



Organization Design And Control

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Chapter 1: Organizations And Organizational Effectiveness

Textbook:

Jones, G. R., Organizational Theory, Design, and Change Prentice Hall Inc., 7th edition

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Learning Objectives

- Explain why organizations exist and the purposes they serve
- Describe the relationship between organizational theory and organizational design and change, and differentiate between organizational structure and culture
- Understand how managers can utilize the principles of organizational theory to design and change their organizations to increase organizational effectiveness
- Identify the three principal ways in which managers assess and measure organizational effectiveness
- Appreciate the way in which several contingency factors influence the design of organizations

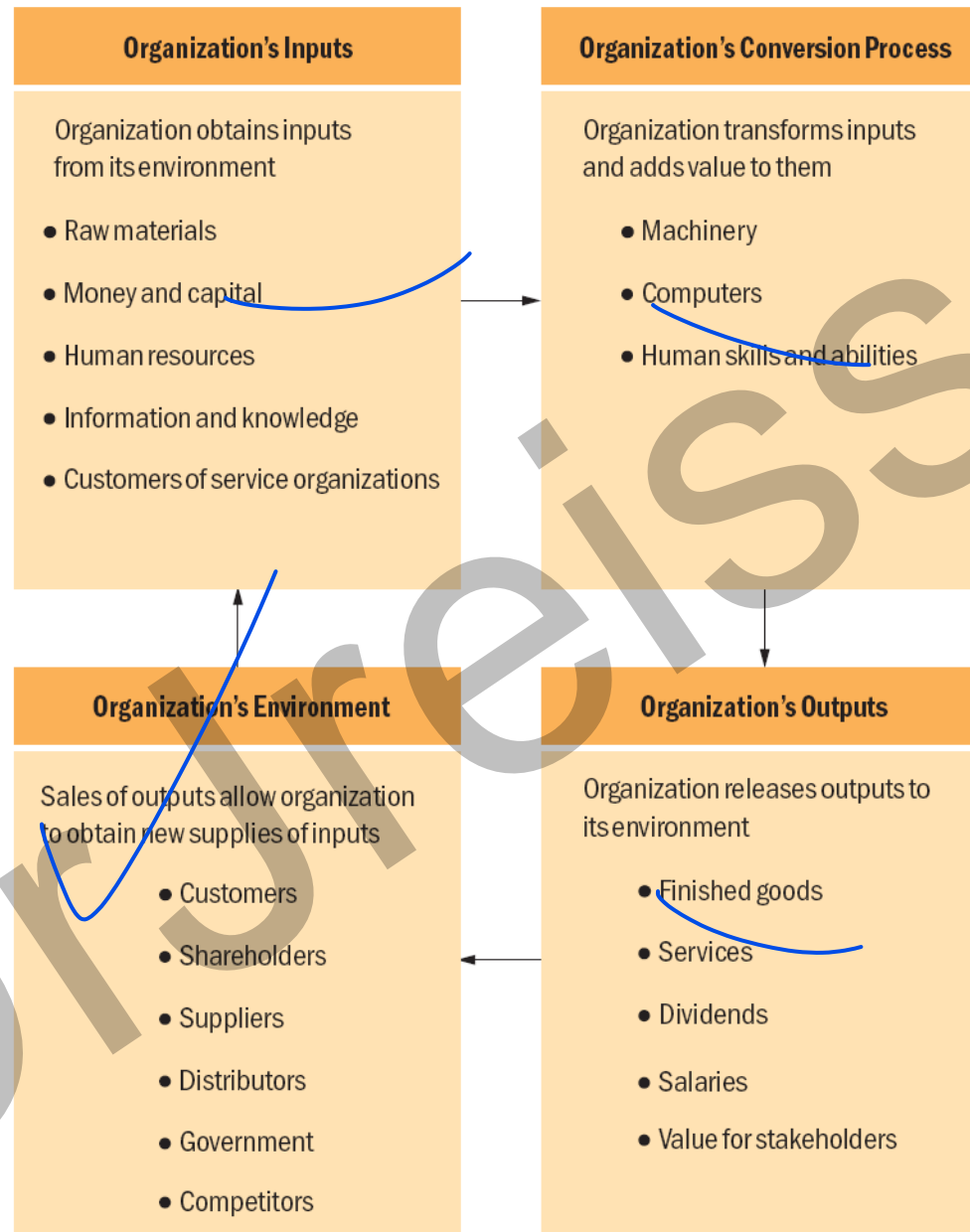
What is an Organization?

- **Organization**: A tool people use to coordinate their actions to obtain something they desire or value
- **Entrepreneurship**: The process by which people recognize opportunities to satisfy needs and then gather and use resources to meet those needs

How Does an Organization Create Value?

- Value creation takes place at three stages: input, conversion, and output
- Each stage is affected by the environment in which the organization operates
 - Organizational environment: The set of forces and conditions that operate beyond an organization's boundaries but affect its ability to acquire and use resources to create value

Figure 1.1 - How an Organization Creates Value



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Why do Organizations Exist?

- To increase specialization and the division of labor
 - **Division of labor** allows specialization
 - **Specialization** allows individuals to become experts at their job

Why do Organizations Exist? (cont.)

- To use large-scale technology
 - Economies of scale: Cost savings that result when goods and services are produced in large volume on automated production lines
 - Economies of scope: Cost savings that result when an organization is able to use underutilized resources more effectively because they can be shared across different products or tasks

Why do Organizations Exist? (cont.)

- To manage the organizational environment
 - An organization's environment is the source of valuable input resources and is the marketplace into which it releases outputs
 - It is the source of economic, social, and political pressures that affect an organization's ability to obtain these resources

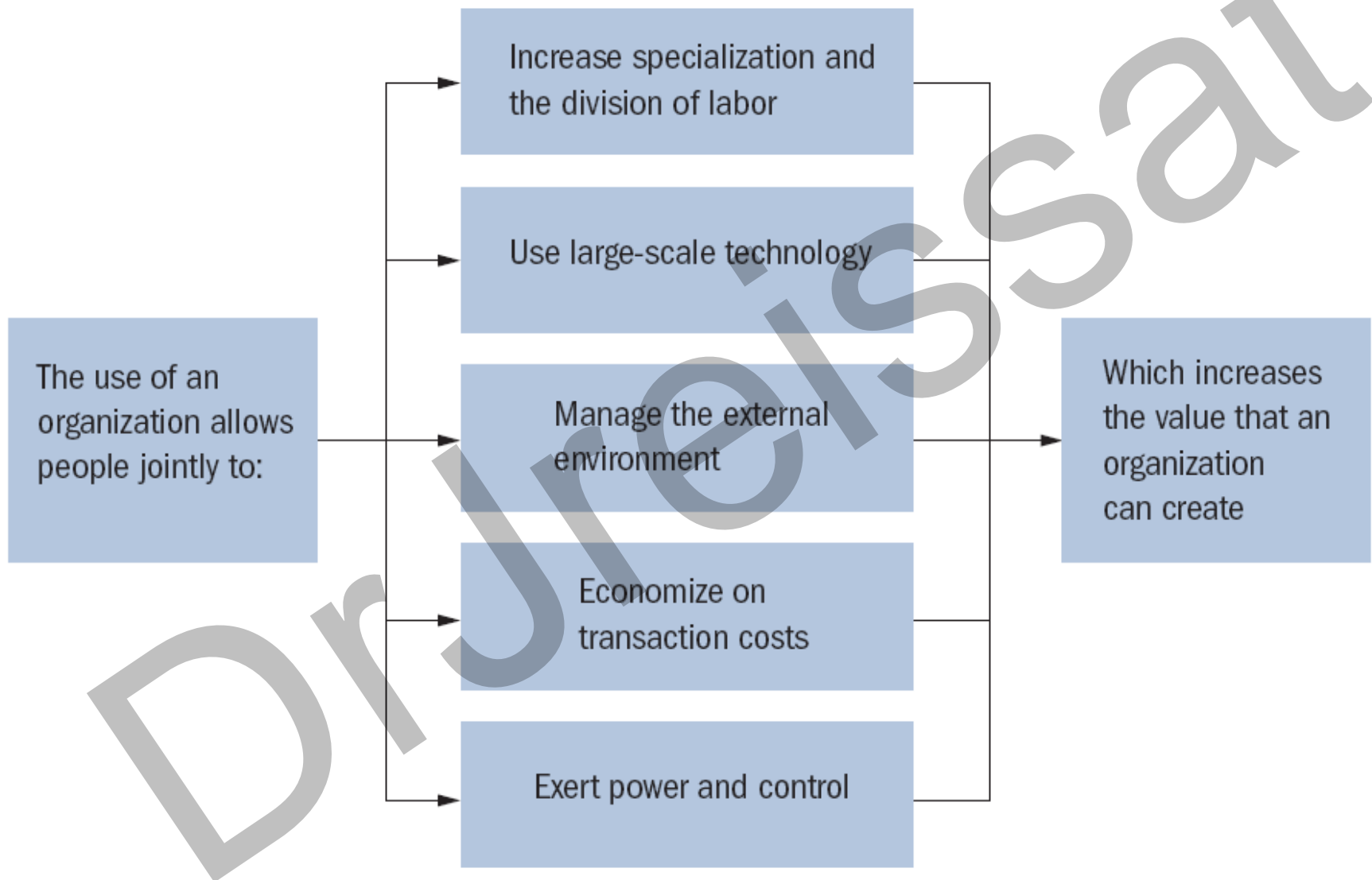
Why do Organizations Exist? (cont.)

- To economize on transaction costs
 - Transaction costs: The costs associated with negotiating, monitoring, and governing exchanges between people
- To exert power and control
 - Organizations can exert great pressure on individuals to conform to task and production requirements in order to increase production efficiency

Why do Organizations Exist? (cont.)

- The five factors help explain why more value can be created when people work together, coordinating their actions in an organized setting, than when they work alone

Figure 1.3 - Why Organizations Exist



Organizational Theory, Design, and Change

- Organizational theory: The study of how organizations function and how they affect and are affected by the environment in which they operate
- Organizational structure: The formal system of task and authority relationships that control how people coordinate their actions and use resources to achieve organizational goals

Organizational Theory, Design, and Change (cont.)

- Organizational culture: The set of shared values and norms that controls organizational members' interactions with each other and with suppliers, customers, and other people outside the organization

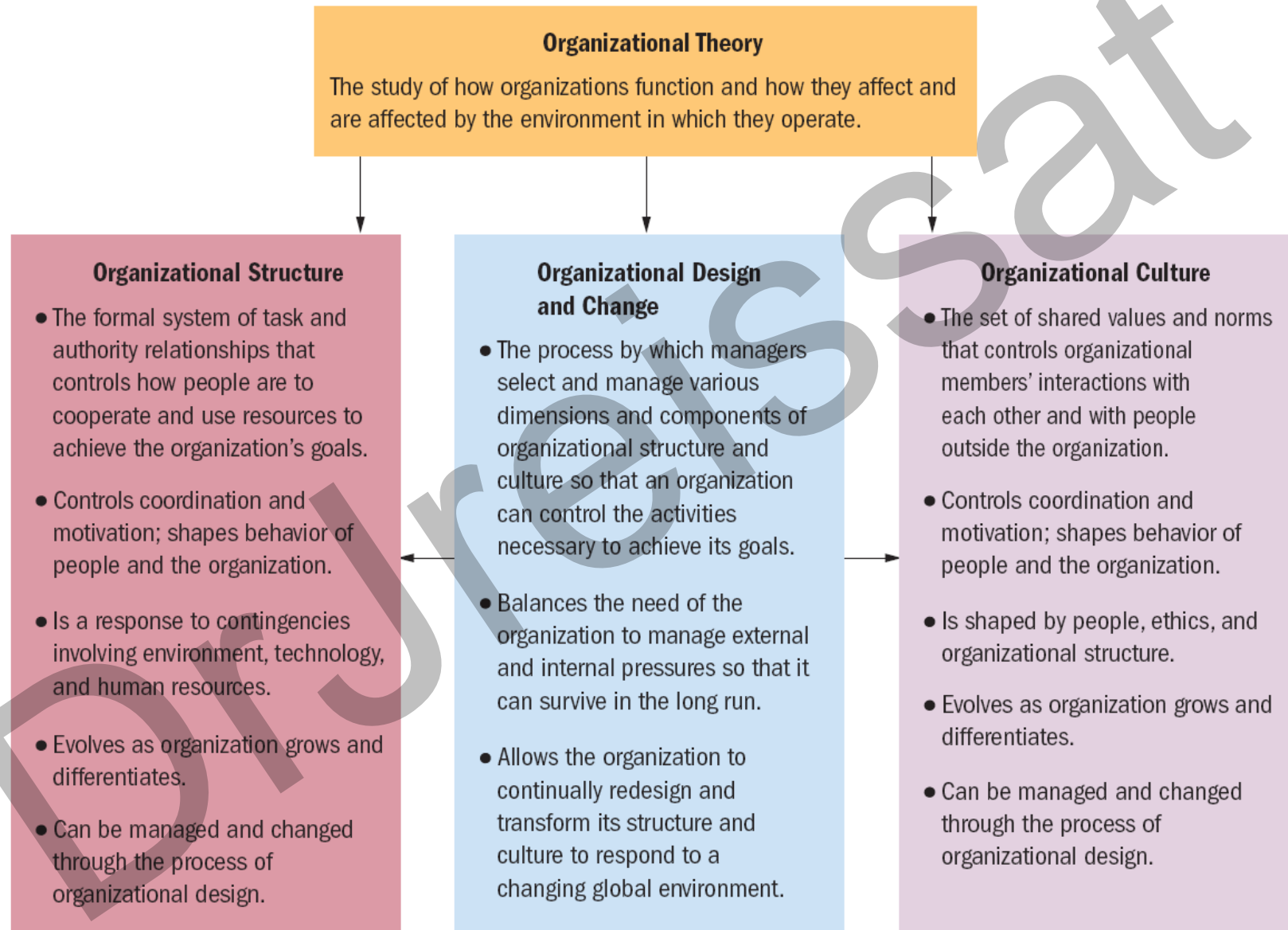
Organizational Theory, Design, and Change (cont.)

- Organizational design: The process by which managers select and manage aspects of structure and culture so that an organization can control the activities necessary to achieve its goals

Organizational Theory, Design, and Change (cont.)

- Organizational change: The process by which organizations redesign their structures and cultures to move from their present state to some desired future state to increase their effectiveness

Figure 1.4 - The Relationship Among Organizational Theory, Structure, Culture, Design, and Change



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Importance of Organizational Design and Change

- Dealing with contingencies
 - Contingency: An event that might occur and must be planned for
 - The design of an organization determines how effectively an organization is able to respond to various pressures in its environment and so obtain scarce resources
 - Challenges organizations must be ready to face
 - Globalization
 - Changing technology

Importance of Organizational Design and Change (cont.)

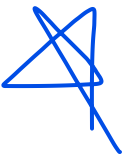
- 2 • Gaining competitive advantage
 - Competitive advantage: The ability of one company to outperform another because its managers are able to create more value from the resources at their disposal
 - Core competences: Managers' skills and abilities in value-creating activities
 - Strategy: The specific pattern of decisions and actions that managers take to use core competencies to achieve a competitive advantage and outperform competitors

Importance of Organizational Design and Change (cont.)

- 3 • Managing diversity
 - Differences in the race, gender, and national origin of organizational members have important implications for organizational culture and effectiveness
 - Learning how to effectively utilize a diverse workforce can result in better decision making and more effective workforce

★ Importance of Organizational Design and Change (cont.)

- 4 • Promoting efficiency, speed, and innovation
 - The better an organization functions, the more value it creates
 - The correct organizational design can lead to faster innovation and quickly get new products to market



The Consequences of Poor Organizational Design

- Decline of the organization
- Talented employees leave to take positions in growing organizations
- Resources become harder to acquire
- The process of value creation slows down

How do Managers Measure Organizational Effectiveness?

- Control - Having control over the external environment and having the ability to attract resources and customers
- Innovation - Developing an organization's skills and capabilities so the organization can discover new products and processes

How do Managers Measure Organizational Effectiveness? (cont.)

- Efficiency - Means developing modern production facilities using new information technologies that can produce and distribute a company's products in a timely and cost-effective manner

Table 1.1 - Approaches to Measuring Organizational Effectiveness

Approach	Description	Goals to Set to Measure Effectiveness
External resource approach	Evaluates the organization's ability to secure, manage, and control scarce and valued skills and resources	<ul style="list-style-type: none"> • Lower costs of inputs • Obtain high-quality inputs of raw materials and employees • Increase market share • Increase stock price • Gain support of stakeholders such as government or environmentalists
Internal systems approach	Evaluates the organization's ability to be innovative and function quickly and responsively	<ul style="list-style-type: none"> • Cut decision-making time • Increase rate of product innovation • Increase coordination and motivation of employees • Reduce conflict • Reduce time to market
Technical approach	Evaluates the organization's ability to convert skills and resources into goods and services efficiently	<ul style="list-style-type: none"> • Increase product quality • Reduce number of defects • Reduce production costs • Improve customer service • Reduce delivery time to customer

Measuring Effectiveness: Organizational Goals

- Official goals: Guiding principles that the organization formally states in its annual report and in other public documents
- Mission: Goals that explain why the organization exists and what it should be doing
- Operative goals: Specific long-term and short-term goals that guide managers and employees as they perform the work of the organization

Figure 1.5 - Plan of the Book

Part 1

The Organization and Its Environment

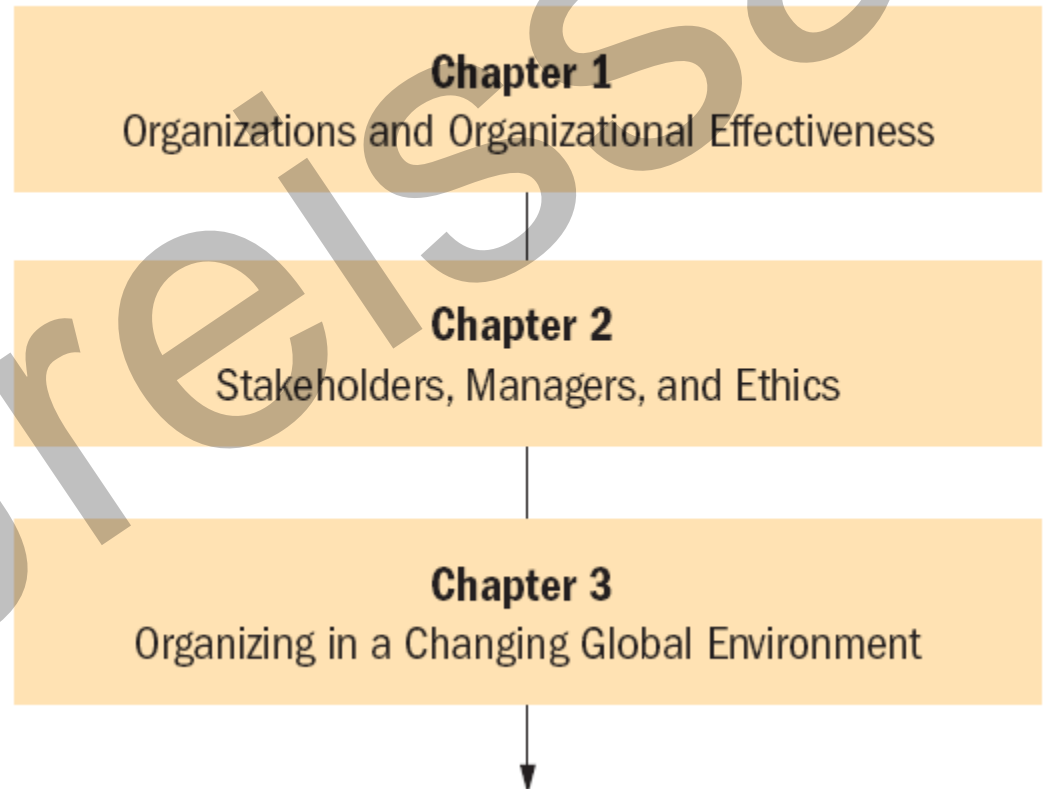


Figure 1.5 - Plan of the Book (cont.)

Part 2

Organizational Design

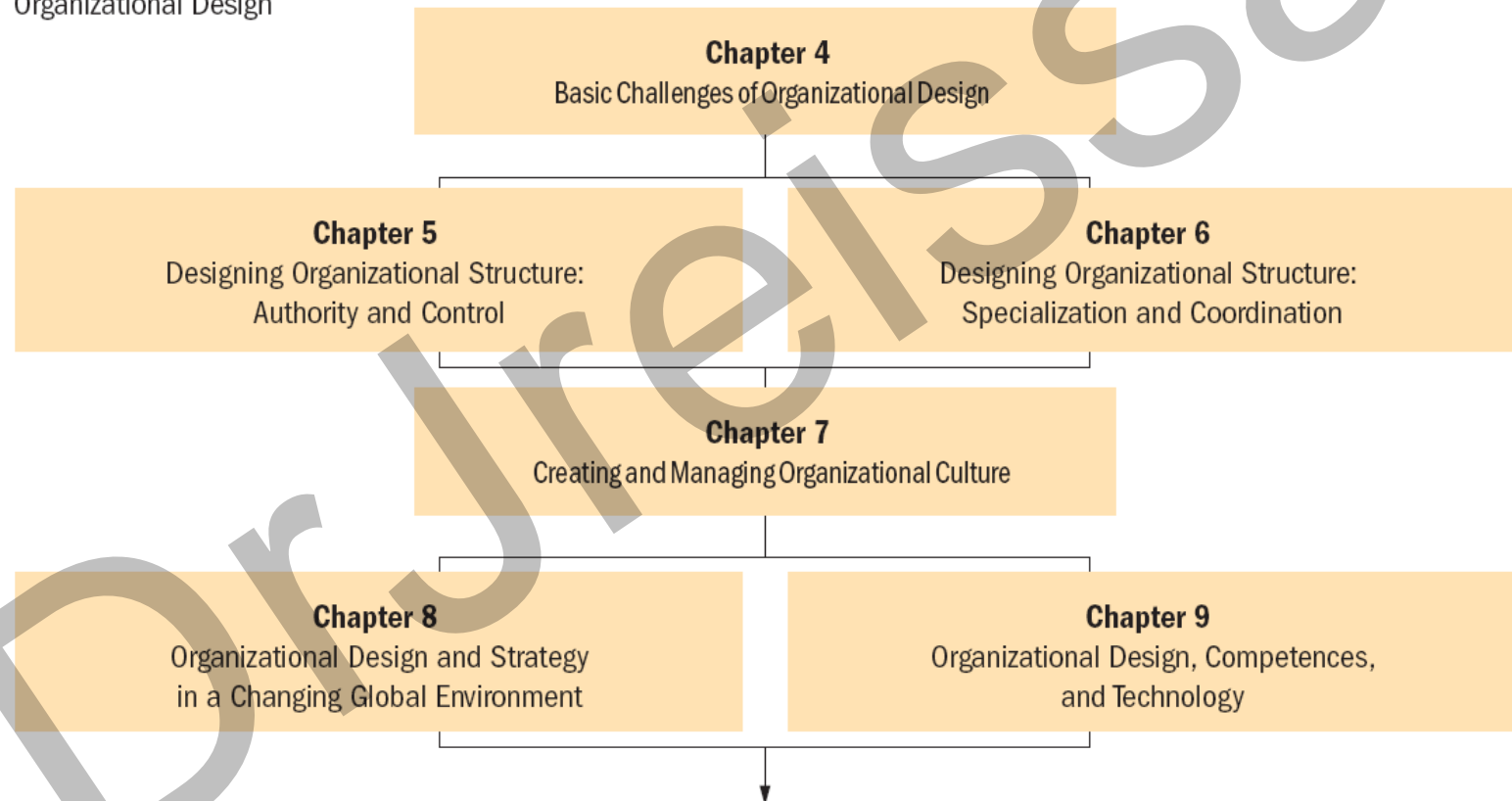
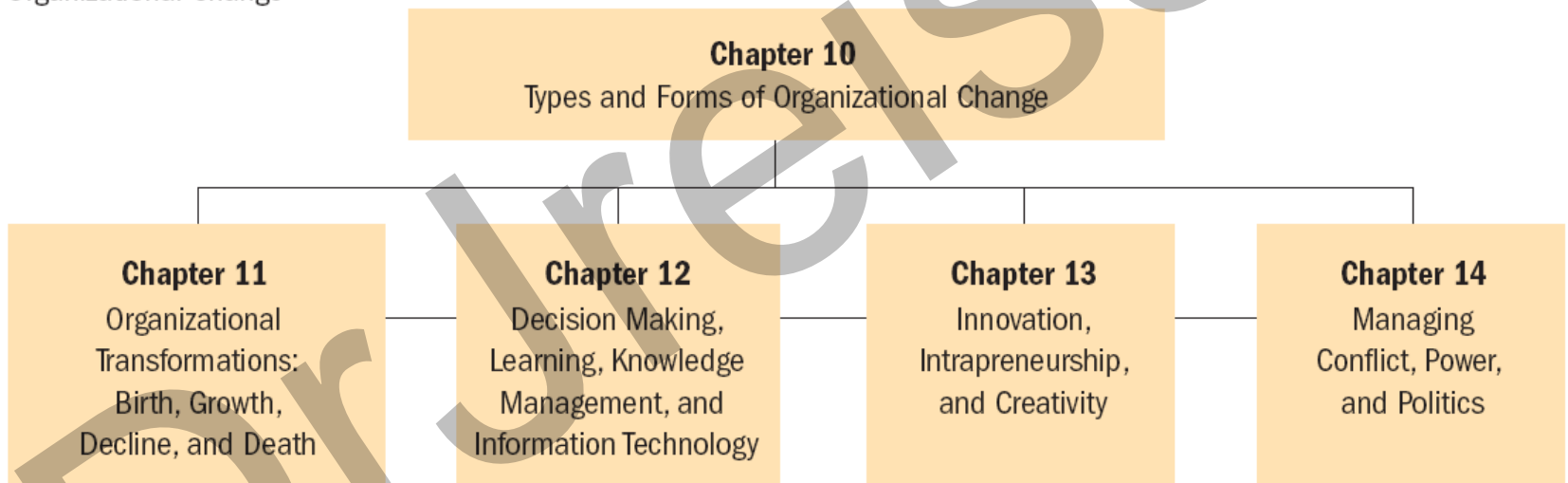


Figure 1.5 - Plan of the Book (cont.)

Part 3 Organizational Change



Summary

- Organizations are a tool people use to achieve their goals
- Organizational theory is the study of how organizations function and how they affect and are affected by their environment
- Organizational effectiveness must be monitored by managers