Organizational theory and designs assignment

Business, Management

CHAPTER 1: ORGANIZATIONS AND ORGANIZATIONAL EFFECTIVENESS 1 PART 1: LECTURE OUTLINES CHAPTER 1 ORGANIZATIONS AND ORGANIZATIONAL EFFECTIVENESS TEACHING OBJECTIVES 1. To define an organization and explain how it creates value in three stages: input, conversion, and output. (1. 1) 2. To discuss why organizations exist and how they achieve goals collectively. (1. 1) 3. To describe organizational theory, how organizations function, and relate to organizational structure, culture, and design. (1. 2) 4.

To show how organizational design helps a company gain a competitive advantage, deal with contingencies, manage diversity, increase efficiency, increase innovation, and effectively manage change. (1. 2) 5. To illustrate the consequences of poor organizational design and loss of control over structure and culture. (1. 2) 6. To discuss the three approaches of evaluating organizational effectiveness: external resource, internal systems, and technical approach. (1. 3) 7. To distinguish between official goals and operating goals. (1. 3) CHAPTER SUMMARY

This chapter discusses organizations, organizational theory, and the importance of organizational design. An organization is a tool for individuals or groups to accomplish goals. An organization creates value at three stages: input, conversion, and output. Organizations exist because people working together to produce goods and services create more value than those working alone. Organizations may exist to increase specialization and the division of labor, to use large-scale technology, to manage the external environment, to economize on transaction costs, and to exert power and control over employees.

The components of organizational theory are structure, culture, and design and change. Organizational design helps a company gain a competitive advantage, deal with contingencies, manage diversity, increase efficiency, and increase innovation. Poor organizational design results in company decline, including layoffs and difficulty in attracting resources. Organizational effectiveness should be measured according to a manager's methods of control, innovation, and efficiency. The external resource, internal systems, or technical approach measure effectiveness and official and operative goals.

Difficulties arise in measuring effectiveness even if stakeholders have shared goals. An organization must select the best way to achieve goals. Organizations are affected by the environment, technology, and processes. The technological environment entails innovations in production processes and new products. CHAPTER OUTLINE 1. 1 What Is an Organization? An organization is intangible; it cannot be touched or felt. Thinking of an organization evokes its product or service. The name Anheuser-Busch evokes the word beer, not why the company provides beer or how it controls employees.

An organization groups people and resources to provide goods and services to PHAM HOANG HIEN CHAPTER 1: ORGANIZATIONS AND ORGANIZATIONAL EFFECTIVENESS satisfy a need. Entrepreneurs begin with the idea of satisfying a need then collect resources to meet that need. 2 Focus on New Information Technology: Amazon. com, Part 1 Amazon. com shows how Jeff Bezos saw a need and created an organization to meet it. Q. What prodded Jeff Bezos to start Amazon. com? A. Recognizing the opportunity to build an

online bookstore, Bezos started Amazon. com to meet the needs of computer owners.

An online bookstore could offer a larger and more diverse selection, an online catalogue, an easy search capability, and book reviews. Bezos organized resources to meet the need for a new bookstore.

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_____ How Does an Organization Create Value? The value creation process includes input, conversion, and output. (Fig. 1. 1) Q: What are some inputs a company needs to provide a product or service?

A. Inputs include human resources, raw materials, capital, money, and information. The value created depends on how a company selects and acquires inputs. Inputs are transformed into outputs at the conversion stage. The value created depends on the quality of an organization's skills and its ability to learn from the environment. The conversion process results in an output, a finished good, or a service. Sales revenue buys more inputs, so the value creation cycle continues. The value creation cycle is used for nonprofit and manufacturing organizations and service companies.

Q. What are the inputs, conversion processes, and outputs at McDonald's? (Fig. 1. 2) A. The inputs include meat, fries, employees, and capital, such as cooking equipment. The conversion process entails cooking the food. The

outputs are sandwiches and fries. Why Do Organizations Exist? People working together to produce goods and services create more value than people working alone. (Fig. 1. 3) Organizations exist: To Increase Specialization and the Division of Labor In an organization, individuals concentrate on areas of expertise and become more specialized.

An engineer concentrates on one part of the engine and this specialization creates value. To Use Large-Scale Technology Technology enables organizations to achieve economies of scale, cost savings through large-volume production, and economies of scope and cost savings when underutilized resources are shared. To Manage the External Environment An organization has the resources to monitor and manage the external environment, economic, political, and social factors plus suppliers and the market. PHAM HOANG HIEN CHAPTER 1: ORGANIZATIONS AND ORGANIZATIONAL EFFECTIVENESS

To Economize on Transaction Costs An organization can reduce transaction costs and expenses associated with negotiating, monitoring, and governing exchanges between people and can control exchanges. To Exert Power and Control Organizations exert pressure on employees to conform to task requirements through employment, promotions, and rewards. Employees who fail to meet organizational needs can be fired. These factors create stability, allow skills to develop, and increase value creation.

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_____ 3 1. 2 What Is Organizational Theory? Organizational theory is the study of how organizations work and how they impact and are impacted by the environment. Organizational theory relates to organizational structure, culture, and design. (Fig. 1. 4) Organizational structure is the formal setup of task and authority relationships. Structure controls the coordination of activities and employee motivation to attain goals. Structure must be continually evaluated.

Organizational culture, a set of shared values and norms, shapes and controls behavior in an organization. Q: What determines culture? A. People, ethics, rights, and structure of the organization develop culture, which can vary widely among organizations that provide similar goods in the same environment. Coca-Cola promotes cooperation and has loyal employees, whereas Pepsi has a competitive culture and high turnover among managers. Organizational design is the process by which managers select and manage aspects of structure and culture so that an organization can achieve its goals.

Organizational change is the process by which organizations move from their present state to some desired future state to increase their effectiveness. Organizational Insight 1. 1: Opposite Organizing Approaches at Apple and Dell Computer People who start new organizations may lack the skills necessary to effectively design the organization. The Apple Computer example illustrates this well. Q. How do these two examples illustrate the

importance of proper organizational design? PHAM HOANG HIEN

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EFFECTIVENESS A. Although Jobs stated he had little desire to manage the

day-to-day operations of Apple Computer, he desired more power as the

organization grew and began intervening in the day-to-day operations, which

caused problems. Michael Dell, on the other hand, understood how important

a well designed organization was, and created a structure centered on

participative management, involving employees in decision making, and was

not as hands-on s Jobs.

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_____ The Importance of Organizational Design and

Change Organizational design helps a company deal with contingencies,

achieve competitive advantage, manage diversity, and increase its efficiency

and ability to innovate goods and services. Dealing with Contingencies A

contingency is an event that might occur and must be considered in

planning.

An organization can design its structure to increase environmental control. Structure and culture are tools to respond to the complex global environment and changing technology. Structure can make employees aware of the environment. Gaining Competitive Advantage Good organizational design offers a competitive advantage. Competitive advantage emerges from core competencies, value creating skills, and abilities. Managers formulate strategies, specific decisions, and actions that use core competencies to create a competitive advantage.

Organizational design implements an organization's strategy and serves as a core competency because it is difficult to imitate. Although technology can be duplicated, structure and culture develop over time, making them hard to imitate. Organizational design must be continually evaluated. 4

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Managing Diversity The workforce has become more diverse with people of many national origins working for the same company. The workforce is aging. An organization must design its structure to maximize its diverse talents and to develop a culture that fosters cooperation. Promoting Efficiency, Speed, and Innovation Organizational design can increase efficiency. Companies must compete with low-cost producers globally and

market new products and processes. Organizational design makes a firm more innovative. An entrepreneurial culture fosters innovation.

The Consequences of Poor Organizational Design Organizational design affects company performance, yet employee roles are often neglected until a crisis hits. One reason for decline is a loss of control over organizational structure and culture. Talented employees leave, acquiring resources becomes difficult, and the value creation process slows down. Managers are forced to change elements of structure and culture that derail strategy. PHAM HOANG HIEN CHAPTER 1: ORGANIZATIONS AND ORGANIZATIONAL EFFECTIVENESS Notes_____

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_____ • Refer to discussion question 2 here to emphasize the connection between organizational theory and structure, design, change, and culture. _____

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_____ 5 Organizational Insight 1. 2: Redesigning AOL Time Warner

This shows the difficulty in trying to merge two organizations that have very different structures. In addition, it shows that regardless of the structure, environmental factors often play a role in the success of an organization, as

evidenced by the implosion of the dot. coms. Q. How were the two organizations different from a structure standpoint? A. Time Warner was very hierarchical in nature, while AOL was used to the fast-changing environment of the IT industry. Q. What did Pitman do to try and reorganize the two companies? A.

He created teams of both AOL and Time Warner managers, but made AOL managers responsible for taking the lead, as they were more accustomed to brining new products to market quickly. 1. 3 How Do Managers Measure Organizational Effectiveness? Researchers see primary management tasks as control, innovation, and efficiency. Control means dominating the external environment, attracting resources, and using political processes. Innovation entails developing skills to discover new products and processes and designing adaptable structures and cultures.

Efficiency involves developing modern plants for rapid, low-cost production, fast distribution, and high productivity. The External Resource Approach: Control Using the external resource approach, managers evaluate a firm's ability to manage and control the external environment. A. Indicators include stock price, profitability, return on investment, and the quality of a company's products. An important factor is management's ability to perceive and respond to environmental change. Stakeholders value aggressiveness and an entrepreneurial spirit.

Organizational Insight 1. 3: Ups and Downs at Mattel This case illustrates the importance of both understanding customer needs, and adapting the organization to meet those needs. Q. What mistake did Mattel make in trying

to satisfy customer needs? PHAM HOANG HIEN Q. What indicators evaluate control over the environment? CHAPTER 1: ORGANIZATIONS AND ORGANIZATIONAL EFFECTIVENESS A. The skills needed to rapidly develop new products was not present in the company that they purchased. They also underestimated the need to update their core products.

The Internal Systems Approach: Innovation Using the internal systems approach, managers evaluate organizational effectiveness. Structure and culture should foster flexibility and rapid response to market changes. Flexibility fosters innovation. Q. How is innovation measured? A. Innovation is measured by the time needed for decision making, production, and coordinating activities. The Technical Approach: Efficiency The technical approach is used to evaluate efficiency. Effectiveness is measured by productivity and efficiency (ratio of outputs to inputs).

Productivity gains include increased production or cost reduction. Productivity is measured at all stages of production. Q. What productivity measures could a service company use? A. Service companies could measure sales per employee or the ratio of goods sold to goods returned. Employee motivation is an important factor in productivity and efficiency. 6 Organizational Insight 1. 4: Improving Efficiency at FedEx and UPS This case is a good illustration of the importance of continuously evaluating and updating technology. A good class discussion can revolve around the positive benefits of advanced technology.

Consider for example, the increased efficiency of these two companies as they affect consumers. Measuring Effectiveness: Organizational Goals

Organizational effectiveness is evaluated by both official and operative goals. Official goals are the formal mission of an organization. Operative goals are specific long-term and short-term goals that direct tasks. Managers use operative goals to measure effectiveness. To measure control, managers examine market share and costs; to measure innovation, they review decision-making time.

To measure efficiency, they use benchmarking to compare the company to competitors. A company may be effective in one area and ineffective in another. Operative goals must be consistent with official goals.

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_____ 1. 4 The Plan of This Book PHAM HOANG HIEN CHAPTER 1: ORGANIZATIONS AND ORGANIZATIONAL EFFECTIVENESS Figure 1. 5 shows how the various chapters fit together and provide a model of the components involved in organizational design and change.

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_____ The Organizational Environment. The main source of uncertainty is the environment. An organization must design its structure to handle relationships with stakeholders in the external environment. Chapter 3 presents models that reveal why the environment is a major source of uncertainty. Organizational Design. Chapters 4 through 8 examine the principles on which organizations operate and the choices available for designing and redesigning their structures and cultures to match the environment.

The same basic problems occur in all work settings, and the purpose of design is to develop a structure that will respond effectively to these challenges. Organizational Change. The third part of the book deals with the many different issues involved in changing and redesigning organizations. Included in this are different change processes, such as restructuring, reengineering, and innovation management. 7

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_____ DISCUSSION QUESTIONS AND ANSWERS 1. How do organizations create value? What is the role of entrepreneurship in this process? Value is created at the input, conversion, and output stages. At the

input stage, value depends on how an organization selects and obtains the inputs; certain inputs create more value than others. At the conversion stage, value is a function of employees' skills, including learning from and responding to the environment.

Output creates value if it satisfies a need. Entrepreneurship is important to value creation by recognizing a need, gathering inputs, and transforming them into a product or service. The value creation cycle will continue if customers are satisfied; profits will generate inputs and improve the conversion process. Organizational theory is the study of how organizations function, impact, and are impacted by employees and society. Organizational theory deals with the whole organization. Organizational design entails decisions about structure and culture.

Structure is the formal set of task and authority relationships. Culture is a set of shared values that influence behavior. 3. What is organizational effectiveness? Discuss three approaches to evaluating effectiveness and the problems of each approach. PHAM HOANG HIEN 2. What is the relationship among organizational theory, organizational design and change, and organizational structure and culture? CHAPTER 1: ORGANIZATIONS AND ORGANIZATIONAL EFFECTIVENESS 8 Organizational effectiveness is the ability to use resources to create value; it includes control, innovation, and efficiency.

The external resource approach evaluates a company's ability to obtain scarce resources and valued skills. Indicators include stock prices, return on investment, and market share. These indexes are compared to competitors'

indexes. However, this approach fails to consider organizational culture and structure. The internal approach reviews the organization's ability to innovate and respond to the environment quickly. Some measures include the length of time to get a product to market, decision-making speed, and coordination time. This approach does not consider costs or the external environment.

The technical approach reviews an organization's ability to use skills and resources efficiently. This approach considers neither the environment nor structure and culture. It is important to evaluate an organization in all three areas—control, innovation, and efficiency. 4. Draw up a list of effectiveness goals that you would use to measure the performance of (a) a fastfood restaurant and (b) a school of business. Answers may vary slightly. A fast-food restaurant's goals will differ from a business school's goals because a school is a nonprofit organization. a) Some goals used to measure effectiveness at a fast-food restaurant are as follows: • Lower the cost of meat, fries, and drinks • Lower the cost of labor • Improve the quality of the food and the skills of employees • Increase profits, stock price, and market share • Satisfy government requirements on sanitation and fair labor laws • Reduce employee conflict • Speed up the time it takes a customer to get served • Find more efficient ways to produce the food • Increase employee motivation by offering bonuses • Increase the quality of the food by ensuring that it is not too greasy and that it is hot when customers receive it • Minimize the number of wrong orders (b) A business school's goals may be the following: • Attract top-quality faculty and students • Maximize revenue from tuition and fees • Offer scholarships • Attract revenue from

organizations and alumni • Gain the support of the local community • Reduce conflict • Ensure that students are prepared for jobs • Respond to changes in the environment by constantly updating the curriculum • Encourage coordination among faculty from different departments ORGANIZATIONAL THEORY IN ACTION PHAM HOANG HIEN CHAPTER 1: ORGANIZATIONS AND ORGANIZATIONAL EFFECTIVENESS

Practicing Organizational Theory: Open Systems Dynamics Small groups of students design an organization from an open systems perspective: (1) They determine the input, conversion, and output processes. (2) They identify environmental factors with the greatest impact. (3) They determine the best measures to evaluate the organization's effectiveness. 9 The Ethical Dimension This exercise will be found at the end of each chapter. The purpose is to help students understand the many ways in which organizations can help or harm people in the environment. The first example asked students to examine doctors and hospitals, and the role of ethics in this environment. List examples of these ethical and unethical behaviors. This is a complicated question because there are so many different systems in the health-care environment. Students may draw upon their own experiences with doctors, good or bad, or the discussion could shift to how insurance companies, Medicare, or the local community play a role in the ethical behavior of doctors and hospitals. 2. How do these behaviors relate to the attempts of doctors and nurses to increase organizational effectiveness in the ways discussed in the chapter? Or, to attempts to pursue their own self-interest? This question serves as a good example of why organizations exist.

Make sure the students understand that all organizations attempt to increase their effectiveness, not just for-profit corporations. Another interesting discussion might revolve around defining and discussing what " pursuing their own selfinterest" really means from both an ethical and a practical standpoint. Making the Connection Also at the end of every chapter; this exercise encourages students to look through newspapers and magazines to find an example of a company that is dealing with some of the issues in the chapter. The assignment for this chapter is to find a company that has helped or harmed a stakeholder group. ANALYZING THE ORGANIZATION

Each student selects a company to study throughout the semester. Each module requires the student to collect and analyze company information for a report to be submitted at the end of the semester. Students can choose an organization like IBM or GM and find articles in magazines, on the Internet, or contact a local company. The report answers the following questions: what is the organization, what does it do, how does it create value, who are its stakeholders, what are its major problems, and how does it measure effectiveness? Other issues such as technology or competition may be included. CASE FOR ANALYSIS Kinko's New Operating Structure Kinko's Inc. as the largest retailer of copying stores, but it had to change its operating structure in response to competitive pressures from Quick Copy and OfficeMax. Kinko's had an informal management process and difficulty managing growth. The founder, Orfalea, used franchising to launch PHAM HOANG HIEN CHAPTER 1: ORGANIZATIONS AND ORGANIZATIONAL EFFECTIVENESS growth, but this approach did not assist Kinko's in controlling costs or improving customer service. Consultants recommended

centralized control and a set of internal authority relationships. 1. What were the problems facing Kinko's managers? 10 Kinko's structure was too decentralized, making it difficult for top managers to implement changes rapidly.

The structure was informal with decisions left up to Kinko's franchisees, and no sharing of ideas on customer service. 2. What steps did managers take to solve these problems? Kinko's centralized operating systems such as purchasing and finance to reduce costs. Kinko's developed a more formal organizational structure. It may take time for the store owners to relinquish control, but this structure should help Kinko's to respond more quickly to competition and develop consistent procedures and services to meet customer needs. TEACHING SUGGESTIONS 1. Ask students to explain the models in the chapter and give examples. Models can be assigned in advance. Use discussion questions during the class by dividing students into small groups or pairs and allowing 5–7 minutes to prepare answers, which are then shared with the class. 3. Use role play to measure organizational effectiveness using the three approaches. One student is a manufacturing manager who evaluates performance using the technical approach. One student is an R&D manager who uses the internal systems approach. The third is a corporate manager who uses the external resource approach. Stress that performance is evaluated based on control, innovation, and efficiency. 4. Ask students to look the at the Amazon. com web site (http://www. amazon. om) and discuss how Amazon satisfies a need. Have them compare this to competitors that have surfaced, such as Barnes & Noble (http://www. barnesandnoble. com). 5. To make sure students

appreciate why organizations exist, have them give examples in class of when organizations have not served them well. Common examples include long lines at the grocery store, poor service at a restaurant, etc. Try to help them re-frame their examples in the context of the course material, such as specialization or the conversion process. This is a good method for getting the students to understand the overall value of the material throughout the semester. PHAM HOANG HIEN