Unit - 2

Organizational Overview

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2.0 Objectives

After going through this unit, you should be able to:

- define the organization and its types;
- understand the principals of organization structure design;
- understand the common and unique characteristics of the organizations;
- understand the functions and life cycle of an organization, and
- appreciate the merits and demerits of tall and vertical organization structures.

2.1 Introduction

Information systems are a core enabling technology in sectors such as business, manufacturing, communications, education, health care, and government, to name just a few. This growing dependence brings fresh demands for more efficient and timely development of ever more complex systems that must be complete and correct, and that must be capable

of evolution to meet changing requirements. Information and telecommunication technologies (IT) play crucial roles in the organization and management of global businesses.

In this unit, you will be made familiar with the type of organizations and the key factors involved in the design of the organization structures. Merits and demerits of the various organizations structures will also be discussed. Recognizing the importance of the link between organizations, management and information systems, all aspects of organizations are being also covered in this unit.

2.2 Organization and its Types

Organization is the foundation upon which the whole structure of management is built. Organization is related with developing a frame work where the total work is divided into manageable components in order to facilitate the achievement of objectives or goals. Thus, organization is the structure or mechanism (machinery) that enables living things to work together. In a static sense, an organization is a structure or machinery manned by group of individuals who are working together towards a common goal.

The term **organization** has been defined in several ways. An Organization can be defined as a stable, formal social structure that uses resources and produces them to produce output. This output could be a physical product or service.

Leavitt (1962) defined Organization as a specific configuration of **structure, people, task and techniques**.

Structure describes the form of departments, hierarchy and committees. It influences the organization's efficiency and effectiveness.

People refer to the skills, attitudes and social interaction of the members of the organization.

Task refers to the goals of the individual and the organization.

Techniques refer to the methodical approach used to perform tasks.

Organizational structure thus refers to the institutional arrangements and mechanisms for mobilising human, physical, financial and information resources at all levels of the system.

According to Katz and Kahn Organization is also defined as a system incorporating a set of sub-systems . These sub-systems are related group of activities, which are performed to meet the objectives of the organization.

Numerous theorists have viewed organization differently. However, all definitions usually contain five common characteristics:

1. Composed of individuals and groups of individuals;
2. Oriented towards achieving common goals;
3. Differential functions;

4. Intended rational coordination, and
5. Continuity through time.

Organizations at a macro level can be divided in three types

1. **Extraction,**
2. **Manufacturing including Construction, and**
3. **Services.**

Extraction organizations produce goods by extracting them from the earth. Examples of such organizations are Agriculture, Mining, Oil and Gas exploration and producing companies.

The manufacturing organizations produce goods by conversion or by processing of one type of goods designated as raw materials into other type of goods designated as finished goods. Examples of this type are Car manufacturing, Fertilizer manufacturing, pharmaceutical and drug manufacturing companies etc.

The service organizations do not produce any tangible goods but produce services only. Services are intangible items having no shape or colour. Banking, Insurance, Transportation, Universities, Hospitals, Management Consultancy, Legal Firms etc. are example of these types of organizations.

It is interesting to note that sometimes three types of organizations may be part of a single Industry and may form one organization. Steel Authority of India is one such example, which deals with not only mining and manufacturing but also trading of the product manufactured.

2.3 Organizational Structure

An organsational structure defines how job tasks are formally divided, grouped and coordinated. It defines what are the organizational components (units), their relationships and hierarchy. It portrays where formal authority and power are located and provides a “home” and identity for employees.

Structure is thus an integral component of the organization. It defines the arrangement and interrelationship of component parts and positions in an organization. It provides guidelines on:

- Division of work into activities;
- Linkage between different functions;
- Hierarchy;
- Authority structure;
- Authority relationships, and
- Coordination with the environment.

Organizational structure may differ within the same organization according to the particular requirements.

For designing an organizational structure, six key elements are required. These are:

(a) **Work Specializations:** Historically the underlying principal was that work could be performed more efficiently if employees are allowed to specialize. Today we use the term work specialization or division of labour, to describe the degree to which tasks in the organization are subdivided into separate jobs.

(b) **Departmentalization:** Once the jobs have been divided through work specialization, these needs to group together so that common tasks can be coordinated. The basis by which jobs are grouped together is called departmentalization. One of the most popular ways of forming such groups is by functions like marketing, production, and finance etc.

(c) **Chain of command:** The chain of command is an unbroken line of authority that extends from the top to lowest level and clarifies who reports to whom. It answers question for employees such as "To whom do I go if I have a problem?" and "To whom I am responsible?"

(d) **Span of control:** How many employees can a manager efficiently and effectively direct? This question of span of control is important because to a large degree, it determines the number of levels and managers an organization has. All things being equal, the wider or larger the span, the more efficient, is the organization.

(e) **Centralization and Decentralization:** The term centralization refers to the degree to which decision-making is concentrated to a single point in the organization. The concept includes only formal authority. Typically, if the top management makes all the key decisions, the organization is termed as centralized. In contrast, if bulk of the decisions is allowed to be taken at the lower level, the organization is termed as decentralized.

(f) **Formalization:** Formalization refers to the degree to which jobs within the organization are standardized. In case jobs are highly formalized, employees will have less freedom or discretion to carry out the jobs, but the jobs will have explicit methods and procedures to complete it.

2.4 Organizational Characteristics

The main characteristics or Features of organization are as follows:

Outlining the Objectives: Born with the enterprise are its long-life objectives of profitable manufacturing and selling its products. Other objectives must be established by the administration from time to time to aid and support this main objective.

Identifying and Enumerating the Activities: After the objective is selected, the management has to identify total task involved and its break-up closely related component activities that are to be performed by and individual or division or a department.

Assigning the Duties: When activities have been grouped according to similarities and common purposes, they should be organized by a particular department. Within the department, the functional duties should be allotted to particular individuals.

Defining and Granting the Authority: The authority and responsibility should be well defined and should correspond to each other. A close relationship between authority and responsibility should be established.

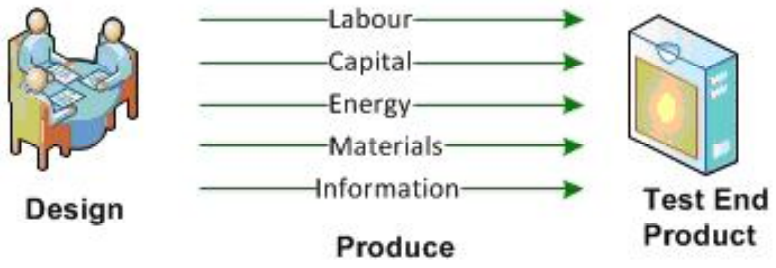
Creating Authority Relationship: After assigning the duties and delegations of authority, the establishment of relationship is done. It involves deciding who will act under whom, who will be his subordinates, what will be his span of control and what will be his status in the organization. Besides these formal relationships, some informal organizations should also be developed.

2.5 Organizational Functions

In order to produce and sell their product or service most organizations will need to undertake 6 key functions.

- Design and Production
- Finance
- Human Resources
- Sales and Marketing
- Administration
- Research and Development.

Each of the functions will need to work together so that the whole of the organization has the same aims and objectives. To achieve this communication across the various functions is key activity. A starting point for this type of communication is the creation of a clear set of company objectives which each function is aware of. These objectives then need to be further broken down into specific objectives for each function. Regular reviews of firstly how each function is performing against it's objectives and secondly how the company is performing against it's overall objective should ensure that the whole company is pulling in the same direction.



Factors of Production

To generate a product or service an organization will need to combine labour, capital, energy, materials and information.

Labour is the mental and or physical effort of employees and can take a variety of forms including filing, lifting, data processing, decision making, and line management. In fact labour is any effort/task an employee needs to undertake in order to produce the product or service.

Capital is the machines and tools needed to produce the product or service. This physical capital is purchased through financial capital such as loans, sale of shares in the organization and use of profit generated by the organization.

Energy is provided through the use of gas, electricity, solar power and steam. Energy is needed to heat/light up the premises, make the machinery work and to ensure that the organization is a comfortable place for the employees to work in.

Materials in their raw form are needed to produce the product or service. For example a restaurant will need ingredients to make the food that they serve to their customers.

Information is the knowledge and expertise needed to produce the end product. For example a restaurant will need to know what ingredients are necessary for each dish, what quantity of ingredient to use, how to mix each ingredient and how long (if at all) to cook each dish.

The factors of production have also been classified into land, labour, capital and enterprise. In this type of classification natural resources such as water, coal and farm land are grouped together as land. Whilst enterprise, are all the factors which bring together land, labour and capital to produce the end product.

Finance Function

The financial section of the organization will keep manual/electronic records of money received and paid out by the organization. This information will then be used to produce various financial statements for tax purposes and to comply with legal requirements. The information will also be used to produce management accounts to enable senior managers to plan and review business strategy.

The finance department or unit may also be responsible for administering employee expenses and salaries. For payment of wages the finance department will need to take into account statutory deductions such as tax, and employee contributions such as pension or loan repayments.

Human Resources Function

Human resources or Personnel's main responsibility is the recruitment, selection, training and development of staff. This will involve developing staff to maximise their potential in a manner that furthers the organization's objectives.

Human resources may also need to comply with legislation applicable to the country in which they are based. For example in the UK employers will need to maintain accurate personal records in a manner that is compliant with the UK Data Protection Act 1984.

Human resources often adopt a welfare role which includes looking after employees whilst they are at work. They may also create policies that balance organizational needs with those of the employee. They will also interpret employee welfare legislation and ensure that the organization is complying with the applicable legislation.

Sales and Marketing Function

The marketing department will research customer needs to develop strategy and product to satisfy that customer need. In its research, the marketing department will investigate the market they are aiming at; the type of consumer making up the market (age, background sex etc) and the preferences of the consumer within that market. The marketing department will then need to marry consumer preferences with producing a product that is profitable. Once the product has been designed by the production department marketing will then need to package, advertise, and promote the product.

Sales are responsible for persuading the consumer to purchase the end product, manufactured through marketing's research. The Sales Department's selling strategy could involve mail shots, travelling sales representatives, telephone sales and devising the sales interview.

Administrative (or Facilities Management) Function

This involves dealing with all administrative tasks including mail handling, dealing with enquiries/complaints, catering, and computer services. They will also produce documents (e.g. forms, stationary, and newsletters) for the organization and maintain the organization's premises and equipment.

This function although not always recognized is vital, as it is the glue that holds the organization together. Without an administrative department, customer complaints would not be resolved, customer orders may not be processed, and the workforce may not have the tools they need to complete their tasks.

Research and Development Function

The aim of research and development is to improve existing products, create new and better products, improve production methods, and create effective processes. This will enable the organization to reduce costs, increase profitability and remain ahead of the competition. As not all research will lead to new/improved products/processes companies will need to allocate a specific portion of their budget to research and development activities.

2.6 Life Cycle of an Organization

Organizations go through different phases of growth. For sustained growth, it is important to understand what phase of the organizational life cycle one is in. Many will enter decline unless there are transformational leaders who can renew the organization. Different experts argue on how many phases there are in an organizational life cycle, but the **Five** most acceptable and distinct stages, which are easy to remember, are:

(1) Startup,

(2) Growth : This is sometimes divided into an early growth phase (fast growth) and maturity phase (slow growth or no growth). However, maturity often leads to decline

(3) Decline : When in decline, an organization will either undergo for Renewal or may fail

(4) Renewal, and

(5) Failure.

Each of these phases present different management and leadership challenges that one must deal with.

The Start-up Phase

This phase commences from the time an entrepreneur conceives the idea of a particular business and for giving shape to the business, a management group is formed and a business plan is written. Resources are deployed and the organization is established Start-up ends when business is declared open.

The Growth Phase

No organization can remain stagnant for a long time as stagnancy for a long time leads to natural death for the organization. So as a corollary to stagnancy, organizations to flourish must kick-start and grow. For entrepreneurs needing money to kick-start the business, the company goes into the growth phase once the investor writes the check. In the growth phase, one expects to see revenues climb, new services and products developed, more employees hired and so on. This growth phase has been divided into sub-phases of growth that is Childhood, Adolescence, Adulthood and Maturity. The management textbooks love to assume that sales grow each year. The reality is much different since a company can have both good and bad years depending on market conditions. Many companies have different types of programs relating to organizational development in place. Few actions, which need to be taken at each phase.

The Decline Phase

In organizations that have been around for a few years, unless checked-in by the vigilant management complacency sets in or due to other reasons / dry rots as indicated below the organization gets into the decline phase:

- Conflicting interests between various groups / departments, leading to decisions which are not in the best interest of the organization;
- Poor team work;
- No strategic views or strategic views not being followed;
- Confusing roles and responsibilities;
- Repeated mistakes, no lesson learned from mistakes for correcting mistakes;
- Fire fighting at difficult times rather than long term corrective and preventive actions;

- Mistrust among various groups;
- Executive and employees driven by greed rather than inspiring vision;
- No respect for resources (time, money, men or machine).

The Renewal Phase

Decline doesn't have to continue, however, external experts have focused on the importance of organizational development as a way of preventing decline or reducing its affects.

One way to reverse dry rot is through the use of training as a way of injecting new knowledge and skills. One can also put in place a rigorous program to change and transform organization's culture.

Failure

As many as 80% of business failures occur due to factors within the executive's control. Even firms close to bankruptcy can overcome tremendous adversity to nurse themselves back to financial health. Lee Iacocca's turnaround of the Chrysler Corporation is one shining example.

In some cases, failure means being acquired and merged into a larger organization. In other cases, it occurs when an organization elects or is forced into bankruptcy. This does not signify the organization ceases to exist since it can limp along for many years by going in and out of bankruptcy court.

2.7 Vertical and Horizontal Organizations

Organizational structure within an organization clarifies employee roles, facilitates communication and establishes a chain of responsibility to help determine strengths and weaknesses.

The organization structure provides guidelines on hierarchy, line of authority and relationships, linkage between different functions and coordination with environment. Structure in an organization has three important components:

(1) Complexity, referring to the degree to which activities within the organization are differentiated. This differentiation has three dimensions —

- Horizontal differentiation refers to the degree of differentiation between units based on the orientation of members, the nature of tasks they perform and their education and training,
- Vertical differentiation is characterized by the number of hierarchical levels in the organization, and
- Spatial differentiation is the degree to which the location of the organization's offices, facilities and personnel are geographically distributed.

(2) Formalization refers to the extent to which jobs within the organization are specialized. The degree of formalization can vary widely between and within organizations;

(3) Centralization refers to the degree to which decision-making is concentrated at one point in the organization.

Now let us consider different types of organization structures with merits and demerits in each of these types of structures.

The grouping of employees or departmentalization in various types of organization structures can be based on:

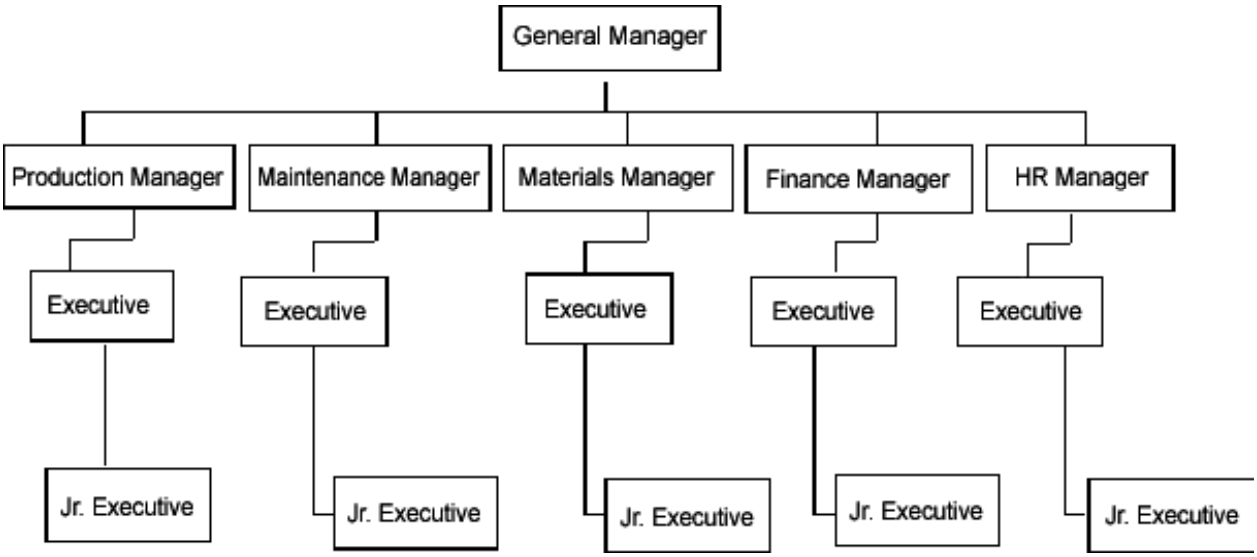
- By function
- By product line
- By customer / market segment
- By geographical area
- By work flow process
- Combination of the above.

Function Oriented (Vertical) Organization Structures

The basic foundation of such organizations started from 20th century when there was lot of emphasis on specialisation during this industrial revolution era.

These basic underlying principals for such formation were:

- Specialization of labour
- Business processes were decomposed into narrower and narrower tasks
- Efforts were focused on improving the performance of those individual tasks
- Organizational units (functional departments) also reflected this narrow specialization.



The shortcomings in this type of structure were:

- Internal focus on functional goals rather than outward-looking concentration on winning customers and delivering value.
- Loss of important information as transactions travel up and down the multiple levels and across the functional departments.
- Fragmentation of performance objectives brought about by a multitude of distinct and fragmented goals.
- Added expense involved in coordinating the overly fragmented work and departments.
- Stifling of creativity and initiative of workers at lower levels.
- Slow responsiveness to changes in the external environment and to customer issues.
- Loss of sight of the totality of the business processes.

Process Oriented (Horizontal) Organization Structures:

Before we discuss Process oriented organization structure, let us understand what is 'process' and how it is different from a 'task'.

- A task is a defined unit of work, usually performed by one person or small group.
- A process is a related group of tasks that together create an outcome of value to a customer.
- Only when all the tasks are performed together as a wholistic process the value is created.
- When rewards are based on task performance, the total process performance will usually be sub-optimal.

A Process oriented organization has to be based on core processes.

The core processes **Overview** comprise of:

- End-to-end work, information and material flows.
- Extends across a business (and even beyond the business boundaries) and drives the achievement of fundamental performance objectives to an organization's strategy.
- Usually not more than 4 to 10 in a typical organization, which also depends on the business strategy of the organization?

Typical major (Core) Business Process in an organization is:

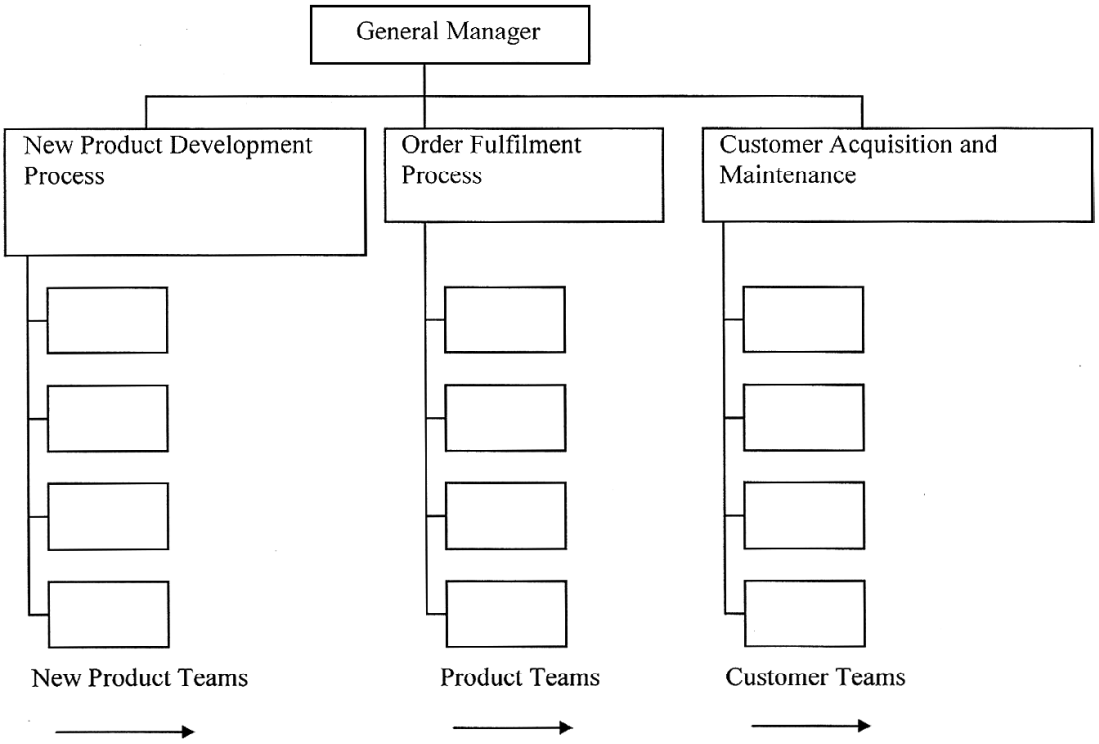
- **Order Acquisition Process** transforms a sales potential into a firm order in hand.

- **Order Fulfillment Process** transforms an order into delivered goods, a satisfied customer, and the paid bill.
- **Product Development Process** transforms a customer need and/or an advanced concept into a manufacture design that satisfies the value proposition.
- **New Business Development Process** transforms technological and conceptual advancements into new businesses.
- **Customer Support Process** transforms customer concerns and needs into value-adding solutions.

Major processes are divided into sub-processes, which are then describable in terms of basic tasks or activities. Common Characteristics of Horizontally Structured Organizations are:

- Core processes group employees according to the sets and scope of multiple skills needed to meet performance objectives.
- Teams constitute the fundamental units of the organization and are largely self-supervised.
- Process owners are responsible for leading and managing the entire core processes.
- The primary focus is external rather than internal, emphasizing the delivery.

A typical process based organization structure is shown below in *Figure 5*.



Process oriented organization structure

Merits of a Process based Organization Structure are:

- Eliminates the numerous handoffs that occur in functionally organized companies,
- Facilitates a tight alignment with what the customer wants,
- Highly compatible with the “lean paradigm”,
- Fewer levels of hierarchy, reduced “overhead” effort,
- Facilitates agility, rapid re-configuration, as external environment changes,
- Performance measures and incentives/rewards can be tied more directly to tangible, measurable work progress,
- Enhances morale.

Vertical vs. Horizontal Organizations

Process-complete departments will have shorter cycle times for the jobs *only* if their managers have taken steps to reduce the cycle time by cultivating a collective sense of responsibility. Means for fostering collective responsibility are:

- Structure jobs with overlapping responsibilities,
- Arrange work areas so that people can see each other’s work,
- Base incentives/rewards on group performance,
- Design procedures so that employees with different jobs are better able to collaborate.

Restructuring by process can lead to faster cycle times, greater customer satisfaction, and lower costs, but only if the organization has a collaborative culture as stated above. But if companies are not willing to change their culture, they may be better off leaving functional departments intact.

Process oriented organizations are superior to *Functional organizations* for many situations; however, one size does not fit all in organizational focus. There are still many situations in which the classical vertical organization is superior.

2.8 Summary

This unit consists of the discussion regarding organizations overview, the fundamentals and types of organizations as well as diversities and similarities in various organizations. These concepts are essential to be understood and addressed for information system design.

With the increase in competition and globalization each organization desires to carry out more and more of its functionality with use of Information technology to enhance productivity.

2.9 Questions for Exercise

1. **What are the types of organizations at macro level? What is the distinctive feature for each of these types?**
2. **What are the six key elements required for designing an organizational structure?**
3. **Discuss the Organizational Characteristics.**
4. **Give three examples (names) of each of the following functional organizations: Business, Bureaucracy, Charity, Mutual Cooperation, and International cooperation.**
5. **Give two examples of Hierarchical and Flat Organizations.**
6. **Explain the role that the Environment plays on the Organization.**

2.10 Further Readings

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