CHAPTER 2
PERSPECTIVES ON ORGANIZATIONS

Perspectives on Organizations

- **Open systems**

  - *Open system* thinking pays attention to the (open) boundary between the organization and its context.

  - *Closed system* design focuses exclusively upon the organization without consideration of its dependence upon or capacity to influence elements comprising its context.

Perspectives on Organizations

▪ **Organizational configuration**

- Technical core

- Technical support

- Administrative support

- Management – top and middle
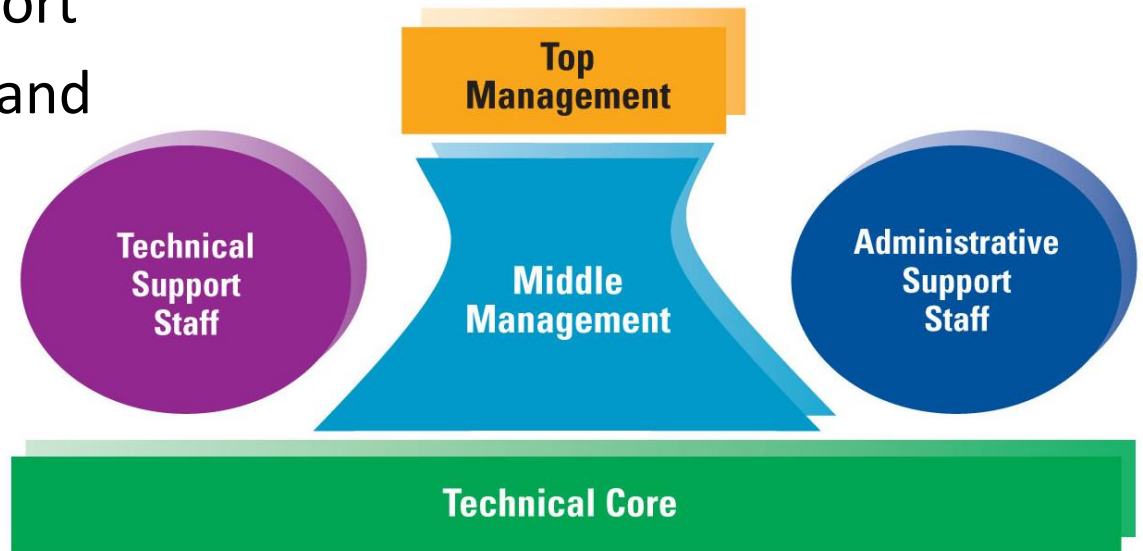
Source: Based on Henry Mintzberg, *The Structuring of Organizations* (Englewood Cliffs, NJ: Prentice-Hall, 1979), 215–297; and Henry Mintzberg, 'Organization Design: Fashion or Fit?' *Harvard Business Review* 59 (January-February 1981): 103–116.
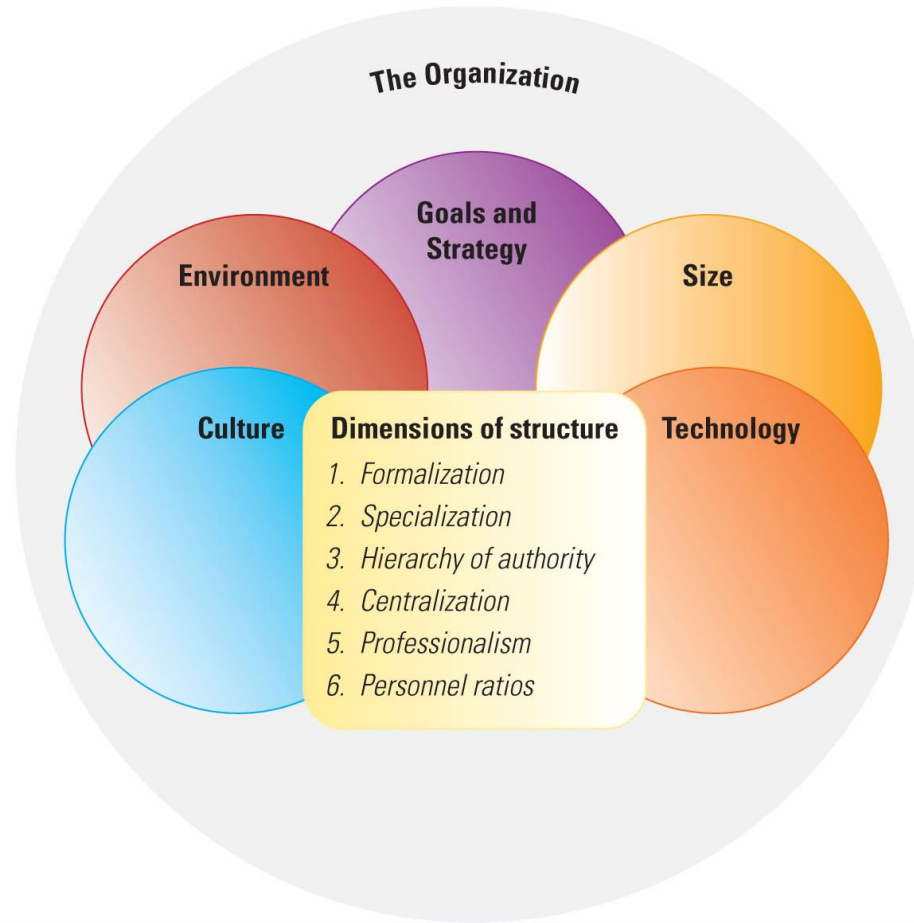
Dimensions of Organization Design

➢**Structural dimensions**
- Formalization
- Specialization
- Hierarchy of authority
- Centralization
- Professionalism
- Personnel ratios

➢**Contextual dimensions**
- Size
- Organizational technology
- Environment
- Goals and strategy
- Culture

Interacting different dimensions of Organization Design

Characteristics of three Organizations

Performance and Effectiveness Outcomes

- **Efficiency** refers to the <u>amount</u> of resources used to achieve the organization's goals.
- **Effectiveness** refers to the <u>degree</u> to which an organization achieves its goals.
- **Stakeholder approach** – balancing the needs of groups in and outside of the organization that has a stake in the organization's performance.
- A **stakeholder** is any group within or outside of the organization that has a stake in the organization's performance.

Major stakeholder groups and what they expect

OWNERS AND SHAREHOLDERS
- *Financial return*

EMPLOYEES
- *Satisfaction*
- *Pay*
- *Supervision*

CUSTOMERS
- *High-quality goods, services*
- *Service*
- *Value*

SUPPLIERS
- *Satisfactory transactions*
- *Revenue from purchases*

ORGANIZATION

CREDITORS
- *Creditworthiness*
- *Fiscal responsibility*

COMMUNITY
- *Good corporate citizen*
- *Contribution to community affairs*

UNION
- *Employee pay*
- *Benefits*

GOVERNMENT
- *Obedience to laws and regulations*
- *Fair competition*

MANAGEMENT
- *Efficiency*
- *Effectiveness*

The Evolution of Organization Theory and Design

➢ **Historical perspectives**

▪ **Efficiency is everything**
  – Scientific Management: pioneered by Frederick Winslow Taylor

▪ **How to get organized**
  – Administrative principles
  – Contributed to bureaucratic organizations

▪ **What about people?**
  – Hawthorne Studies

▪ **Don't forget the context**
  – Contingency: there must be a 'goodness of fit' between 'structural' and 'contextual' dimensions.

The Evolution of Organization Theory and Design
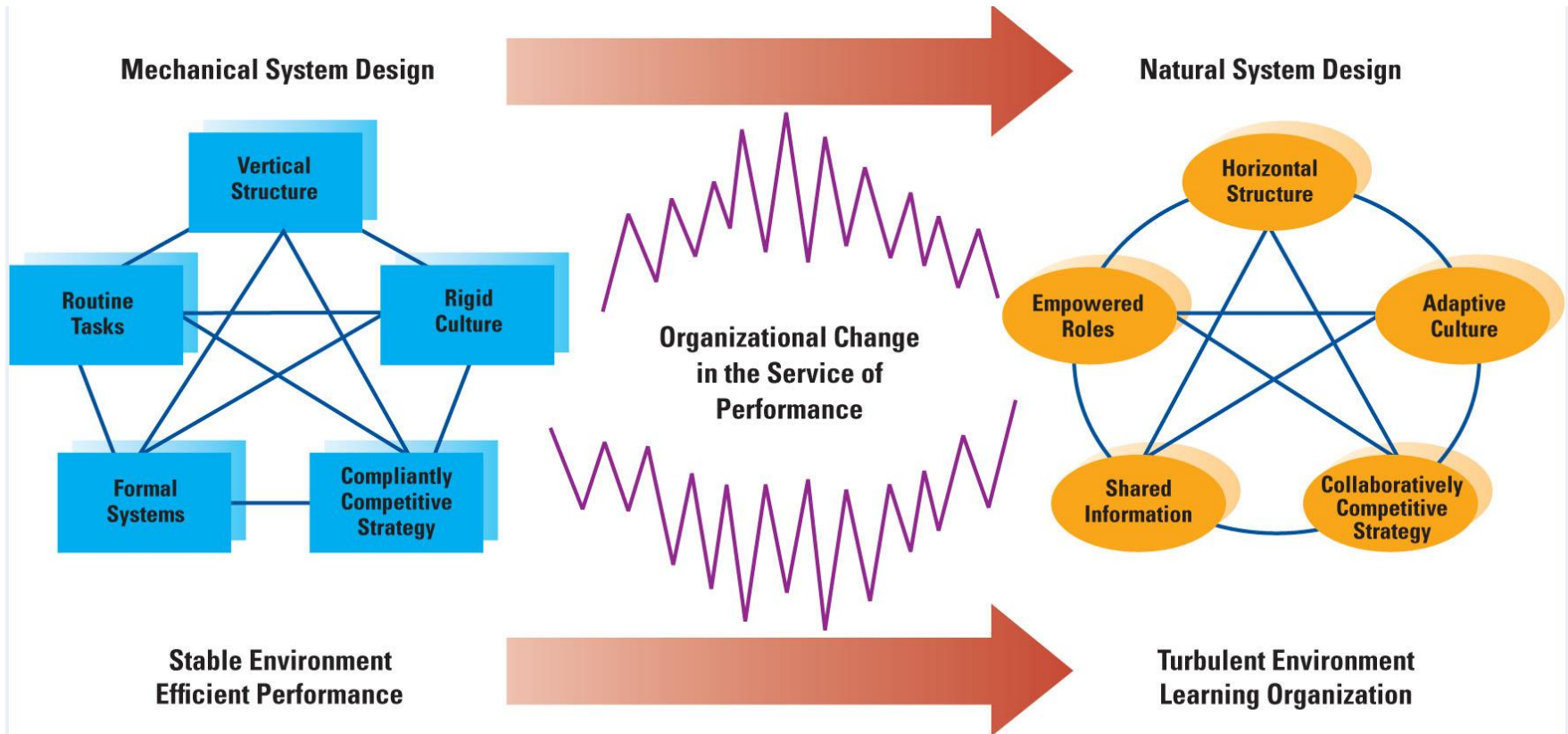
➢**Contemporary organization design**

- As the context of organizations becomes more turbulent and complex, managers and organizations face a range of intertwined challenges.

▪**Chaos Theory** suggests that relationships in complex systems are nonlinear and made up of numerous interconnections and divergent choices.

▪**Learning organization** is based on equality, open information, little hierarchy and a culture that encourages adaptability and participation.

The Evolution of Organization Theory and Design

➢ **Efficient performance versus the learning organization**

- From vertical to horizontal structure
- From routine tasks to empowered roles
- From formal control systems to shared information
- From competitive to collaborative strategy
- From rigid to adaptive culture

Two Organization Design Approaches

Mechanical System Design

- Vertical Structure
- Routine Tasks
- Rigid Culture
- Formal Systems
- Compliantly Competitive Strategy

Stable Environment
Efficient Performance

Organizational Change in the Service of Performance

Natural System Design

- Horizontal Structure
- Empowered Roles
- Adaptive Culture
- Shared Information
- Collaboratively Competitive Strategy

Turbulent Environment
Learning Organization

Source: Adapted from David K. Hurst, *Crisis and Renewal: Meeting the Challenge of Organizational Change*. Boston, MA: Harvard Business School Press, 1995.

Summary and Interpretation

- Organizations have been conceived as systems that either adapt to or exert control over the environment as a means of pursuing the goals of their dominant stakeholder.
- Managers and organizations face a range of intertwined challenges as the context of organizations becomes more turbulent and complex.