee members. Her communications with colleagues had taken a big hit. She was not moving out of her room as before and mostly seem to bombard herself with files all over the table – pretending to do something important all the while.

- Early today Mr. Joy, Director, Operations had a talk with the in house psychiatrist explaining Maya's peculiar behaviour during the last couple of weeks. The Psychiatrist, Dr. Hari felt that Maya might be doing too many things at a time. Mr. Joy wanted Dr. Hari to speak to Maya and find out whether she had any issues at home that are coming in the way of discharging her duties like before. It was of course known to everyone that Maya got married 20 years back but not blessed with any kids so far. Mr. Joy felt that she needed some counselling from people like Dr. Hari before she became a mental wreck. Dr. Hari promised to set things in place by speaking to Maya almost immediately.

Questions

1. What are some of the symptoms of overload?

2. Does Mrs. Maya seem to suffer from working conditions? Explain your reasons.

3. Given this information do you think that there might be marital problems at her home that are affecting her work? Could it also be that her work is affecting her family life that is further affecting her work? Justify your speculation.