Sample essay on economics of organizations and corporate governance

Business, Company

Executive Summary

Organizational culture is intended to cover the various ways in which authority is organized and the controlling and rewarding of staff.

Focus on organizational architecture in this analysis coincides with the models of the corporate structure.

This approach touches on vital components of the organizational architecture and evaluates how the conscious actions of Arthur Andersen managers affected the organization.

Unless reinforced with the formal and informal organizational architecture, the cultural element may be less effective in achieving an organization's business goals.

Often top executives are unwilling or unable to employ value building organizational architectures. These executives are moved elsewhere, or in extreme cases fired, to uphold the values of the organization.

Arthur Andersen firm remains inefficient over time and eventually goes out of business due to bankruptcy.

Background

Enron' s whole panel of forty auditors was hired by Andersen in the mid 90s. On top of the hiring, Andersen added its employees to a newly opened office in Enron's headquarters. The entire staff of 150 members raised important strategic issues in Enron meetings. A minute portion of the Enron's office revenue represented Andersen's entire revenue.

The migration of Andersen's PSG member to local offices from the headquarters at Chicago necessitated the speed up of decision-making and

empowering of the local offices. The Houston office still had Carl Bass as its PSG member. He suggested to Duncan the taking of thirty million to 50 million book charges relating to specified transactions by Enron. Wanted off the auditing role by Enron's executives at the accounting offices, Bass's future at the company hanged in the balance. Andersen removed Bass, four months later, from the oversight role.

Despite having the knowledge of the problems facing the company, the auditors belonging to the Anderson firm kept silent. Later on in 2001, an after-tax charge of 544 million was the announcement from Enron. Moreover, accounting errors emanating from partnerships would lead to restating of Enron's financial statements for the years 1997 to 2001. On December 2001, to the shock of many, Enron had to file for bankruptcy. Following this announcement, countless scandals tagged to huge compensations for executives, negligence and fraud allegations of the Enron's accounting team surfaced. By 2002, the reports led to the fall of its stock price from ninety dollars per share to an all-time low of zero. Global concerns arose among the public, regulators and investors. Apparently, Andersen signed off dubious accounting exercises under the influence of conflicting interests (Maguire, 2003).

Three-legged stool organizational model

Firms employing the most lucrative architectures and plans tend to survive in competitive environments. This notion suggests that organizational architectures are not just random. Most organizations currently exhibit architectures that are sound economically. The key components of the

organizational architecture that is vital for success include assignment of decisional rights, reward methods for individuals and the performance evaluation structural systems of business and individuals. Ensuring that key decision makers have all the essential data for proper decision-making is a fundamental issue that faces Andersen and its management at large. To use gathered information efficiently, availability of suitable incentives is a requirement. Judging from the fact that markets are not usually lucrative ways of managing commercial activities on several occasions, organizations have proved to be more appropriate (Trachtman, 2008).

It is crystal clear that Arthur Andersen lacked the necessary routine and systematic methods of inspiring employees to utilize information and assign decisional obligations to chase after the set objectives. This situation called for the creation and deployment of proper organizational architecture. At Arthur Andersen, centralized method of decision-making was dominant because most of the relevant information was held by the senior executives only. Decentralization of decision-making was only possible in firms where junior employees were in possession of relevant, vital and key organizational information. To ensure proper decision-making processes, development of performance and reward evaluation strategies was necessary. Moreover, these performance and reward evaluation strategies should address the control of incentives and making of better decisions.

Arthur Andersen’s strategy and architecture was closely affected and influenced by external factors such as technology, government regulations, and appropriate market conditions. These external factors, later on, affect the firm’s value. At Arthur Andersen, the senior executives developed and

initiated the organizational architecture through the explicit and implicit contracts to help with the company's business endeavors. For instance, granting of decisional rights to employees was done through job descriptions in informal and formal natures. Compensation contracts in informal and formal natures specified the evaluation of performance and rewards. Resources were billed administratively despite the fact that transfer prices allocated the selected resources at the Arthur Andersen firm. For instance, a simple command led to the migration of the once dominant Andersen PSG member from the headquarter offices at Chicago. Similarly, an administrative order can result in the utilization of a branch office. Assigning of decisional rights remains a vital responsibility of the senior management staff of the firm (Maguire, 2003).

The AA organization encompassed multitudes of employees. Therefore, it became less likely or difficult to monitor ethical behavior for the members because of the difficulties of defining ethics to all the members. Often with a collection conflicting interests, individuals are bound together in an organization by sets of both implicit and explicit. Consequently, the organization's reputation or ethical behavior depends on and is acquired through the actions of its employees. Therefore, economics should harmonize traditional moral teachings with emphasis on other factors. Economics should be at the forefront of teaching individuals on theories of how to make right choices that would have good moral values. However, employees respond to incentives when evaluating options to take. Top executives may be tempted to exploit opportunities they faced by being resourceful and formulating dubious plans. For instance, an employee facing

an ill-structured incentive will most certainly respond with a dysfunctional action. Internal organizational structures are mutually linked to the ethical behaviors of its employees. These structures present the employees with different incentives that act as accelerators for specific responses.

Markets promote efficient use of resources by coming up with proper architecture. To ensure effective use of the resources through market transactions, decisional rights for theses resources are planned in a manner that they are entitled to knowledgeable individuals. These individuals possess the skills to use resources efficiently. Such individuals are ready and willing to pay costly to own these resources. Therefore, they make the most profits out of the resources by employing relevant and knowledgeable ideas. Resource owners' performance and reward evaluation mechanisms emanate from the market as well making the owners incur huge profits for their acts. The system leads to the formation of vital incentives and also takes proper actions. The fact that the price system architecture is formulated instantly with little human effort is valuable.

AA's organizational architectures got motivations from the varying external commercial environment. However, organizational architecture change was a costly affair. It would act as a potential indirect cost in addition to the costs accrued directly through design and implementation of the new processes. Therefore, only after careful analysis was the architecture change to be conducted. Organizational components of the architecture are highly inter-reliant. Like a three legged stool, it's a mistake to change one leg without proper consideration of the other two legs. The structure of the organization

also relates to systems and policies within an organization such as marketing, information systems, financial policies and accounting.

Conclusion

Focus is put on three key points such as individual response to incentives in orderly and lucrative ways in organizations that employ structures formed thorough organizational architecture. Also, it is evident that privately owned markets could inflict significantly huge costs on companies engaging in unscrupulous deals for personal gain. Although, the incentives in the market are sufficiently lucrative in encouraging moral dealings, the analysis explains why ethics is observed widely in the markets. On most occasions, ethical deals are more rewarding especially in financial firms where reputation is a major factor in attracting customers.

This analysis is of the opinion that less time should be spent on the board of executives exhorting the staff members. The board members ought to spot the possible problems between the customers and the firm or investors. Later on, the positive resolution of the identified issue should be conducted. To assure justice for all employees, organizational hierarchy, and management structures employed corporations should be reviewed. Subordinates lack enough essential incentives to monitor the firm's senior executives. They only get the incentive during competitions for the top job among higher ranked managers. Mutual staff evaluation ensures equality among the personnel in the work area.

Reference

Maguire, E. (2003). Organizational structure in American police agencies context, complexity, and control. Albany: State University of New York Press.

Trachtman, J. (2008). The economic structure of international law. Cambridge, Mass.: Harvard University Press.